6 January 2010

Mr. Russell G. Golden  
Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, Connecticut 06856-5116  

Re: File Reference No. 1750-100 - Exposure Draft – Consolidation (Topic 810) -   
Amendments to Statement 167 for Certain Investment Funds  

Dear Mr. Golden,  

Wellington Management Company, LLP ("WMC" or the "Firm") appreciates the opportunity to respond to the proposed "Amendments to Statement 167 for Certain Investment Funds." We commend the FASB Staff for granting a deferral for investment managers that hold interests in certain investment funds. This deferral will allow the boards of the FASB and IASB the necessary time to converge their consolidation guidance as it relates to Investment Managers acting as an agent on behalf of their clients.  

In this comment letter, we are encouraging FASB to extend the proposed deferral to other pooled investment vehicles, or better yet, extend the deferral to Investment Manager business activities as agent because an investment manager acts as an agent in substantially the same capacity for other pooled investment vehicles as it does for "Certain Investment Funds." The FASB specifically named in the proposed deferral that it expected the deferral to apply to mutual funds, hedge funds, private equity funds, and venture capital funds, and not to apply to securitized entities such as collateralized debt obligations ("CDOs") – we believe this scope is too narrow, and does not recognize the principle that IASB is evaluating with respect to principal and agent relationships.  

An Investment Manager’s typical involvement with CDOs is substantially the same as its other pooled investment vehicles. We believe that FASB’s focus should be on the Investment Managers’ business activities to help establish a consolidation principle, rather than the current focus on today’s existing investment products, which is a more rules-based approach. The intent of an effective consolidation guidance principle is to present meaningful financial statements necessary for fair presentation of an entity’s business activities.
The following points detail the similarities of CDOs to "Certain Investment Funds":

- The Investment Manager usually is not the originator or the transferor of the assets;
- The CDOs are not set up to obtain funding for the Investment Manager;
- In some cases the Investment Manager may invest in the equity tranche of the CDO, but its obligation to fund losses, which has been a recurring concern of the Board, are limited only to its equity investment;
- The assets of the CDO clients are segregated from the Investment Managers’ assets and cannot be pledged, hypothecated or otherwise encumbered on behalf of the Investment Manager; likewise any liabilities associated with client assets, e.g. leverage, cannot be put upon the Investment Manager in the event of default by the client account;
- The risk of investment loss is not borne by the Investment Manager;
- The Investment Manager earns different fees for different tranches of a CDO. This reflects the risks and rewards associated with each tranche and is similar to the Investment Managers’ pricing of other pooled investment vehicles, e.g. hedge fund of funds and Master/Feeder Hedge Funds, which fees are also based on the risks and rewards of the particular vehicle to an investor.
- Investment Managers are hired to provide expert investment advice. Fees are negotiated at arms length and are subject to market competition. Investment Managers establish pooled investment vehicles to manage investors’ assets in a cost effective manner. Investors are willing to pay a premium for those services often in the form of an additional incentive fee; however, investors continue to earn the preponderance of the returns on their investments.

The following points detail the differences of CDOs to "Certain Investment Funds":

- Typically, there are no financial statements prepared for CDOs;
- Termination of or by an Investment Manager may be restricted to certain conditions under CDO products, the degrees of which vary by agreement. These agreements contain restrictions governing how an Investment Manager can resign from managing a CDO and how they can be terminated by the note holders and trustee of the CDO. These CDO restrictions are not dissimilar to other pooled investment vehicles’ clients’ rights (like venture capital and private equity funds), which is consistent with the illiquid nature of CDOs.

As a result of the similarities of the Investment Managers’ role with CDOs as compared to "Certain Investment Fund” entities, we believe that the Board should extend the deferral to CDOs, or more accurately to an Investment Manager’s agency activities, so that FASB and IASB can analyze the business activities and agency role associated with all pooled investment vehicles during the convergence period. Should FASB elect to not extend the proposed deferral to CDOs, Investment Managers may be required to consolidate CDOs under FAS 167 commencing in January 2010 and deconsolidate these
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CDOs when the converged consolidation guidance is issued. This is an undesirable  
result given that Investment Managers would be issuing distortive financial statements  
during the convergence period. Many users of financial statements have expressed that  
Investment Managers’ consolidation of their managed assets would result in financial  
statements that are not meaningful and distortive of the Investment Managers’ business  
model.  

We believe that FASB is not defining a consolidation principle for Investment Managers’  
agency involvement with pooled investment vehicles. The guiding principle of ASC 810-  
10-10-1, “Consolidation” (formerly ARB 51) regarding consolidated financial statements,  
is to present consolidated financial statements in instances where they are more  
meaningful than separate financial statements and necessary for fair presentation when  
one of the entities in the consolidated group directly or indirectly has controlling  
financial interest in the other entities.  

WMC is in the business of managing the assets of our clients for a fee. Our clients’ invest  
in WMC managed products to have their assets managed with a goal of earning income  
or realizing gains. WMC’s business and our clients’ investments mutually benefit from  
the positive performance of the underlying assets; however this mutual interest is not an  
indicator that consolidation of the operations and financial position with our clients’  
assets provides “meaningful” or “fair presentation” of Investment Managers’ business  
activities.  

We understand the alternative view that securitized entities, like CDOs, should be  
consolidated, especially in the cases where sponsoring financial institutions transferred  
assets and continued to bear the risk of loss exposure; but again, the business activities  
of an Investment Manager differ from those financial institutions. These institutions  
increased their liquidity by transferring assets from their balance sheet but were exposed  
to significant credit losses in the recent financial crisis. Transferring assets to increase  
liquidity is not the typical business model for Investment Managers who manage client  
assets for a fee. If FASB is ultimately attempting to capture situations where the  
reporting entity is funding losses, then the provisions of FIN 45, “Guarantor’s  
Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees  
of Indebtedness of Others” (codified in ASC 460 “Guarantees”), should merely be  
enforced by regulators and auditors. FASB should build the consolidation principle  
based on the Investment Managers’ business activities rather than the specific product  
which is rules-based.  

Regarding the proposed changes to Paragraph B-22, we believe that the changes appear  
to be an improvement over the current language. However, the concepts in B-22 still  
look more like rules rather than the principles that the IASB had discussed in its October  
2009 consolidation agenda papers. We have had several discussions with auditing firms  
and industry practitioners and they have continued to focus on quantitative applications
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of the proposed changes to B-22. We believe that this focus on rules will lead entities to attempt to structure around such rules, and we feel that instituting accounting principles to capture business activities like the proposed IASB principles principal/agent business activities is a better approach for establishing consolidation guidance.

WMC Overview and Background:

WMC is a private Massachusetts limited liability partnership and is registered as an investment adviser with the US Securities and Exchange Commission (“SEC”). WMC offers investment management services for a fee that is assessed against the assets under management of our clients. Our clients fall into four categories: 1.) sub-advisory to U.S. and non-U.S. mutual funds and hedge funds sponsored by unaffiliated parties; 2.) institutional separate accounts; and, 3.) privately offered pooled investment vehicles sponsored by WMC including collective investment funds, common trust funds, non-U.S. domiciled funds (“Offshore Funds”), and U.S. and non-U.S. domiciled hedge funds (collectively “WMC Sponsored Funds”) and, 4.) collateral manager to several CDOs and collateralized bond obligations.

If you have any questions or comments regarding our letter, please do not hesitate to contact me.

Sincerely,

[Signature]
James D. Campbell
Vice President, Finance
Director of Accounting Policy and Control
Direct Dial: 1-617-790-7634