



February 15, 2012

Ms. Leslie Seidman, Chairman
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: Reference #2011-200; Proposed ASU, Financial Services—Investment Companies (Topic 946);
Amendments to the Scope, Measurement, and Disclosure Requirements

Dear Ms. Seidman:

MassMutual Financial Group¹ appreciates the opportunity to submit this letter in response to the request for comment by the Financial Accounting Standards Board (“Board”) regarding the Exposure Draft of a Proposed Accounting Standards Update, “Financial Services - Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements.” We support the Board’s effort to provide additional guidance to clarify the definition of an investment company. We would like to offer the following observations and comments, which are summarized below and discussed in greater detail within or responses to the Questions for Respondents, which are attached and part of this letter.

- While we agree that additional guidance is needed for clarifying the definition of an investment company, we believe that the requirement to meet all the six proposed criteria is too restrictive. The accounting for an entity should be based on the purpose and nature of the economic activity of the entity and not constricted by the entities design or structure.
- We believe an investment company typically has multiple unrelated investors and invests in multiple assets. However, there may be circumstances in which investment company accounting is appropriate when there is only a single investor. For example, parallel investment

¹ MassMutual Financial Group is a marketing name for Massachusetts Mutual Life Insurance Company (MassMutual) and its affiliated companies and sales representatives. MassMutual is headquartered in Springfield, Massachusetts and its major affiliates include: Babson Capital Management LLC; Baring Asset Management Limited; Cornerstone Real Estate Advisers LLC; The First Mercantile Trust Company; MassMutual International LLC; MML Investors Services, LLC, Member FINRA and SIPC; OppenheimerFunds, Inc.; and The MassMutual Trust Company, FSB.

entities and managed accounts are circumstances when investment company account may not have multiple investors.

- We agree that specialized accounting should be maintained in consolidation. However, we believe that there may be special situations when this general rule may not be appropriate and specialized accounting should not be maintained in consolidation.
- We do not believe that an investment company should consolidate another entity. An investment company should manage and carry its investments at fair value as fair value is how investors in these entities manage their investments.
- We agree that entities capitalized through the issuance of debt, such as a collateralized debt obligation, do not meet the definition of an investment company as these entities typically manage their performance on a cash flow basis not a fair value basis.
- While we believe it is appropriate to reassess whether an entity is an investment company if there is a change in the purpose and design of the entity, we believe that this reassessment trigger may be too restrictive as currently proposed.
- We urge the Board to provide further guidance defining a fund-of-funds structure and contrasting that definition with a master-feeder structure. A distinction as to why a fund-of-funds structure is required to consolidate another fund when it has a controlling financial interest but a master feeder structure is not would also be helpful.

If you have any questions on our comments above or on our responses to the Questions for Respondents, feel free to contact us. We would be pleased to discuss our comments further with the FASB staff.

Sincerely,

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Questions for Respondents

Scope

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?

No, while we believe the six criteria should be indicators that an entity may be an investment company, we do not believe that these criteria should be used as a bright-line determination of whether or not an entity is an investment company. We believe an entity's accounting should be based on the purpose and nature of the economic activity that the entity engages in, rather than the structure of the entity. All facts and circumstances should be considered and weighted when assessing these criteria and ultimately deciding whether an entity qualifies as an investment company. See our responses to Questions 7 and 9 for a discussion of when the pooling of funds may not be indicative of an investment company.

Question 2: 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.

We are unaware of any such entities.

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?

Yes, we believe the scope exception should be removed. As stated in Question 1, we believe the accounting for an entity should be based on the purpose and nature of the economic activity of the entity not constricted by the entities design or structure.

Question 4: 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?

Yes, we believe it is appropriate to reassess whether an entity is an investment company if there is a change in the purpose and design of the entity. However, we believe that this reassessment trigger may be too restrictive. As currently written, both an entity's purpose and design has to change. We believe that a change in either the purpose or design should require a reassessment of whether an entity is an investment company. This reassessment should consider the criteria in paragraph 946-10-15-2 along with any other extenuating factors, such as changes in ownership percentages, number of investors or objective of the investor(s).

Nature of the Investment Activities

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?

Yes, we agree that if an entity performs activities other than investment activities or activities that support investment activities, that entity should be precluded from qualifying as an investment company. We believe that the requirements of this guidance would be operational and could be consistently applied. However further clarification of what activities could be considered as "more than supporting the entity's investment activities" should be provided.

