

February 15, 2012

Technical Director Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, CT 06856-5116

Via email: director@fasb.org

Dear Technical Director,

RE: Proposed Accounting Standards Update to Topic 946, Financial Services – Investment Companies: Amendments to the Scope, Measurement and Disclosure Requirements (File Reference No.: 2011-200)

The Blackstone Group ("Blackstone") is pleased to comment on the proposed Accounting Standards Update on Financial Services – Investment Companies (Topic 946), *Amendments to the Scope, Measurement and Disclosure Requirements* (the "Proposed Update" or "Update").

Blackstone's business includes the management of private equity funds, real estate funds, funds of hedge funds, credit oriented funds, collateralized loan obligation ("CLO") vehicles, separately managed accounts and registered investment companies (collectively referred to as the "Blackstone Funds"). The Blackstone Funds apply the measurement principles for Investment Companies. We recognize that updates to Topic 946 have been initiated as a result of the joint project with the IASB to establish a common set of criteria that, if met, would result in a company qualifying as an investment company. We appreciate that the joint boards have made significant progress on this topic and have incorporated feedback from constituents in the Proposed Update. We note that there are still a few items that need to be addressed to achieve the most meaningful presentation for users of financial statements. These are highlighted in this comment letter.

We believe that a requirement to apply a fair value measurement principle to all investments held by an investment company together with adequate disclosures provides the most decision-useful information to users of financial statements that monitor their investments on a fair value basis and who often make redemption and subscription decisions on that same basis. We do not believe that consolidation of an investment company by another investment company when a controlling financial interest is held provides investors with meaningful information. All investments held by an investment company should be measured at fair value.

As the fair value concept is relevant in investment company financial statements, we believe that retention of such specialized accounting is mandatory in the consolidated financial statements of the parent company and agree with the FASB position on this point.

Our detailed comments on the proposals in the Update are set out below:

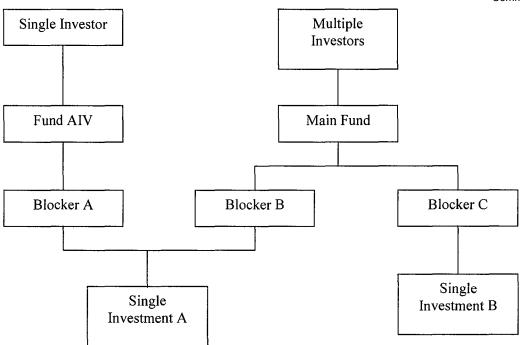
Scope

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?

We agree that a defined set of criteria are required in order to appropriately identify an investment company and to avoid abuse within a larger corporate structure. Overall, we believe that an investment company must meet the nature of investment activities ("Criterion a") and express business purposes ("Criterion aa") criteria, subject to certain modifications as described below. These two criteria summarize the characteristics of an investment company. In addition, we believe that the remaining criteria should be factors to consider in determining whether a company is an investment company rather than requiring all the criteria to be met. Below are the amendments we believe are appropriate to criterion a) in order to ensure that those companies that should qualify actually do.

Nature of Investment Activity

We agree that in order to qualify as an investment company that the company's substantive activities should be limited to investing in investments for capital appreciation, investment income (such as dividends or interest), or both. However, we are concerned that the parameters set out in the Proposed Update require an investment company to invest in **multiple** investments in order to meet this criterion. We note that holding a single investment would not prohibit a company from qualifying as an investment company if it is formed in conjunction with another investment company, however, we note that certain companies would not qualify. Consider the following typical structure:



We believe that in the above scenario the Fund AIV should qualify as an investment company even though it has a single investor (so may fail the pooling of funds criterion) and a single investment. It is worth noting that Fund AIV was set up in conjunction with the Main Fund to allow a single investor to participate in investment A through an entity with a different fee structure than the main fund. The nature of Fund AIV's investment activities is investing for capital appreciation, investment income, or both and there is an express commitment to the investor that the entity is established to serve this purpose. Irrespective of the number of investments held in the vehicle, such company should qualify as an investment company. With respect to Blockers B and C, we believe that both of these companies would qualify as investment companies under the application of ASC 946-10-55-6.

Pooling of Funds and Unit Ownership

We also have concerns about the pooling of funds and unit-ownership criteria, specifically with respect to fund vehicles established for a single investor, separately managed accounts owned by a single investor, employee co-invest vehicles in which the parent finances the employee interest and CLO vehicles. Our concerns are discussed in our responses to Questions 7 and 8.

