February 15, 2012

Ms. Leslie Seidman, Chairman  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

Re: File Reference No. 2011-200 - Proposed Accounting Standards Update, Financial Services - Investment Companies (Topic 946)

Dear Ms. Seidman:

Nationwide Insurance appreciates the opportunity to comment on the Exposure Draft of the Proposed Accounting Standards Update, Financial Services - Investment Companies (Topic 946) (ED or proposed guidance). The Nationwide Insurance Enterprise (Nationwide) is comprised of three affiliated mutual insurance companies and their subsidiaries under common management, operating both property and casualty and life insurance companies. Nationwide is one of the largest diversified insurance and financial services organizations in the world with approximate U.S. GAAP annual revenues of $20 billion and approximate assets totaling $150 billion.

Nationwide believes that fair value accounting of an investment company’s underlying investments, including an investee which it controls, best reflects the investment company’s business objectives and provides the most decision-useful information to its investors. Therefore, we are in favor of the International Accounting Standard Board’s (IASB) proposal which retains fair value reporting for qualified investment companies, and we strongly encourage the Financial Accounting Standards Board (FASB) to take the same approach.

Within this comment letter, we will expound on this and our other primary recommendations:

- Investment companies and separate accounts of life insurance companies should not consolidate investment companies.
- We are supportive of the goal to clarify the definition of an investment company.
- We request clarification regarding the application of the investment company definition and the consolidation guidance to separate accounts of life insurance companies and their underlying investments both in their stand-alone financial statements and in the insurer’s financial statements.
- Fund-of-funds and master-feeder structures should be explicitly defined.
- We support the retention of an investment company’s specialized accounting by a non-investment company parent.

Please see below for further details on our recommendations.
COMPREHENSIVE RECOMMENDATIONS

Investment Company Business Model
The business model of an investment company is to pool funds received from investors and invest these funds in investments for capital appreciation and/or investment income. Substantially all of the investments of such entities are managed, and their performance evaluated on a fair value basis, including the pricing of subscriptions and redemptions of investors. We feel the investors in these entities desire fair value information for investments that could affect their net asset value as this information drives their investment decisions. This view is consistent with the AICPA Audit Investment Company Guide, paragraph 7.17, which states, “The purpose and nature of investment companies makes fair value for their investments the most relevant measure to report to their investors, the principal users of their financial statements who typically evaluate the performance of the investment company based on changes in net asset value.” We agree with the AICPA’s position that fair value is the most relevant business measure for an investment company’s financial statement users; accordingly we do not support consolidation of an investment company by another investment company, as this guidance would require. Consolidation is inconsistent with an investment companies’ business model and does not provide investors of these entities with more useful information. For this reason, among others, we strongly urge the FASB to reconsider the portions of this proposed guidance that would require this consolidation.

Investment Company Definition and Separate Accounts of Life Insurance Companies:
We applaud the FASB’s and IASB’s joint effort to develop a common definition of an investment company. Today we feel separate accounts of life insurance companies are considered investment companies. However, under the proposed criteria, it is unclear whether an unregistered separate account of a life insurance company would meet the proposed definition of an investment company.

An unregistered separate account of a life insurance company would not automatically qualify as an investment company under the 1940 Act criteria; thus, one must consider if a separate account of the life insurance company qualifies as an investment company under the other six criteria. As currently proposed, it appears a separate account of a life insurance company would meet four of the six criteria; however, it is less clear if a separate account of a life insurance company would meet the unit-ownership or pooling-of-funds criteria. For example:

- **Unit-ownership**: The proposed guidance requires that investors acquire ownership units in the form of equity or partnership interests. As a separate account represents a contractual relationship between the insurer and the policyholder, the units are not in the form of equity or partnership interests. This fact could lead to different interpretations and conclusions as to whether or not an unregistered separate account of a life insurance company would meet this criterion.

- **Pooling-of-funds**: The proposed guidance requires the investment company to sell ownership interests to investors. The funds of the owners are pooled to avail them to professional investment management. For a life insurer with an unregistered separate account where its policyholders (i.e., beneficial owners) direct their investments, it is
unclear if the entity would meet this requirement due to its investment process. For example, a separate account of a life insurance company may allow its policyholders to select their investment strategies and profiles. After which, the life insurer, on the policyholders' behalf, purchases the shares in the applicable and professionally managed mutual funds. Clarification is needed to determine the appropriate level that a separate account of a life insurer must have professional investment management. If professional management is required at the policyholder level, then policyholders' ability to direct their ownership units may preclude the separate account of the life insurance company from qualifying as an investment company. If professional management is required at the mutual fund level, then the separate account of the life insurance company would meet this criterion.

