February 10, 2012

Technical Director
File Reference No. 2011-200
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Dear Sirs,

The Canada Pension Plan Investment Board ("CPPIB") is pleased to provide our comments on the October 2011 exposure draft “Investment Companies”, Topic 946. We are a Canadian pension fund that is considered an investment company under Canadian Generally Accepted Accounting Principles ("GAAP"). Under investment company standards in Canadian GAAP, we measure all investments at fair value, including those in controlled entities. We will be adopting IFRS on April 1, 2014. Although we are a Canadian entity that will be adopting IFRS, it is important for us to respond to the proposals in Topic 946 since FASB and IASB are pursuing a common standard on consolidation policy.

Overall, we support FASB’s proposal that investment companies measure all investments at fair value, including those entities that are controlled. It is our view that fair value measurement provides the most relevant and useful information to users of an investment companies financial statements who are most interested in understanding its financial condition and assessing its performance.

However, we are concerned that the criteria as written for ‘Unit Ownership’ and ‘Pooling of Funds’ could unintentionally preclude pension funds from meeting the definition of an investment company and being eligible to continue to measure all of its investments at fair value, including those in controlled entities. In substance, a pension fund’s business model is that of an investment company and should be scoped into Topic 946. A pension fund’s sole mandate is to invest the funds of a pension plan(s) to maximize returns for the benefit of the pension plans beneficiaries and not for the benefit of the plan sponsor. However, a narrow interpretation of the criteria and from a legal form perspective, these criteria appear to exclude pension funds since ownership is not represented by units of ownership and there is typically a single investor. We discuss this in further detail in our response to question 1 in Appendix B including our recommendations as to how the criteria for ‘Unit Ownership’ and ‘Pooling of Funds’ could be adjusted to scope in pension funds.
In our response to the questions posed in the proposal, we refer to CPPIB as being a typical structure for a pension fund. For your information, in Appendix A we provide some necessary background about CPPIB and its structure (which is representative of a typical pension fund) that will put our responses to the questions in context.

Please find attached in Appendix B our responses to the questions as stated in the Proposed Accounting principles Update for Investment Companies (Topic 946). Should you wish to discuss, or require any clarification, please contact me at 1-416-868-5080.

Sincerely,

Nicholas Zelenczuk
Senior Vice-President and Chief Financial Officer
BACKGROUND INFORMATION – CANADA PENSION PLAN INVESTMENT BOARD

We are a professional investment management organization that invests the excess assets of the Canada Pension Plan ("CPP"). As at December 31, 2011, the net assets of the CPP Fund were $152.8 billion. The CPP was established by an Act of Canadian Parliament in 1965 and is a governmental social benefits program primarily designed to provide approximately 17 million Canadian beneficiaries with benefits; primarily retirement pensions pursuant to Canadian federal legislation.

The CPPIB was created by an Act of Canadian Parliament in 1997 as a Canadian government Crown Corporation, with a sole mandate from the federal and provincial governments to help sustain the pensions of 17 million CPP contributors and beneficiaries. We are accountable to Parliament and to 10 federal and provincial finance ministers who act as the stewards of the CPP. However, by legislation, CPPIB is governed and managed independently of the CPP and at arm’s length from governments. The funds that we invest belong to current and future CPP beneficiaries, not governments. The government has no rights to the pension plan assets nor does the government have any influence to direct our investment mandate. In substance, the investors in CPPIB are the 17 million CPP contributors and beneficiaries. Furthermore, we are not a sovereign wealth fund. We have an investment-only mandate as legislated in the Canada Pension Plan Investment Board Act ("Act") which is to assist the CPP in meeting its obligations to beneficiaries under the Canada Pension Plan by investing its assets with a view to achieving a maximum rate of return, without undue risk of loss. We are also precluded by our Act to perform any activities other than investing the assets of the CPP.

