February 15, 2012

Technical Director
File reference No. 2011-220
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116
Via email: director@fasb.org

RE: Proposed Accounting Standards Update, Consolidation (Topic 810) – Principal versus Agent Analysis

Dear Technical Director,

KKR & Co. L.P. ("KKR") appreciates the opportunity to comment on the recently issued FASB proposed accounting standards update on Consolidation (Topic 810) – Principal versus Agent Analysis (the "Proposed Update").

KKR is a leading investment firm in the alternative asset management industry with $59.0 billion in assets under management as of December 31, 2011. Through our Private Markets segment, we manage and sponsor funds and co-investment vehicles that invest capital for long-term appreciation in private equity, natural resources and infrastructure assets. Through our Public Markets segment, we manage a specialty finance company, investment funds, structured finance vehicles and separately managed accounts. Given the nature of our business, the Proposed Update as drafted will have an impact on the accounting and reporting of our business results to our investors.

The Proposed Update is expected to have a significant impact on KKR as the general partner ("GP") of its investment vehicles, which we believe will be more helpful in presenting an accurate depiction of KKR’s financial condition and results of operations, and therefore the majority of this letter is focused on the "Consolidation of Partnerships and Similar Entities" portion of the Proposed Update. We are in support of the guidance provided in the Proposed Update and we believe the application of the proposed guidance will generally result in less frequent consolidation of investment vehicles by investment managers in the alternative asset management industry which will substantially enhance the clarity and usefulness of the financial statements.

Current Accounting Convention

The majority of the capital that is invested by KKR in its private equity and fixed income vehicles (~98%) is contributed by third party entities ("Limited Partners" or "LPs"). In addition, KKR, as the GP, typically
contributes capital that ranges from 0.2% to 4.0%. With respect to our GP interests in our investment vehicles we currently follow the consolidation guidance in ASC 810-20-25 under the voting model for the majority of our investment vehicles. As a result, KKR, as the GP, is required to consolidate the majority of its investment vehicles because of (i) its GP status and therefore presumption of control of the investment vehicles, and (ii) the fact that our LP’s do not possess the ability to remove the GP and therefore lack “kick-out rights.”

The application of this accounting by the GP results in the following:

- The exclusion of management fee revenue reflecting the fact that fees paid by the investment vehicle, which are funded by external third party LPs, are eliminated upon consolidation;
- A gross-up of net income reflecting the inclusion of income inuring to noncontrolling interests held by the LPs;
- A gross-up of investments and therefore a gross-up of total assets reflecting the inclusion of the interests of the LPs;
- A gross up of total equity reflecting the inclusion of the noncontrolling interests held by the LPs;
- A gross-up of the statement of cash flows primarily reflecting the inclusion of the cash flows associated with the investing activities of the LPs.

As a result of the above, the GAAP financial statements for KKR are significantly different than the segment financial information that KKR uses to evaluate the financial condition and operating results of our business. The table below illustrates the differences between our consolidated financial statements prepared under GAAP and our segment financial information (information is as of and for the year ended December 31, 2010 and all amounts are in thousands):

<table>
<thead>
<tr>
<th></th>
<th>Consolidated GAAP Financial Statements</th>
<th>Segment Financial Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Management Fees</td>
<td>$ 64,785</td>
<td>$ 453,286</td>
</tr>
<tr>
<td>Net Income</td>
<td>$ 7,776,471</td>
<td>$ 2,139,793</td>
</tr>
<tr>
<td>Investments</td>
<td>$ 36,449,770</td>
<td>$ 4,831,798</td>
</tr>
<tr>
<td>Total Equity</td>
<td>$ 36,000,042</td>
<td>$ 5,725,626</td>
</tr>
<tr>
<td>Noncontrolling Interests in Consolidated Entities</td>
<td>$ 30,327,161</td>
<td>$ 15,553</td>
</tr>
</tbody>
</table>

Because of the consolidation of the majority of our investment vehicles causing the differing financial presentations shown above, both KKR and external users of KKR’s financial information rely primarily on our segment financial information as this information reflects the true economics that inure to KKR.

**Qualitative Assessment When Determining Whether a Decision Maker is a Principal or an Agent**

We agree with the Board’s approach in requiring a decision maker to consider its overall relationship with an entity and other parties involved with the entity when determining whether a decision maker is a principal or an agent. We further acknowledge and support the fact that this will largely be a qualitative assessment, and therefore will involve a reasonable amount of judgment.
The facts and circumstances surrounding legal entities vary widely, and constraining the ability of business leaders to use judgment when assessing whether an entity is consolidated has the potential to undermine the utility of financial statements. Under the accounting illustrated above under ASC 810-20-25, there is virtually no ability to assess qualitative factors under this construct, and the result is a decrease in the utility of KKR’s financial statements and an overall inaccurate depiction of the financial condition and results of operations of KKR.

This is not how KKR views or operates its business, and it also is not how external users of KKR’s financial statements (including the investment and lending communities) evaluate the financial condition and results of our business. Both KKR and users of KKR’s financial statements view and analyze our business without the consolidation of our investment vehicles and therefore assess the operating performance of the GP only. The current proposal to allow GPs to use judgment and assess a variety of qualitative factors when determining whether a decision maker is a principal or an agent will, in our view, result in a more meaningful consolidation result and ultimately to an increase in the utility of our GAAP financial statements to users.

While the use of judgment in determining how to weigh each factor in the overall principal versus agent analysis may lead to instances where conclusions are inconsistent, we believe that the benefits of allowing enterprises to use sound judgment when making consolidation conclusions will greatly outweigh the potential for inconsistency. We believe that decisions borne from a careful consideration of all facts and circumstances surrounding an entity that include economics, the purpose of the entity, the design of the entity and the population of users of the financial statements of the entity will result in improved financial reporting.