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?

Yes, we agree with these examples. However, we believe the guidance should note that these examples are indicative and not all inclusive activities that would preclude an entity from being an investment company.

Unit Ownership and Pooling of Funds

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?

No, we believe that there are situations in which an entity with a single investor or multiple unrelated investors holding less than a significant amount in the entity could still be an

investment company if it is managing its investment activities for capital appreciation, investment income (such as dividends or interest), or both. For example, a third party managed account where an asset manager, which is not the consolidator, is hired by a single investor to manage assets held in a specific legal entity under a particular investment mandate. We believe the determination of whether or not an entity is as an investment company should be based on the entity's business purpose, the types of risks that it passes through to its investors, and whether activities are designed to meet the entity's objectives.

Many insurers establish investment subsidiaries to facilitate the investment activities of their insurance subsidiaries. These investment subsidiaries are established for many reasons, including: reducing investment cost and record keeping requirements, improving liquidity, allowing for investment diversification, and centralizing risk management. These entities would meet all of the investment company criteria of paragraph 946-10-15-2, with the exception of the pooling of funds criterion. Therefore, under the six criteria model, these entities would not qualify for the use of investment company accounting. Investment company accounting is appropriate for these entities for the following reasons:

1. It allows for the purchase and redemption of ownership interests in the entity at their economic value.
2. It allows for comparability of financial/investment results with other investment company entities that have significant interests not related to a parent company.
3. It facilitates performance reporting.
4. It allows for continuity in accounting for entities that may have 3rd party investors with ownership levels that fluctuate intermittently.

There are also instances where a sponsor of an investment company may be required to have a parallel investment. In these situations, the parallel investment entity would not be afforded the same accounting as the associated investment company as there would be no pooling of interest. However the business purpose of the parallel entity is identical to that of the investment company.

Also, please refer to our response to Question #1.

Clarification is needed around what would constitute a "significant non-related ownership" interest in an entity. On what basis is significance determined? For example, it could be based solely on a percentage of ownership, voting rights, or attribution of income, losses or both. It is also unclear whether certain parties would be considered related parties of the entity's parent. For example, if two feeder funds that invest in an Entity A, all have the same general partner, which is the parent of Entity A, but, each feeder fund has a separate group of independent investors, , , would the feeder funds be considered related to the parent?

Question 8: 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, for entities that do not have substantive equity interests (for example, those considered variable interest entities under Subtopic 810-10), we do not believe the interests held by debt holders should be considered in the assessment of the unit-ownership and pooling-of-funds criteria to be an investment company. Additionally, we also believe that these entities would fail the fair value management criteria as this type of entity is typically managed on a cash flow basis and management fees are not based on fair values. As a result, entities of this type would be precluded from being an investment company and should be accounted for under other GAAP at values that better reflect the nature and intent of those assets (i.e., amortized cost, fair value through OCI).

However, it is common practice for an insurer to create separate accounts. These separate accounts represent a contractual relationship between an insurer and the policyholder and, consequently, may not meet the unit-ownership in the form of equity criterion. Nevertheless, these accounts are typically designed to provide investor(s) with professional investment management services to achieve specific investment objectives by providing returns from capital appreciation, investment income (such as dividends or interest), or both. Based on this economic purpose and activity of a separate account, under current guidance, they typically apply investment company accounting. Under the proposed guidance, separate accounts may be precluded from applying investment company accounting. As previously stated, we believe an entity's accounting should be based on the purpose and nature of the economic activity that the entity engages in, rather than the structure of the entity

As stated before, we believe an entity's accounting should be based on the purpose and nature of the economic activity that the entity engages in, rather than the structure of the entity. All facts and circumstances should be considered and weighted when assessing these criteria and ultimately deciding whether an entity qualifies as an investment company. We believe the six criteria, including unit ownership, should be indicators that an entity may be an investment company. However, we do not believe that these criteria should be used as a bright-line determination of whether or not an entity is an investment company.

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?

Yes, we believe that in certain situations an investment company can have a single investor or a parent and other investors that hold less than a significant investment in the entity. We further agree that if other GAAP requires a single investor to account for its investment at fair value, that investee should not be precluded from applying investment company accounting. This is a further example as to the accounting should follow the economic purpose of the entity and not its structural design.

