February 13, 2012

Technical Director
Financial Reference No. 2011-20
Financial Accounting Standards Board
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Via email: director @ fasb.org

Proposed Accounting Standards Update
Financial Services – Investment Companies (Topic 946)

We are writing to comment on the proposed Accounting Standards Update entitled Financial Services – Investment Companies ("the exposure draft"). Capital For Business is a wholly-owned subsidiary of a publicly traded bank holding company. Capital For Business ("CFB") is a management company responsible for the day-to-day management and investment of two Small Business Investment Company ("SBIC")-licensed investment funds. CFB is currently required to account for its investments under investment accounting rules which include reporting its investments at FMV (fair market value) without consolidating the operations of these investees into the financial statements of our parent company.

We understand and respect that the exposure draft ("ED") is trying to restrict the potential for companies to structure transactions in order to achieve a financial statement outcome that circumvents consolidation. However we believe, as currently proposed, that certain SBIC’s would unnecessarily and unintentionally be required to consolidate their portfolio into their banking company parent company. As currently proposed SBIC subsidiaries which have no outside or unrelated investors would not be considered investment companies solely because of the "pooling of funds" requirement in the ED. We believe that this pooling of funds requirement unnecessarily impacts these kinds of SBIC entities and should be eliminated or that SBIC’s should be specifically exempt from this Financial Accounting Standard.

SBIC’s are currently considered investment companies by the US Small Business Administration. The program has many restrictions, requirements, and qualifications that we believe should automatically qualify SBIC’s as investment companies in the ED.
The SBIC program is a federally licensed and monitored program in which experienced management teams make independent financial investments into a diverse portfolio of privately-held, US-based small businesses.

SBIC's are heavily regulated with substantial oversight by the Small Business Administration ("SBA").

The regulations imposed by the SBA eliminate all of the opportunities for abuse we believe the FASB is trying to achieve by narrowly defining an investment company.

The SBIC program has been determined to be an important element in the capital formation for many US small businesses.

Banking institutions across the United States have investments in captive SBIC funds.

Banking institutions are incentivized to invest in SBIC's as a means to achieve CRA credit.

SBIC's primary purpose is to generate investment income and return of capital with appreciation for their investors.

SBIC's are required to divest each investment within seven years. Investments held beyond seven years are subjected to a high level of scrutiny including filing a required plan for divestiture.

SBIC regulations prohibit investments in affiliated companies thereby eliminating any opportunity to circumvent consolidation through an SBIC structured transaction.

SBIC's are prohibited from investments that re-lend or re-invest the funds' capital thereby eliminating any opportunity for a financial institution to use and SBIC subsidiary for other bank related transactions.

Impact of this Exposure Draft on Banks

As currently proposed in the exposure draft, CFB's SBIC funds would meet five out of the six criteria to be considered an investment company, including business purpose, substantive activities and fair value accounting of all its investments. However, we would not be considered an investment company due to the "pooling of funds" criteria as our funds have one investor, our bank parent. This one criterion seems to inordinately penalize SBIC funds like ours who are conducting a basic investment business. As a result, our banking parent would have to evaluate CFB's substantial investment portfolio of independently operated businesses and would be required to consolidate (either by the consolidation method, equity method, or cost basis method) these companies into their financial statements.

Under this approach our bank parent company and other banks would be required to reflect the fixed assets, inventories, goodwill, purchase accounting adjustments, etc. of unaffiliated manufacturing, distribution, and services company in connection with buyout, acquisition, and growth transactions solely intended to generate investment income and capital appreciation over time. The financial reporting systems of these small, privately-held company investments are not designed to comply with public company reporting requirements and are often only completely prepared on an annual basis. As a result the bank would be forced to consolidate dated and inconsistent information.
Consolidated accounting treatment would not reflect accurately the performance of the bank and would confuse the bank’s shareholders or other readers of their financial statement. This accounting treatment could also result in unintended consequence of impacting the bank’s regulatory capital requirements.

We thank you for the opportunity to submit these comments the proposed Accounting Standard Update. While we understand the Board’s objective in presenting this Exposure Draft, we believe that the “pooling of funds” requirement should be eliminated or that SBIC’s should be specifically recognized as an investment company in this Financial Accounting Standard. We would be pleased to discuss our comments with the Board or its staff.

Sincerely,

Hollis Huels
Senior Vice President
Capital For Business