

February 15, 2012

Technical Director
File reference No. 2011-200
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Via email: director@fasb.org

RE: Proposed Accounting Standards Update, Financial Services-Investment Companies (Topic 946)

Dear Technical Director:

KKR & Co. L.P. ("KKR") appreciates the opportunity to comment on the recently issued FASB Proposed accounting standards update on Financial Services-Investment Companies (Topic 946) (the "Proposed Update").

KKR is a leading investment firm in the alternative asset management industry with \$59.0 billion in assets under management as of December 31, 2011. Through our Private Markets segment, we manage and sponsor funds and co-investment vehicles that invest capital for long-term appreciation in private equity, natural resources and infrastructure assets. Through our Public Markets segment, we manage a specialty finance company, investment funds, structured finance vehicles and separately managed accounts. Given the nature of our business, the Proposed Update as drafted will have an impact on the accounting and reporting of our business results to our investors.

Criteria to Qualify as an Investment Company

KKR is generally in support of much of the Proposed Update and welcomes the Board's efforts to clarify the criteria that must be met for an entity to qualify as an investment company. We would support a requirement to consider and assess an entity's investment activities against a defined set of criteria, however we believe they should be used as part of a principles-based approach to determining whether an entity is an investment company that also allows the use of management's judgment and the expectations of investors in the analysis. With respect to the nature of the investment activities, we agree that an investment company should not have substantive activities other than its investing activities and that in general, there should be no significant assets or liabilities that are unrelated to its investing activities. However, we are concerned with the proposed amendments to section 946-10-55-4 which would require that an investment company hold multiple investments. It is not uncommon for alternative asset managers to form an investment vehicle for the purpose of making a single investment. This may be done to raise investor capital for a single, strategic investment, to provide an ability to invest "side-by-side" with a primary fund in circumstances where additional capital is needed to

complete an investment which could not be made solely by the primary fund due to the limitations of capital allocation requirements, or to allow unique investors the opportunity to participate in an investment side-by-side with the primary fund. These “co-investment vehicles” are accounted for as investment companies in current practice, and we believe that the criteria proposed by the Proposed Update should not include the requirement that they hold multiple investments to continue to qualify as investment companies. Importantly, investors in these entities have an expectation to receive financial reporting of their investments on a fair value basis, and in cases where the investor is in both a primary fund and a co-investment vehicle, on a comparable basis for their aggregate investment.

We agree with the proposed requirement that substantially all of an investment company’s investments are managed and performance assessed on a fair value basis. This would allow an investment manager and the investment vehicles that it manages to appropriately account for their investing activities and to better reflect the respective economics of the manager and of the investment vehicles. In particular, the use of fair value as an estimate of the exit value of an investment is core to the business model of an investment company. We do, however, have some concerns with the Unit Ownership and Pooling of Funds criteria which are described below.

We are supportive of the requirement that preparers of financial statements reassess whether an entity has become, continues to be or no longer qualifies as an investment company should there be a change in the purpose and design of the entity. We believe this will support the needs of investors, analysts and other users of our financial statements for transparency and comparability.

Unit Ownership and Pooling of Funds

With respect to Unit Ownership and Pooling of Funds, KKR generally agrees with the Proposed Update’s amendments with respect to:

- Requiring an investment company to have investors that are not related to the entity’s parent and which hold, in the aggregate, a significant ownership interest in the entity;
- Requiring that ownership interests be in the form of equity or partnership interests to qualify the entity as an investment company;
- Not considering the nature of the entity’s investors (passive vs. other types) in the evaluation of the entity as an investment company.

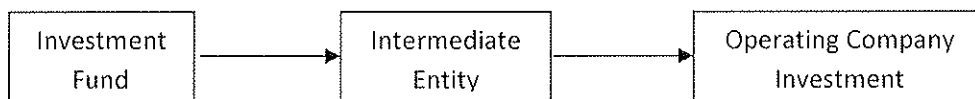
However, KKR believes that the current draft language with respect to single investor entities needs to be clarified. Specifically, BC24 states that “significant external equity investors or partners...not related to the parent of an investment company (if there is a parent) should collectively have a significant ownership in the investment company.” However, it is not clear if *the number* of investors unrelated to a parent entity is the key requirement or if the *overall ownership participation* of unrelated investors in the entity is the important criteria. For example, assume an investment fund has a general partner with a 2% equity interest and a single unrelated limited partner that holds the remaining 98% equity interest. While the number of external equity investors is not significant, the equity ownership held by external investors is clearly significant.