We believe the FASB intended for both registered and unregistered separate accounts of life insurance companies to qualify as investment companies. This belief is based on the Board’s specific consideration given to a separate account of a life insurance company’s ability to qualify for the reporting entity criteria despite not having separate legal status. This can be noted in the Board’s comments in Basis for Conclusion (BC) paragraph 31. It appears the Board believed separate accounts of life insurance companies would pass the other criteria, but could fail the reporting entity criteria, which warranted the additional discussion in the BC. However, the above examples highlight that an unregistered separate account of a life insurance company, which appears to meet the other four criteria, may not meet the proposed definition of an investment company due to the unit-ownership and pooling-of-funds criteria. Therefore, we recommend the guidance explicitly state that a separate account of a life insurance company qualifies as an investment company.

**Consolidation in the Stand-alone Financials of a Separate Account of a Life Insurance Company**

Assuming a separate account of a life insurance company meets the definition of an investment company, it would have to consolidate an investment company in which it has a controlling financial interest through a fund-of-funds structure. As noted in our introduction, we do not support this proposed requirement and find it even more concerning when applied to separate accounts of life insurance companies. We believe fair value accounting reflects the business objective of an investment company, including separate accounts of life insurance companies, and provides the most decision-useful information.

However, if the Board were to proceed with the requirement for a separate account of a life insurance company to consolidate its underlying investments in its stand-alone financial statements, we would request that the guidance provide clarification as to how the considerations of Topic 810, *Consolidations*, should be applied. One view is that the registered separate account of a life insurance company would always apply the voting model (VOE). This view is based on the fact that its underlying investments, typically mutual funds, are registered under the 1940 Act. Under the SEC rules the Board of Directors is by definition independent and therefore the decision maker for the fund would be considered an agent. Assuming the mutual fund does not exhibit any of the other characteristics of a variable interest entity (VIE) it would be considered a VOE. Another view is that the Board of Directors should not automatically be considered independent, so it becomes necessary to determine, under the VIE model, if the decision maker is a principal or an agent to understand how a separate account of a life insurance
company would consider indirect economic interests held through related parties including de facto agents. This analysis is complicated by the unique relationship of various parties such as the insurer, who transacts the shares of the fund on the policyholder’s behalf; the policyholder and their special contractual relationship to the insurer; the Board of Directors of the separate account of the life insurance company or the underlying fund; and the separate account of the life insurance company itself. This complication is one of many reasons why we do not support consolidation, but if the proposed guidance is adopted, it must explicitly outline how a separate account of a life insurance company would apply the related party analysis within the VIE consolidation model.

**Implications of Proposed Guidance to an Insurer (Parent’s) Financial Statements**

The proposed guidance appears to retain an insurer’s consolidation analysis of its separate account as prescribed in Topic 944, and amended by ASU 2010-15, *How Investments Held through Separate Accounts Affect an Insurer’s Consolidation Analysis of Those Investments (ASU 2010-15).* Under this guidance, an insurer should not consider any separate account investments held for the benefit of policyholders to be its interest, and thus should not combine a separate account’s interest with its general account when assessing consolidation under Topic 810. However, it appears the proposed guidance would create an unintended conflict in this guidance, especially when the basis for conclusions of ASU 2010-15 is considered.

ASC 944-80-25-3 (a) states the following which implies non-controlling interest would not be included in the parent’s financials as it only references contract holder funds:

> The portion of separate account assets representing contract holder funds shall be reported in the insurance entity’s financial statements as a summary total, with an equivalent summary total reported for related liabilities.

ASC 944-80-25-3 (d) states the following which implies non-controlling interest would be included in a parent’s financials if the separate account of the life insurance company holds a controlling financial interest in an investment and would have to consolidate the investment in the stand-alone financial statements:

> ...An insurer is not required to consolidate an investment in which a separate account holds a controlling financial interest if the investment is not or would not be consolidated in the standalone financial statements of the separate account.

We believe the intent of ASU 2010-15 was to clarify that an insurance company should not reflect the non-controlling interest of a separate account in the insurer’s own non-controlling interest financial statement line items and request the guidance be clarified to make this clear. Our position is based, in part, from BC 6 in ASU 2010-15 which states:

> The Task Force noted that although the insurer may legally hold a controlling interest in an investment through its management of the separate accounts, it did not believe that consolidation of those investments appropriately portrayed the economics of the relationship or that consolidating the investment would provide useful information for financial statement users. The Task Force also believes that
consolidation would unnecessarily increase the complexity of an insurer’s financial statements.