We believe the purpose of an investment company is to provide investor(s) with professional investment management services to achieve specific investment objectives by providing returns from capital appreciation, investment income (such as dividends or interest), or both. It is common for funds, portfolios and entities be established to by a single investor for the purpose of having a third party asset manager to provide profession investment management services. The requirement to have multiple investors would preclude such an entity to apply the investment company guidance when in fact that is the purpose of the entity.

Also, as mentioned in our response to Question 7, there are also instances where a sponsor of an investment company may be required to have a parallel investment. In these situations, the parallel investment entity would not be afforded the same accounting as the associated investment company as there would be no pooling of interest. However the business purpose of the parallel entity is identical to that of the investment company.

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?

Yes, we agree the nature of the investor, passive or non-passive, should not matter when evaluating the unit-ownership and pooling-of-funds criteria. The type of unit-ownership may have a bearing on the variability that the investor is exposed to but it does not change the purpose of the entity. Likewise, once funds are pooled, the nature of the investor is lost and would have no bearing on the fund's overall management and purpose of generating capital appreciation, investment income (such as dividends or interest), or both.

Fair Value Management

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?-

Yes, we agree that substantially all of an investment company's investments should be managed, and their performance evaluated, on a fair value basis. Managing investments on a fair value basis is consistent with measuring the investment at fair value. Conversely, managing investments on another basis (i.e., amortized cost) is not consistent with measuring those investments at fair value in the financial statements and therefore should be precluded from applying investment company accounting guidance.

Additional guidance is needed on how "substantially all" should be interpreted, we urge the Board to provide clarification in order to insure consistent application. For example, is substantially all a percentage hurdle based on total assets fair value, cost, or based on other measures (i.e. income from assets).

Interests in Other Entities

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.

No, we do not agree that an investment company should consolidate another entity. Rather, we believe an investment company should instead report the investment at fair value. Investment company entities are created for a special and defined purpose. Consolidation of an investment company (or investment property entity) into another investment company may overshadow this purpose and add confusion and complexity to the financial statements of the consolidator. The users of investment company financial statements are not concerned with rights and obligations of noncontrolling interests. An investment company financial statement user is concerned with the investment performance for which they absorb the variability, which would only include the assets and liabilities to which that investor has rights or obligations. Paragraph 946-810-50-1, which requires disclosure of financial highlights, appears to be consistent with our understanding of the financial statement user needs as these new disclosures require the exclusion of any amounts attributable to noncontrolling interests.

We also believe that this concept is in conflict with the guidance of ASU 2010-15.² Paragraph BC6 of this ASU states:

“The Task Force noted that although the insurer may legally hold a controlling interest in an investment through its management of the separate accounts, it did not believe that consolidation of those investments appropriately portrayed the economics of the relationship or that consolidating the investment would provide useful information for financial statement users. The Task Force also believes that consolidation would unnecessarily increase the complexity of an insurer’s financial statements.”

Reporting a noncontrolling interest in an investment company’s financial statement will only require the financial statement user to perform additional analysis to determine the financial performance of the entity for which they have rights or obligations. We are concerned that if an investment company is required to consolidate certain investments and report noncontrolling interest, it will overshadow the true economic results and activities of the consolidating investment company. We further believe that it will also overshadow the business purpose of a consolidating decision maker and its parent company, if any. For example, investment income and gains and losses from dispositions of a consolidated investment company to which the consolidator has no rights or obligation may mask true income from management fees.

We also urge the Board to provide further guidance defining a fund-of-funds structure and contrasting that definition with a master-feeder structure. The guidance of paragraph 946-810-45-3b is unclear. It states “An entity that is an investment company in accordance with this Topic in a fund-of-funds structure. If an investment company holds a controlling financial interest in such an entity, consolidation is required.” Does this mean an investment company would only consolidate a fund-of-funds structure and no other investment companies and only when it holds a controlling financial interest in that fund-of-funds entity? Or that a fund-of-funds structure is the only type of investment company that is subject to potential consolidation of its investees and only when that fund-of-funds structure holds a controlling financial interest in another investment company? It is also unclear what type of structure constitutes a fund-of-funds structure and when an investment company should consolidate another. For example, Investment Company A has a controlling financial interest in Investment Company B along with a significant amount of other widely diversified investments. Investment Company B only holds minor interests in equity and debt investments. Should Investment Company A consolidate Investment Company B?

Consolidation within investment companies raises a myriad of operational concerns in terms of accounting. For example, an underlying fund’s financial information may not be readily available or, if available, not in a timely manner. Also, the guidance does not address how tax blocking entities should be treated.