An illustration of our structure is as follows:
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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 do not agree that the criteria for ‘unit ownership’ and ‘pooling of funds’ are appropriate to identify “all” entities that should be within the scope of Topic 946 for investment companies. The criteria as written are from the perspective of a typical mutual fund type entity and would appear to exclude entities like pension funds. While ownership interest in a pension fund is generally not represented by units of investments, the beneficiaries of the pension fund are in substance like unit holders since they are the contributors of monies which are invested and have sole rights to the net assets of the pension fund. The pension fund collects the beneficiaries’ contributions from the pension plan and invests their contributions with a view to maximizing returns through capital appreciation, investment income, or both. The beneficiaries will receive benefit payments out of the net assets of the pension fund based on a predetermined calculation. This is analogous to the rights of the unit holders of a mutual fund type of entity. The sponsor of the pension plan also has no rights to the net assets of the pension fund. To illustrate, a typical example of a pension fund as described above is CPPIB which has a legislated investment-only mandate to invest the funds of 17 million Canadian beneficiaries of the Canada Pension Plan with a view to maximizing returns through capital appreciation, investment income, or both. By legislation, CPPIB is restricted from engaging in activities which are not investing. Although CPPIB has a single investor (i.e. CPP) which is related to the parent (i.e. Canadian government) and whose ownership is not represented by units of investments, in substance our business model is consistent with that of a mutual fund type of entity. Accordingly, pension funds should be considered an investment company within the scope of Topic 946.

We believe that pension funds should be included in the population of entities which are considered to be an investment company under Topic 946 since their sole purpose is to invest the funds of a pension plan(s) for capital appreciation, investment income or both. In substance, we believe there is no difference between the business model of a mutual fund type of entity and that of a pension fund, despite the fact that their ownership structures are different.

In our view, FASB should not be concerned that scoping in pension funds would result in abuse in accounting as contemplated in paragraph BC24 in the basis for conclusions. The business model of a pension fund is enacted by legislation for the “sole” purpose of investing the assets of the related pension plan(s) and is restricted from engaging in non-investment related activities. Although a pension fund typically has a single investor, its business model would restrict it from being inserted into a larger corporate structure in order to achieve off balance sheet accounting for some assets, liabilities, operating losses etc. While we agree with FASBs concerns in BC24 as it relates to a single investor, this would not be the case of a business model of a pension fund as described above.
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We recommend that the FASB adjust the 'unit ownership' and pooling of funds' criteria and the related implementation guidance to include within its scope the business model of a pension fund.

Our Recommendations:

(i) Recommended adjustments to Unit Ownership criteria (proposed changes are underlined):
Ownership in the investment company is represented by either units of investments in the form of equity or partnership interests, to which a portion of the net assets are attributed or other in substance beneficial ownership interests as described below in the criteria for Pooling of Funds.

(ii) Recommended adjustments to Pooling of Funds criteria (proposed changes are underlined):
The funds of the investment company’s investors are pooled to avail investors of professional investment management. The entity either has investors that are not related to the parent (if there is a parent) and those investors, in aggregate, hold a significant ownership interest in the entity. In this context, investors would include beneficiaries with an in substance beneficial ownership interest in the net assets of the entity as enacted by legislation that establishes the beneficiaries' interest in and rights to the entity’s net assets.

(iii) Recommended adjustments to implementation guidance:
We recommend that an example be added to illustrate an entity whose ownership is represented in substance by a beneficial interest in the net assets of the entity as enacted by legislation. We recommend that this example include the typical structure of a pension fund, for example, CPPIB as outlined in Appendix A. To ensure consistency in application, an example could be added which illustrates an entity whose ownership is not represented in substance by a beneficial interest.

2. The definition of an investment company in the proposed amendments includes 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 have no comment on question 2.
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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 have no comment on question 3.

4. The proposed amendments would require an entity to reassess whether it is 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 believe that this proposal is appropriate and operational.

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 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 have no comment on question 5.