We request that in the insurer’s financial statements the non-controlling interest of their separate accounts would not be reflected in either the insurer’s own non-controlling interest financial statement line, nor in the separate account assets or separate account liabilities lines. Under this method, no non-controlling interest of a separate account would be carried on the insurer’s balance sheet.

**Clarification**

If the Board is to proceed with consolidation despite these recommendations, in order to properly evaluate our investments under the proposed guidance, we believe clearer definitions of fund-of-funds and master-feeder structures are warranted given the importance of this distinction to the consolidation conclusion. It is currently difficult to distinguish the two structures because neither the proposed guidance nor the Master Glossary of the Codification define fund-of-funds and master-feeder structures. Furthermore, without a clear definition, it is also unclear whether an insurer’s separate account and its underlying investments such as mutual funds would meet this definition and therefore would be considered for consolidation into the separate account of the life insurance company. We note that the AICPA *Audit Guide for Investment Companies* defines fund-of-funds in paragraph 5.22 as “Investment companies that invest in other investment companies.” This paragraph goes on to state, “Master-feeder structures can be viewed as fund-of-funds, but usually only with 1 top-tier (portfolio) fund; a more typical fund-of-funds structure has more than 1 top-tier fund.” However, this definition is not authoritative because it was not codified and may appear to be more expansive than this guidance may intend. Therefore, we respectfully request the guidance explicitly define these terms.

**Convergence**

We support the FASB’s efforts to work with the IASB to develop a common definition of an investment company; however, we are concerned about the current lack of convergence on all key areas. Our most significant concern is the different accounting requirements for an investment company’s underlying investments. Unlike the IASB’s proposal, which would require an investment company to account for all of its investments at fair value, the FASB’s proposal would require an investment company to consolidate another investment company in which it holds a controlling financial interest. We believe fair value accounting for an investment company’s underlying investments is consistent with an investment company’s business model and provides the most decision-useful information for investors. We strongly recommend the FASB adopt the IASB’s approach and eliminate this divergence.

We are also concerned about the Boards’ differing approaches to the treatment of controlling financial interests in an investment company by a non-investment company parent and reassessment requirements for a qualified investment company. We support the FASB’s approach in both of these areas (retention of the specialized accounting and continual reassessment not required) and urge the IASB to converge with the FASB.
CONCLUSION

As noted throughout our letter, we believe fair value accounting for an investment company’s underlying investments excluding non-controlling interest is consistent with an investment company’s business model and provides the most decision-useful information for investors. For this reason we cannot support the requirement for investment companies, including separate accounts of life insurance companies, to consolidate other investment companies. If the FASB is to proceed with this requirement to consolidate, then we respectfully request consideration within the guidance for separate accounts of life insurance companies as discussed within this letter.

We have attached as an appendix to this letter Nationwide’s response to the comprehensive list of questions.

We hope these comments assist you during your re-deliberations of the proposed guidance. In the event that any Board or FASB staff member would like further clarification of our positions, we would be happy to discuss them in greater detail.

Respectfully,

James D. Benson
Senior Vice President, Enterprise Controller and Chief Accounting Officer
Nationwide Insurance
Appendix

Responses to questions in the Exposure Draft: Investment Companies

Question 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?

Yes, we believe that the appropriate factors for determining whether an entity is an investment company have been identified by the Board. The proposed criteria require judgment, which we believe is important in order to assess which entities should qualify as investment companies.

While we agree with the Unit Ownership and Pooling of Funds in principle, we are concerned that the application of the two criteria may preclude an insurer’s separate account from qualifying as an investment company, which is inconsistent with its historical accounting treatment. For example:

- Unit-ownership: The proposed guidance requires that investors acquire ownership units in the form of equity or partnership interests. As a separate account of a life insurance company represents a contractual relationship between the insurer and the policyholder, the units are not in the form of equity or partnership interests. This fact could lead to different interpretations and conclusions as to whether or not an unregistered separate account of a life insurance company would meet this criterion.

