

GE Asset Management

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

Re: Exposure draft – Proposed Accounting Standards Update – Financial Services – Investment Companies (Topic 946)

GE Asset Management Incorporated (GEAM) is a registered investment adviser with approximately \$115 billion in assets under management. GEAM is a wholly owned subsidiary of General Electric Company (GE). GEAM provides investment management services to a variety of institutional clients, including certain GE employee benefit plans (primarily defined benefit and defined contribution plans). GEAM provides these services through a variety of investment entities and separate accounts based upon the needs of our clients. The GEAM team invests globally with a long term view, across several asset classes including US equities, international equities, fixed income, private equity and real estate.

We appreciate the opportunity to comment on the proposed Accounting Standards Update of Topic 946 on Amendments to the Scope, Measurement and Disclosure Requirements. We support the Board's proposal on the assessment of whether an entity is an investment company; however, we note that the proposal would preclude a number of investment fund entities from meeting the criteria to be classified as investment company entities. We do not believe that this was the Board's intention.

We have focused our response on the questions in the exposure draft that have important ramifications for our business.

We do not believe that an investment company entity, as defined, should be required to evaluate for consolidation another investment company entity in which they have an interest. The investors in an investment company entity evaluate performance based on the returns that it earns on investments, not on the underlying earnings of the investees. A requirement for preparers of investment company entity financial statement to perform this analysis is operationally difficult and does not provide useful information to its investors.

We believe that a characteristic of true unit ownership in the context of an investment company is that each investor is entitled to a pro-rated share of earnings. We believe that the current wording of Topic 946-10-55-11 could lead a preparer to conclude that unit ownership encompasses risk-tranched units. We do not believe it was the Board's intent to bring complex structured vehicles, such as CLO's, within the scope of Topic 946.

When evaluating the pooling of funds criterion in Topic 946-10-55-13, a reporting entity should be required to evaluate the design of the entity when assessing this criterion, rather than the current state of the entity. Said differently, if the design of the entity has substantive mechanisms that allow for a large number of investors to enter and exit their investment in an entity, independent of the liquidation of the entity, those rights are relevant to the analysis independent of the actual number of investors in the entity.

In addition, we believe that the use of an investment advisor for employee benefit plan assets that is related to the plan sponsor should also not have a detrimental effect of the investment fund being classified as an investment company entity under the pooling of funds criterion. An investment advisor who is able to provide the professional investment management services in an efficient and economic manner for related employee benefit plan assets should not be penalized in meeting the ASU definition of an investment company entity. As a result, we believe that a scope exception similar to Topic 810-10-15-12 (a) should be utilized in the determination of related party investors.

We have provided a further explanation of our views and the basis for them in Appendix A.

We appreciate the opportunity to comment on the proposed ASU. Representatives of GEAM are available to discuss the issues raised in this letter with Board members or staff at their convenience.

Sincerely,

Thomas A. Conway

GE Asset Management Inc. Controller

Appendix A

Background

We believe that the key objective for investors seeking professional investment management is to meet the desired investment objectives in an efficient and economic manner. Investors utilize investment fund offerings to achieve this objective. Investors have an expectation that the investment fund selected follows fair value accounting in the determination of the valuation and net asset value of the investment fund. Prospectuses / offering documents for these investment funds also discuss the pooling of funds concept and the use of fair value accounting to meet the investment objectives of the investors. This concept would suggest that investors in pooled investment entities are passive investors who invest their assets with an investment advisor for the advisor to make decisions as to the specific investments included within the portfolio. The investors desire to be passive investors as they do not have the expertise to make investment management decisions which is a primary factor in the investment decision by the investor. The investor's decision making ability is generally limited to the selection of the appropriate investment fund which meets their investment strategy mandate as well as the purchase and sale of the unit of equity ownership consistent with the objectives of the investor.

The use of investment funds by employee benefit plans is common for both defined benefit plans and defined contribution plans. Plan sponsors seek investment funds that meet the investment objectives of the plan and include fair value accounting of the investment fund. We believe plan sponsors seek an investment advisor who can deliver on these objectives. An employee benefit plan is required to use fair value accounting under Topic 960-325-35-1 for defined benefit plans and Topic 962-325-35-1 for defined contribution plans.

Pooling of funds criterion

Under the proposed Topic 946-10-55-13 amendment, to meet the definition of an investment company, an entity must have investors that are not related parties of the entity's parent (if there is a parent) and those investors, in aggregate must hold a significant ownership in the entity.