6. The proposed implementation guidance includes examples of relationships or 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 agree with the examples listed in paragraph 946-10-55-7.

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 do not believe that this criterion is appropriate as it would unintentionally scope out certain entities which should be within the scope of Topic 946 and be considered an investment company. An example of a business model which would be scoped out of Topic 946 unintentionally would be that of a pension fund. While a pension fund may have a single investor which is related to the parent, in substance, its business model is that of an investment company. Please see a detailed discussion as to
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why this criterion is not appropriate and why pension funds should be scoped into Topic 946 in our answer to question 1.

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 have no comment on question 8.

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?

We recommend that the ‘pooling of funds’ criteria in this exposure draft be amended to address situations in which an entity has a single investor. We believe that there are entity’s that have a single investor which should be eligible to qualify as an investment company, for example, a pension fund. A pension fund typically will have a single investor whose sole purpose is to hold and invest assets received from one or more pension plans. Enacted by legislation, a typical pension fund has a legislated investment-only mandate to invest the funds of a pension plan(s) with a view to maximizing returns through capital appreciation, investment income, or both. For your information, a typical structure of a pension fund is CPPIB and is illustrated in Appendix A. While a pension fund typically has a single investor, in substance, its business model is that of an investment company and should be scoped into Topic 946. We share the Board’s concerns as outlined in BC24. However, the Board should not be concerned that a pension fund could be inserted into a corporate structure to obtain a particular accounting income. Please see our answer to question 1 for a detailed discussion of the above issue and our recommended adjustments to the ‘pooling of funds’ criteria which would scope in the business model of a pension fund whilst at the same time address the concerns of the Board in BC24.
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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?

We agree that the nature of the investors should not be considered in evaluating the unit-ownership and pooling-of-funds criteria.

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 have no concerns with the proposal which requires that substantially all of an investment company’s investments are managed, and their performance evaluated, on a fair value basis.

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 interest in a master fund? Please explain.

We agree with the proposed requirement for an investment company to consolidate controlling financial interests in another investment company in a fund-of-funds structure. Without consolidation, the characterizations of the investment transactions that take place at the subsidiary investment entity level would be lost and the information needs of users would not be met. Users need transparency into the transactions of the underlying internally incorporated subsidiaries in order to best understand the consolidated financial condition and overall performance of the parent investment entity. We have no comment relating to the proposal that investment companies should not consolidate controlling financial interests in a master-feeder structure.

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 agree with the proposal which would require an investment company to consolidate a controlling financial interest in an investment property entity.
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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 not?

We agree with the proposal that all investments, including those interests in other investment companies and investment property entities should be measured at fair value.

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 agree that the amounts attributable to the noncontrolling interest should be excluded from the calculation of the financial highlights since this information is not relevant to users of the financial statements who are interested in understanding the financial condition and performance of the investment company.

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?

We have no comment on question 16.

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?

We have no comment on question 17.

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 fair value measurement for all investments held by the investment entity subsidiary, including those in controlled entities should be retained in the noninvestment company parent’s consolidated financial statements. This is because both the non-investment entity parent and the investment entity subsidiary invest in controlled entities solely to generate investment income, capital appreciation or both. Accordingly, we believe that since fair value measurement is the most relevant to users at the level of the investment entity subsidiary it will also be the most relevant at the level of the non-investment entity parent.
APPENDIX B

RESPONSES TO QUESTIONS POSED IN THE PROPOSAL

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 not?

We agree with this proposal.

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

We have no comment on question 20.

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

We have no comment on question 21.

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?

We agree that the proposed amendments should apply to both public and nonpublic entities. This will ensure that all investment companies, regardless of whether they are public or nonpublic, will be eligible to fair value all investments in controlled entities, with the limited exceptions as outlined in this exposure draft. Fair value measurement best meets the information needs of users of both public and nonpublic investment companies who need to understand the fair value of the investment portfolio and changes in the fair values of investments in order to assess the financial condition and performance of the investment company.