On balance, we support the Board’s proposal to require reporting entities to evaluate if changes to an entity impacts whether the decision-maker is a principal or an agent. Said differently, any change to a reporting entity should be deemed to be a “reconsideration event” and should therefore result in a reconsideration of whether the manager is acting as a principal or an agent.

**Decision Maker’s Exposure to Positive and Negative Returns**

The Proposed Update as drafted places more emphasis on the decision maker’s exposure to negative returns than interests that only expose the decision maker to positive returns. While we agree that exposure to negative returns is a critical attribute to be considered in the principal versus agent analysis, we do not believe that exposure to negative returns, in and of itself, should be more determinative when evaluating a decision maker’s capacity as a principal versus an agent.

In the context of addressing this concept, we are focused on criteria #3 for assessing whether a decision maker is acting as principal or an agent. Specifically, “The decision maker’s exposure to variability of returns from other interests that it holds in the entity.” This criteria is hereafter referred to as “Criteria #3.” We believe that a decision maker’s overall exposure to both positive and negative returns should be considered, and to the extent that those returns could potentially comprise a majority (>50%) of the potential losses or potential gains of an entity, or both (in the aggregate), that this should be determinative of whether the decision maker is acting as a principal or agent for purposes of Criteria #3.
Otherwise, we believe that decision makers should be afforded the ability to exercise judgment when assessing whether exposure to negative returns should be given greater emphasis than exposure to positive returns.

We believe that the construct suggested above would be particularly meaningful as it relates to the consolidation of partnerships and similar entities and in particular as it relates to GP interests in investment vehicles. In the majority of our investment vehicles ("Funds"), the following economics are typical between the GP and the LPs:

- GP holds a minority pro-rata equity interest between 0.2% to 4.0%;
- LPs hold the remaining majority pro-rata equity interest;
- LPs pay a management fee of between 1% and 2% to an affiliate of the GP;
- GP is entitled to a profit participation of 20% of the LP gains in the Fund.

In certain other Funds, all of the economics described above exist, but in addition to participating in 20% of the LP gains, the GP is also exposed to 20% of the LP losses.

In each of these Fund structures, the exposure the GP has to both gains and losses is significantly less than the majority of both potential gains and potential losses in the Fund and the majority of the potential gains and losses are instead held by the LPs. In addition, the Fund being evaluated is currently considered to be an investment company and as such follows investment company accounting and reporting. Because of this, the investments held by the Fund are accounted for at fair value, which results in the GP’s equity method investment in the Fund being reflected at fair value. Accordingly, regardless of whether the GP has exposure to losses, all of the risks and rewards of the GP’s ownership interests in the Fund would be reflected on the GP’s financial statements. In a scenario where the Fund being evaluated was in an overall loss position, the GP would reflect a liability to the LPs in an amount equal to 20% of the LP losses.

Since an obligation to fund 20% of LP losses will always be reflected on the GP’s balance sheet and income statement, we believe that consolidating an investment vehicle simply because the GP has exposure to LP losses does not provide any incremental benefit to a user of the GP financial statements. Specifically, (a) consolidating all of the investments and investment gains or losses of the investment vehicle into the GP, and (b) reflecting the net LP economics through a noncontrolling interest would obfuscate the financial statements thereby creating a less transparent view of the GP’s obligation to fund 20% of the LP losses. This presentation is not meaningful to KKR in its assessment of the operating performance of its business, and from experience, this presentation is not meaningful to investors or to other users of our financial statements.

For the reasons described above, we believe that the Proposed Update should not categorically place greater emphasis on interests that expose a decision maker to negative returns than interests that expose the decision maker only to positive returns. Further, we believe that a decision maker’s overall exposure to both positive and negative returns should be considered in their entirety, and to the extent that those returns could potentially comprise a majority of the potential losses or potential gains of an
entity (in the aggregate), that this should be determinative of whether the decision maker is acting as a principal or agent for purposes of Criteria #3. Otherwise, we believe that decision makers should be afforded the ability to exercise judgment when assessing whether exposure to negative returns should be given greater emphasis than exposure to positive returns. We believe the example above illustrates the merit of exercising this judgment.

**Effective Date and Transition**

We agree with the transition requirements in paragraph 810-10-65-4. However, we believe it would be beneficial if the Board clarifies whether retrospective application of the effects of this proposed standard is required. As currently drafted, the transition requirements in paragraph 810-10-65-4 (i) indicate that the Proposed Update “.....may be applied retrospectively in previously issued financial statements for one or more years with a cumulative-effect adjustment to retained earnings as of the beginning of the first year restated.” It appears, based on this language, that it is at the reporting entity’s option whether to apply the requirements of this standard on a prospective or retrospective basis. We respectfully request that the staff clarify that prospective or retrospective application is at the reporting entity’s option. KKR’s preference would be a prospective application which would alleviate the administrative burden of restating prior periods and provide for a more timely implementation of the proposed requirements.

We also believe that early adoption should be permitted. As indicated above, the principal versus agent analysis could result in better transparency in the financial statements of certain entities, in particular those of alternative asset managers where consolidation may have previously been based on the presumption that a GP controls a limited partnership.

We appreciate the opportunity to offer our feedback on the Proposed Update. We would be pleased to discuss our views with the Board at your earliest convenience. If we can provide any further information, or if you would like clarification on any point we have raised, please contact me at 212-230-9740.

Sincerely,

[Signature]

William J. Janetschek
Chief Financial Officer