We believe there are two areas to discuss related to the pooling of funds criterion. The first is the number of investors in an investment entity and the second is the form of related party as an investor of the entity to determine whether the form of the related party should be considered in the determination. We also believe these areas should not play a role to determine the ability of the investment advisor to manage the entity as a pooling of funds investment company entity on a fair value accounting basis.

We believe the design of the investment fund is paramount to meeting the objectives of the proposed standard in order to determine the assessment of an investment company entity. The design should be appealing to a large number of investors. The investor uses the prospectus / offering document and considers the design of the investment fund in making its investment decision. The numbers of actual investors should not be a deciding factor as the number of investors could be impacted by the investment advisor's performance and/or its distribution capabilities. Open-end investment funds are by design expected to increase and decrease assets based upon the subscriptions and redemptions of the investors. As a result, it becomes difficult to quantify a sufficient number of actual investors. Closed-end funds may also be limited in the actual number of investors as the fund generally is capped in terms of the assets of the investment fund. Investors in closed-end funds generally subscribe to the investment fund in terms of percentages of ownership. The investment advisor's ability to perform or distribute its products should not be determinative factors in the assessment. By design, the fundamental characteristic of an investment company entity is that external investors pool their assets to obtain professional investment management services. The fact that the investment fund has one or more investors at a point in time does not affect the financial reporting needs of the investor and its investment in the fund. The investors generally require fair value accounting. The result of assessing the actual number of investors in a fund could result in an investment fund qualifying as an investment company entity in one period, not qualifying in a subsequent period and then qualifying again in a future period. This result would be confusing to investors in the investment fund. While Topic 946-10-55-13 (b) indicates that the pooling of funds criterion is met while the entity is actively identifying suitable investors to replace those that have redeemed their ownership interest, this may be difficult to demonstrate when an investment advisor is marketing multiple products to multiple investors and may not be successful in its distribution capabilities.

The use of an investment advisor for employee benefit plan assets that is related to the plan sponsor should also not have a detrimental effect of the investment fund being classified as an investment company entity under the proposed standard. The plan sponsor/investor would use the prospectus / offering document of the investment fund to determine that the investment is suited to meet its needs both for the investment objective and the accounting requirements of the plan. Plan sponsors/investors are not in a position to wait for the audited financial statements to understand that the investment qualifies as an investment company entity and fair value accounting. In addition, an investment advisor who is able to provide the professional investment management services in an efficient and economic manner for related employee benefit plan assets should not be penalized in meeting the standard's definition of an investment company entity. We believe there are limited companies in the position of having an investment advisor subsidiary who manages employee benefit plan assets for its affiliates. A scope exception already exists under Topic 810-10-15-12 (a) where an employer shall not consolidate an employee benefit plan subject to the provisions of Topic 712 or 715. We believe a similar scope exception should be utilized in assessing related parties under the definition of an investment company entity.

It is imperative for an investment advisor to have products that meet this standard in order to be classified as an investment company entity. While we do see a potential opportunity for investment funds to adopt the fair value option under Topic 825 to maintain fair value accounting, investors are seeking investment company entities and would be confused by disclosures that do not identify the investment fund as an investment company entity. In addition, the presentation of the financial statements would be different than financial statements which qualify for fair value accounting under Topic 946. The financial statement presentation would cause additional confusion for investors who are seeking a statement of assets and liabilities (with a net asset value), statement of operations, as well as a statement of changes in net assets. In addition, investors who are comparing financial information of different products would also have challenges in the review of the presentation of financial information which would not be consistent for investment funds that were not to qualify under Topic 946. If products are not classified as investment company entities, there would be a significant negative impact to the business of the investment advisor.

Conclusion

We would recommend that the proposed standard for the pooling of funds criterion to focus on the design of the investment entity in that the entity is suited for multiple investors. The actual number of investors should not be a determinative factor. The impact of performance and/or distribution capabilities should also not be taken into consideration in the definition of an investment company entity. In addition, with respect to related parties, a scope exception consistent with Topic 810 Consolidation should also be utilized in the determination of investors to assess the pooling of funds criterion. We do not believe making such qualifications to the standard would preclude the objective of providing comprehensive guidance for assessing whether an entity is an investment company. The proposed standard must permit both investors and investment fund sponsors to determine that the investment fund would qualify as an investment company entity at the time of investment.