- Pooling-of-funds: The proposed guidance requires the investment company to sell ownership interests to investors. The funds of the owners are pooled to avail them to professional investment management. For a life insurer with an unregistered separate account where its policyholders (i.e., beneficial owners) direct their investments, it is unclear if the entity would meet this requirement due to its investment process. For example, a separate account of a life insurance company may allow its policyholders to select their investment strategies and profiles. After which, the life insurer, on the policyholders’ behalf, purchases the shares in the applicable and professionally managed mutual funds. Clarification is needed to determine the appropriate level that a separate account of a life insurer must have professional investment management. If professional management is required at the policyholder level, then policyholders’ ability to direct their ownership units may preclude the separate account of the life insurance company from qualifying as an investment company. If professional management is required at the mutual fund level, then the separate account of the life insurance company would meet this criterion.

Question 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.

Yes, we are aware of an entity regulated under the SEC's Investment Company Act of 1940 that if subject to the other six criteria may not meet the new definition of an investment company – registered separate accounts of life insurance companies. Historically these have been viewed as investment companies and should continue to be viewed as such, but as we have outlined throughout this comment letter if subject to the unit-ownership and pooling-of-funds criteria there could be future confusion as to their status as an investment company. For example:

- **Unit-ownership:** The proposed guidance requires that investors acquire ownership units in the form of equity or partnership interests. As a separate account of a life insurance company represents a contractual relationship between the insurer and the policyholder, the units are not in the form of equity or partnership interests. This fact could lead to different interpretations and conclusions as to whether or not an unregistered separate account of a life insurance company would meet this criterion.

- **Pooling-of-funds:** The proposed guidance requires the investment company to sell ownership interests to investors. The funds of the owners are pooled to avail them to professional investment management. For a life insurer with an unregistered separate account where its policyholders (i.e., beneficial owners) direct their investments, it is unclear if the entity would meet this requirement due to its investment process. For example, a separate account of a life insurance company may allow its policyholders to select their investment strategies and profiles. After which, the life insurer, on the policyholders’ behalf, purchases the shares in the applicable and professionally managed mutual funds. Clarification is needed to determine the appropriate level that a separate account of a life insurer must have professional investment management. If professional management is required at the policyholder level, then policyholders’ ability to direct their ownership units may preclude the separate account of the life insurance company from qualifying as an investment company. If professional management is required at the mutual fund level, then the separate account of the life insurance company would meet this criterion.

We do support the inclusion of the 1940 Act criteria in the guidance as it makes the Board’s intent very clear as to registered separate accounts being investment companies and the application of the other six criteria become irrelevant. We request the guidance also make it clear that unregistered separate accounts would be investment companies as well.

**Question 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?
Yes, we agree that the scope exception for real estate investment trusts should be removed. The FASB has proposed similar definitions for investment companies and investment property entities. Removal of the scope exception will allow these entities to be subject to this guidance, as we agree is proper.

No, the amendments in the proposed updates on investment companies and investment property entities do not appropriately identify the population of real estate entities that should be investment companies and investment property entities. This response is based on the fact that we believe investment property entities should follow the proposed investment company accounting guidance, and not have a separate set of accounting guidance. Within the investment company guidance the requirements should allow for entities with single investors who are maximizing their expected cash flows, for example, either through the collection of rental income or opportunistic sales of the properties to be considered investment companies.

That said, we do not support the proposed requirement for an investment company, including an investment property entity, to consolidate another investment company when it has a controlling financial interest.

Question 4: The proposed amendments would require an entity to reassess whether it is as 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?

Yes, we support this proposed change. We believe the determination of whether an entity is an investment company should be made at the formation of the entity and unless that entity has changed its design or purpose, then its investment company status would not change. Therefore, it is more appropriate and operationally efficient to reassess the status of an entity only when there is a change in the purpose and design of the entity.

Nature of the Investment Activities
Question 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 the 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?

Yes, we believe it is operational, because a real estate fund or a similar entity has the ability to identify its business activities and compare them to the proposed criteria. Thus, we see no reason why this requirement could not be consistently applied.

Question 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?

Yes, we agree with the examples in ASC 946-10-55-7 and believe they are strong indicators that an entity is investing for other than capital appreciation or investment income.

Unit Ownership and Pooling of Funds
Question 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?

No, we believe the requirement that an entity have significant investors other than the parent is inappropriate. The economics of the entity do not necessarily change based on the number of investors; so if the other criteria are met the accounting should be the same. If the Board is concerned that a single investor could use an investment company to shield their underlying investments from more transparent disclosure of the underlying investments, then we would propose if an investment company has a single investor then it should be subject to expanded disclosures regarding its underlying investments.

Question 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.