² ASU 2101-15, Financial Services—Insurance (Topic 944); How Investments Held through Separate Accounts Affect an Insurer’s Consolidation Analysis of Those Investments, a consensus of the FASB Emerging Issues Task Force

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?

No, we do not believe an investment company should consolidate another entity. Please see our response to Question #12.

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?

Yes, we agree that an investment company should be prohibited from applying the equity method of accounting in Topic 323 to investments in other investment companies and investment property entities. We believe it is appropriate for an investment company, which manages its investments on a fair value basis for the benefit of its investors, to value and report all assets at fair value. We do not believe distinguishing investment company or investment property holdings from other assets is beneficial. The overriding distinctive factor in an investment company is that it does not provide products or services, but rather manages investment interests under a specific mandate and objective for all investors. Consequently, consistent with its definition and purpose, all holdings should be accounted for and reported on that basis, regardless of their nature

We also believe the proposed guidance is inconsistent by not allowing the application of equity method accounting when significant influence exists over an investment company and investment property entity as fair value continues to be the most relevant measure to report to investment company investors, but then requires consolidation of those same types of investments rather than using fair value when there is a controlling financial interests. By requiring an investment company to consolidate another investment company, investments of the investment company with essentially the same risks would have two very different treatments, especially under the proposed consolidation guidance. For example, if Investment Company A had a 20% to 50% interest in Investment Company B, Investment Company A would account for Investment Company B at fair value. However, if investment Company A had a 20% interest in Investment Company B, and Investment Company A determined it was a decision maker acting as a principal, Investment Company A would consolidate Investment Company B. We believe the purpose for using fair value in place of the equity method (e.g. because the principal users of investment company financial statement typically evaluate performance based on changes in net asset value) are the same reasons to use fair value in place of consolidation.

Presentation and Disclosure

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?

Yes, we agree that amounts attributable to noncontrolling interests should be excluded from the calculation of the financial highlights. However, as discussed in Question 12, we do not believe it is appropriate for an investment company to include noncontrolling interests in its financial statements. The requirement for these new disclosures, which basically unwinds the consolidation, is a byproduct of requiring an investment company to consolidate in the first place. We are concerned that if an investment company is required to consolidate certain investments and report noncontrolling interest, it will over shadow the true economic results and activities of the investment company. It may also overshadow the business purpose of a consolidating decision maker and its parent company, if any. While these disclosures may help the financial statement user to assess the true economics of the entity, they could be avoided entirely by eliminating the consolidation requirements from the proposed guidance allowing the financial statement user to focus on the financial statements and notes thereto without reconciliations to remove noncontrolling interest.

Question 16: 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?

No, we do not agree that it is appropriate for an investment company to consolidate another entity. The requirement to provide additional disclosures appears to lend credence to the fact that the financial statement user is only interested in having the investment company's financial statements include the amounts related to the investor's rights and obligations. Also, please refer to our response to Question 15.

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?

No, we do not feel that it is appropriate to disclose implicit financial support. Obtaining and including information on implicit financial support entails several practical issues. We believe disclosure of explicit financial support is appropriate.

Retention of Specialized Accounting

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?

Yes, we agree with the requirement that a noninvestment company parent should retain the specialized accounting of an investment company subsidiary in consolidation. Typically, an investment company subsidiary holds an investment for the same purpose as the parent would if it held that investment directly. Therefore, if it is appropriate for the entity holding the investment to apply investment company accounting, it should be appropriate for the parent to retain that accounting in consolidation. However, there may be circumstance when this assumption is not true and the parent should not retain the specialized accounting. For instance, if the parent holds significant additional investments in an entity that the investment company subsidiary has invested in, it may not be appropriate to retain the specialized accounting for that investment in consolidation.

We also suggest that the retention of specialized accounting in consolidation be moved from this proposed guidance to the proposed guidance on consolidations.

Effective Date and Transition

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

We believe that a significant amount of time and effort will be needed to implement the proposed amendment. Time would be needed time to obtain information, which might not be readily available to analyze all the facts and circumstances of each entity and fund structure. Additionally, more systems and internal controls would likely be necessary.

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

No, we do not believe early adoption would be beneficial as it would create a lack of comparability between similar entities.

Nonpublic Entities

Question 22: 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?

Yes, the proposed amendments should be the same for both public and nonpublic entities.