February 14, 2012

Technical Director
Financial Accounting Standards Board
410 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update – Consolidation (Topic 810) Principal versus Agent Analysis (File Reference Number 2011-220)

Arthur Bell, Jr. & Associates, L.L.C. ("Arthur Bell CPAs") is a Certified Public Accounting firm which specializes in providing audit, tax, consulting, and other services to hedge funds, commodity pools, funds of funds, and other related entities, including investment advisers and commodity trading advisors (collectively, "investment managers"). We are a member of the Center for Audit Quality of the American Institute of Certified Public Accountants. In addition, the firm is registered with, and subject to inspection by, the Public Company Accounting Oversight Board.

We appreciate the opportunity to comment on the proposed Accounting Standards Update ("ASU") referenced above. We also appreciate the efforts of the Financial Accounting Standards Board ("FASB") and its staff in refining its previously issued consolidation guidance with the goal of clarifying whether a decision maker is using its authority as a principal or an agent and, as such, whether it should consolidate another entity. As our clients include investment managers, the issue as to whether such entities would be required to consolidate certain of the funds they manage is of importance to our clients.

Arthur Bell CPAs generally supports the changes contained in the proposed ASU. In particular, we believe assessing the role of the investment manager as either a principal or an agent is a useful perspective from which to assess whether the investment manager should consolidate some or all of its sponsored funds. We concur with the FASB that this assessment should be conducted on a qualitative basis and include all relevant factors, including the intended design of the underlying investment funds, the role of the investment manager, substantive kick-out rights and participating rights held by multiple unrelated parties, and the nature and magnitude of the investment manager's fees and other economic interests. Given the principles-based approach of the FASB's consolidation guidance, the consolidation assessment will remain subjective in nature. However, Arthur Bell CPAs believes the case studies included within the proposed ASU will be very useful in assisting investment managers and their auditors in the consolidation analysis relative to underlying sponsored funds. As such, these case studies will contribute to a greater degree of consistency in the consolidation assessment amongst various investment managers and audit firms.

Arthur Bell CPAs continues to have a concern with the specific guidance contained in the proposed ASU with regards to consolidation of partnerships. Specifically, 810-10-25-95(d) of the proposed ASU...
includes the following provision to be evaluated by the general partner with respect to variable returns from other interests in a limited partnership:

“The general partner’s maximum exposure to losses of the limited partnership. Although the general partner’s exposure is evaluated primarily on the basis of returns expected from the activities of the limited partnership, that evaluation also shall consider its maximum exposure to losses of the limited partnership, which would include guarantees of the partnership’s obligations (through a contract or a legal requirement) that may be inherent in a general partner’s ownership interest.”

Arthur Bell CPAs believes the qualitative consolidation assessment should consider all relevant factors reasonably expected by the design of the entity. Considering the requirement to assess guarantees of the partnership’s obligations which are inherent in the general partner’s ownership interest might result in differing conclusions regarding consolidation based solely on the design of the underlying investment fund (i.e., everything else being equal, investment funds structured as limited partnerships might require consolidation while funds structured as a LLC or a Ltd. might not require consolidation). As such, investment funds with substantially similar operations and terms and substantially similar roles of the investment manager might require differing consolidation conclusions. If it is the FASB’s intention to draw this distinction solely because a general partner inherently guarantees that no limited partner capital balance may be less than zero, we believe this is an overly strict factor to consider in consolidation. Our view is based on the fact that, while general partners do have this inherent obligation, the probability of this obligation becoming operational is remote given the fact that brokers would terminate trading activity of the investment fund once the general partner failed to meet margin calls. At such time, the broker would liquidate all open investment positions against margin balances that are required to be held in the trading account. Phrased in another manner, the investment fund is not designed to lose substantially all of its trading assets but is designed to function within applicable broker and exchange margin requirements. Given the above, Arthur Bell CPAs suggests either deleting this provision from the proposed ASU or clarifying this paragraph if FASB’s intention was to address additional guarantees of the general partner (e.g., minimum return guarantees).

With respect to Question 15 contained in the proposed ASU, Arthur Bell CPAs believes that there should be separate guidance for nonpublic entities because the consolidation of variable interest entities does not improve the financial reporting for nonpublic entities. The consolidation analysis can be very time consuming and the cost of performing and maintaining this analysis may not be worth the benefit to the nonpublic entity’s financial reporting.

We appreciate the opportunity to comment and would be glad to discuss our comments with you at your convenience. If you have any questions or desire additional information with respect to our comments, please do not hesitate to contact either Bob Zink or Thomas Stranger at 410-771-0001 or via e-mail at bob.zink@arthurbellcpas.com or thom.stanger@arthurbellcpas.com, respectively.

Sincerely,

Arthur F. Bell, Jr. & Associates, LLC