As noted above, we believe that in order to qualify as an investment company, a company must, at a minimum, meet criteria a) and aa), provided that certain amendments are made to address the concerns around the multiple investments requirement. In addition, we believe that the remaining criteria should be factors to consider in determining whether a company is an investment company rather than requiring all criteria to be met. This qualitative assessment of other factors to consider will address the concerns we raise in our responses to Questions 7 and 8 specifically.

Question 2: The definition of an investment company in the proposed amendment of the letter No. 14A 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 not involved with any entities that are regulated under the SEC's Investment Company Act of 1940 that we believe would not meet all of the proposed criteria in paragraph 946-10-15-2.

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 believe that there should be a single standard that defines the characteristics of an investment company and which identifies the appropriate measurement attribute for investments held by such a company to be fair value. As described in our response to the Investment Properties exposure draft (File Ref: 2011-210), we don't believe there is a need for a separate standard on investment property entities.

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?

We agree with the proposed amendments.

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?

We believe that an investment company should be permitted to carry out those activities in connection with the investments held that would result in the maximizing of capital appreciation, investment income, or both. This would apply to all entities, irrespective of whether they are investment companies or investment property entities.

Question 6: The proposed implementation guidance includes examples of relationships better No. 14A 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 believe that if the criteria to define an investment company are sufficiently robust, the concerns around potential abuse would be mitigated. For example, as to the concern expressed in paragraph BC15, a company inserted within a larger corporate structure would be precluded from qualifying as an investment company if both the nature of investment activities and express business purpose criteria are not met.

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?

We believe that an entity with a single investor unrelated to the fund manager should qualify as an investment company. There are several instances where a fund of one is established to cater to the particular needs or arrangements of an investor, for example, where one investor has a different fee arrangement from that established in the main fund. Often this single investor fund will invest in the same investments as the main fund (and would be considered a co-invest fund or an alternative investment vehicle). In addition, this entity has the same business purpose as the main fund and the nature of its investment activities is also the same as that of the main fund. We question why this entity would not qualify as an investment company when it fundamentally meets criteria a) and aa). In addition, investments are managed and reported on a fair value basis. We believe that this type of entity should qualify as an investment company.

In addition, an entity may be established to meet the investment requirements of a single investor, typically referred to as a separately managed account. While these entities are not traditional co-invest type entities that invest alongside a main fund, the business purpose and nature of investment activities is to invest in multiple investments to maximize capital appreciation, investment income or both and this business purpose is expressly communicated to the investor. Again, investments are managed and reported on a fair value basis. We believe that these types of separately managed accounts should also meet the definition of an investment company as they also meet the fundamental criteria, specifically criteria a) and aa) to qualify.

We also like to express our concerns about employee co-invest funds, which may be consolidated due to the parent's implicit interest through the provision of financing to employees to facilitate their investment. While under the revised principal versus agent consolidation proposals, this type of entity may be consolidated, we do not agree that the interests of employees should be aggregated with the parent to determine if the entity itself is an investment company. The nature of its investment activities and express business purpose is no different than any other fund established for unrelated third parties.

Overall, we believe that if this criterion becomes a qualitative factor to consider, alongside the mandatory requirements to meet the investment activities and business purpose criteria, the appropriate entities that should qualify as investment companies will be correctly identified.

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.

We note that the FASB has explicitly commented that allocations to unitholders need not be in proportion to unit ownership and we agree with this proposal. However, we do not agree that unit ownership should be in the form of equity or limited partnership interests only. For example, entities which do not have substantive equity interests may have the same nature of investment activities and business purpose as an entity that is capitalized by equity or limited partnership interests. We believe that the unit-ownership criterion be a factor to consider when evaluating whether such an entity is an investment company or not.

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?

The basis on which an investor measures its investment should not be a factor in determining whether an entity qualifies as an investment company. We have noted instances in our response to Question 7 where a single investor entity would not qualify as an investment entity. Situations such as these would continue to arise even if a scope exception to the unit ownership or pooling of funds criteria is provided for instances where the parent is required to measure its investments at fair value under U.S. GAAP or is a not for profit entity under Topic 958 that measures its investments at fair value.

As noted above, a solution would be to make the first two criteria, subject to certain revisions, mandatory and the others should be factors to consider.

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?

The nature of investor should not be considered in evaluating whether an entity is an investment company or not. It makes no difference to the qualification as an investment company if the company is held by passive or other types of investors. This is irrelevant and similar to our

response to Question 9, adding such differentiation would still lead to certain entities that should qualify as investment companies not qualifying.

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?

We agree with this proposal.

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.