Many single investor funds are established to allow a single, particular investor to invest side by side with an investment manager’s primary funds, in most cases with terms similar to the primary fund but in some cases with terms that have been negotiated for a particular investor. The underlying investments in the single investor fund (i) are usually the same as the investments in the primary fund, (ii) have unit-ownership expressed as ownership interests in the form of equity or partnership interests, and (iii) while there may be only one unrelated limited partner, the general partner may be required to invest a defined amount of capital in the entity under the partnership agreement and this capital is pooled with the limited partner’s funds for the purpose of making investments. In most cases, the amount of capital invested by the general partner ranges from 0.2% to 4.0%, so the single limited partner would by definition hold a significant equity ownership interest in the entity.

Additionally, there has been an increasing trend for individual investors in alternative assets to establish individual managed accounts that are managed solely on their behalf under a predetermined investment strategy. These accounts are generally capitalized using a majority of capital contributed by an unrelated, single investor. The operations of these managed accounts meet the “express business purpose” criteria of 946-10-15-2 in that they are established “to provide returns from capital appreciation, investment income (such as dividends or interest), or both.” As the primary users of the financial statements, investors in single investor entities would expect to continue to receive financial statements that report their ownership interest as expressed in equity or partnership units at fair value. We believe the Proposed Update should provide that single investor entities which meet the criteria in paragraph 946-10-15-2 (with the exception of the multiple investments proposal, as discussed above), but have a significant portion of the ownership interests from a single investor that is not the general partner, would meet the definition of an investment company.

Blockers and Intermediate Entities

In many instances, an investment vehicle that otherwise meets all of the criteria of an investment company may set up an intermediate legal entity for the express purpose of making a particular investment. Typically, these legal entities, referred to hereinafter as “Intermediate Entities”, are established for tax, legal or regulatory reasons and are not established for accounting purposes. Below is a simplified graphic illustration of this type of structure:



In the simplified structure above, the entities depicted have the following attributes:

- Investment Fund: This entity is generally a limited partnership or similar entity that would meet the criteria in paragraph 946-10-15-2 (with the exception of the multiple investments requirement, as discussed above) to qualify as an investment company under the Proposed Update. This Investment Fund will generally invest in multiple investments, but in certain instances may only make one investment.

- **Intermediate Entity:** This entity is established for tax, legal or regulatory reasons and is not established for accounting purposes. This entity may aggregate the capital of both the Investment Fund as well as other outside investors. Generally this entity is unique to the Operating Company Investment being made by the Investment Fund (e.g. it will not house multiple investments)
- **Operating Company Investment:** This entity represents the ultimate investment being made by the Investment Fund and other outside investors whose capital comes into the structure through the Intermediate Entity. Typically, this investment represents an operating company.

In the structure above, the Intermediate Entity could be construed to be an investment company. Further, if deemed an investment company and the Investment Fund and its related entities control that Intermediate Entity, the Investment Fund could be required to consolidate the Intermediate Entity.

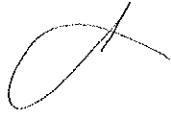
We believe that the Board should reconsider its proposal to prevent these types of Intermediate Entities from being consolidated by the Investment Funds that control these entities. From an accounting point of view, consolidating these Intermediate Entities provides no additional disclosure that we believe would be useful to investors. The fact that an Intermediate Entity (i) has been established to pool certain capital for tax, legal, regulatory or other reasons, and (ii) may meet the criteria of an investment company, should not automatically require the Intermediate Entity to be consolidated by the Investment Fund. Instead, the Investment Fund should be required to reflect its investment in the Intermediate Entity at fair value. This is particularly true in light of the fact that we believe the third party investors in the Investment Fund view the investment by the Investment Fund without regard to consolidation of the Intermediate Entity. Requiring the Investment Fund that has a controlling interest in the Intermediate Entity to consolidate the Intermediate Entity would obfuscate the financials of the Investment Fund, thereby creating a less transparent view of the Investment Fund's financial statements from the perspective of the fund's investors.

Retention of Specialized Accounting and Convergence with International Financial Reporting Standards (IFRS)

KKR supports the retention of current U.S. GAAP that allows a noninvestment company parent to retain the specialized accounting of an investment company in consolidation. Accordingly, we would encourage the FASB to work with the IASB to eliminate any differences in how a non-investment company parent would account for its interests in an investment company. We believe that the current U.S. GAAP accounting, which requires a non-investment company parent to retain the specialized accounting in Topic 946 for an investment company subsidiary in consolidation, is the preferable accounting.

We appreciate the opportunity to offer our feedback on the Proposed Update. We would be pleased to discuss our views with the Board at your earliest convenience. If we can provide any further information, or if you would like clarification on any point we have raised, please contact me at 212-230-9740.

Sincerely,

A handwritten signature in black ink, consisting of a large, stylized loop followed by a vertical stroke and a horizontal stroke.

William J. Janetschek
Chief Financial Officer