We believe that all investments held by an investment company should be measured at fair value with changes in fair value between periods recognized in income. We don't believe that an investment company should consolidate another investment company under any circumstance, whether it is a master-feeder structure or a fund of funds arrangement. Investors in investment companies are most interested in the fair value of their investment and consolidation obscures this information. We believe that disclosure of changes in value, through a schedule of investments, provides investors with the most decision useful information. Finally, we believe that the circumstances in which a top level fund would hold a controlling financial interest in another fund, both qualifying as investment companies, could change each period through no action of the fund. For example, a fund invested in a third-party managed fund could hold a controlling financial interest in that fund, if a significant portion of other investors redeem their interests. This raises two concerns. First, the fund did not take any action to increase its investment to that of a controlling financial interest nor did it represent that it wanted to hold a controlling financial interest to investors and second, if the fund it is invested in is a third-party fund, the fund of funds manager is dependent on receiving information on other investors in the funds on a timely basis to determine if it does indeed hold a controlling financial interest in any period. This is operationally impossible and places undue burden on both the fund of funds manager and the fund manager with no benefit to investors.

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 the appropriate measurement attribute for **all** investments held by an investment entity is fair value.

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?

As noted above, all investments held by an investment entity should be measured at fair value as this provides the most decision-useful information to investors.

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?

We don't agree with consolidation of any controlling interest in an investment company or investment property entity as we believe fair value provides the most meaningful information to investors. Should the final standard require consolidation of an investment company or investment property subsidiary as proposed in the Update, we believe that the financial highlights should exclude amounts attributable to non-controlling interests in order to present information that is most meaningful to users of financial statements.

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?

Our comment is the same as our response to Question 15. If the consolidation requirement is retained in the final standard, we believe that the expense ratio should be calculated excluding the effect of both consolidating its investment property entity **and** investment company subsidiaries. This deconsolidated basis of presenting the expense ratio will provide the most meaningful information to users.

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?

Generally, we agree with the proposed presentation requirements contained in the Update. We believe that decision-making financial information is enhanced if disclosures are made around an entity's status as an investment company and information regarding restrictions on dividends is included. Disclosures about the non-consolidated investments held by the investment company, including a schedule of investments indicating that a more than 5% interest is held, provides information that is meaningful to users of such financial statements.

With respect to the proposed presentation requirements, we do not agree with the requirement to present rental income and operating expenses relating to real estate properties. We question why these types of investments have specifically been identified as requiring additional presentation.

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?

We agree that specialized industry accounting should be retained in consolidation by the parent. We believe that fair value is the most meaningful measurement attribute in both the investment company's financial statements and in the non-investment company consolidated parent financial statements.

Effective Date and Transition

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 with this proposal.

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

We believe that the final standard should have an issuance date no earlier than fiscal periods beginning after December 15, 2013. We believe that an effective date during a calendar year would result in cumulative adjustments in the middle of reporting periods which could confuse users. We have numerous fund entities that would need evaluation under the revised investment company guidance and given that full fiscal year presentation is preferable to mid-year adoption. Should the FASB issue a final standard in the second half of 2012, the earliest possible date that the final standard could be effective is January 1, 2014.

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

Early adoption should be permitted if preparers believe that the alternative presentation requirements provide information that is more meaningful to investors.

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?

The proposed amendment should apply to both public and nonpublic entities. Most investment companies are nonpublic so issuance of guidance relating to the investment companies that is applicable only to public entities would not capture the majority of the population that are within the scope of the guidance.

Summary

In summary, we believe that an investment company should be required to meet criterion a) subject to the modifications around the multiple investment requirement and criterion aa) to qualify as an investment company. The remaining criteria should be assessed qualitatively based on all relevant facts to ensure that all entities that should qualify as an investment company and for which fair value is the most meaningful measurement attribute, actually qualify. We strongly believe that a fair value measurement attribute results in the most meaningful presentation of financial information to users of investment company financial statements. As a result, we do not agree with consolidation at any level if an entity qualifies as an investment company. Rather an investment company should carry all investment at fair value. We strongly agree with the FASB's proposals to retain specialized industry accounting in the consolidated financial statements as we are of the view that even at the consolidated level, this provides the most decision-useful financial information to users.

We appreciate the opportunity to comment on the Proposed Update and we look forward to participating in the joint round-table discussions on this topic. We would also welcome the opportunity to further discuss the comments and concerns raised in this letter. Please let us know if you have availability in the coming weeks to meet with us and discuss the issues noted above.

Yours truly,

Kathleen Skero Finance Director

The Blackstone Group

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