Yes, we believe that the unit-ownership and pooling-of-funds criteria should consider interests held by debt holders. We believe the concept that entities would not qualify to be investment companies if their structures do not result in ownership interests in the form of equity or partnership interests is inappropriate. For example, the business objective and economics of a securitized vehicle (e.g., a collateralized debt obligation) are similar to an investment company. The fact that a collateralized debt obligation’s investors’ funds are pooled to provide them with professional investment management comes in the form of debt should not preclude a securitized vehicle from continuing to apply investment company accounting as it operates as an investment company.

In addition, we are concerned that separate accounts of life insurance companies could have difficulty with the unit-ownership and pooling of funds criteria. While we agree with the Unit Ownership and Pooling of Funds in principle, we are concerned that the application of the two
criteria may preclude an insurer’s separate account from qualifying as an investment company. For example:

Unit-ownership: The proposed guidance requires that investors acquire ownership units in the form of equity or partnership interests. As a separate account of a life insurance company represents a contractual relationship between the insurer and the policyholder, the units are not in the form of equity or partnership interests. This fact could lead to different interpretations and conclusions as to whether or not an unregistered separate account of a life insurance company would meet this criterion.

Pooling-of-funds: The proposed guidance requires the investment company to sell ownership interests to investors. The funds of the owners are pooled to avail them to professional investment management. For a life insurer with an unregistered separate account where its policyholders (i.e., beneficial owners) direct their investments, it is unclear if the entity would meet this requirement due to its investment process. For example, a separate account of a life insurance company may allow its policyholders to select their investment strategies and profiles. After which, the life insurer, on the policyholders' behalf, purchases the shares in the applicable and professionally managed mutual funds. Clarification is needed to determine the appropriate level that a separate account of a life insurer must have professional investment management. If professional management is required at the policyholder level, then policyholders’ ability to direct their ownership units may preclude the separate account of the life insurance company from qualifying as an investment company. If professional management is required at the mutual fund level, then the separate account of the life insurance company would meet this criterion.

Question 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?

Yes, we believe the criterion should be amended so that an entity may have a single investor. Entities may establish investment company-like entities to facilitate the investment activities of their subsidiaries. These investment entities are established for many reasons, including: reducing investment cost and record keeping requirements, improving liquidity, allowing for investment diversification, and centralizing risk management. Furthermore, these entities operate under an investment company business model. As mentioned above, the economics of the entity do not necessarily change based on the number of investors, so if the other proposed criteria are met, the accounting treatment should be consistent, and these entities should continue to apply investment company accounting. If the Board is concerned that a single investor could use an investment company to shield their underlying investments from more transparent disclosure of the underlying investments, then we would propose if an investment
company has a single investor then it should be subject to expanded disclosures regarding its underlying investments.

Question 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?

Yes, we agree the two criteria should not distinguish between passive or other types of investors.

Fair Value Management

Question 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?

Yes, we agree with the proposed amendments relating to fair value management. The use of fair value is appropriate, because investment companies account for their investments at fair value to ensure that financial statement users and investors have relevant, easily understandable, comparable information that can be used to evaluate the performance of their investments.

Interests in Other Entities

Question 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 financial interest in a master fund? Please explain.

No, we believe the proposed requirement for an investment company to consolidate controlling financial interest in another investment company in a fund-of-fund structure is inappropriate. An investment company’s business objective is to acquire and hold investments for capital appreciation and/or income, and they may hold controlling or passive interest in these investments. Under either scenario, investments are managed on a fair value basis. Furthermore, investors in the investment company enter and exit their investments based on the fair value of their respective share of the investment company’s underlying assets. Therefore, we believe investment companies’ presentation of their investments should be on a fair value basis, including their controlling interest in an investment company investee in a fund-of-funds structure, as this is consistent with their business model. For similar reasons, we do not support consolidation by master-feeder structures.
As for the master-feeder structure consolidation exception, we believe constituents need clearer definitions of fund-of-fund and master-feeder structures in order to understand and properly apply the proposed guidance. As noted in our Comprehensive Recommendation section, a fund-of-funds and a master-feeder structure are not defined in the proposed guidance or in the Master Glossary of the Codification.

Question 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?

No, we do not agree with this proposed amendment. As noted above, we do not support the concept that an investment company should consolidate other investment companies or investment property entities. An investment company’s business purpose is to acquire and hold investments, including interests in an investment property entity, for capital appreciation and/or income. Furthermore, an investment company measures and manages its investments at fair value. Therefore, we believe an investment company should present information regarding its investees, including other investment property entities it controls, on a fair value basis. This is consistent with an investment company business model and provides more decision-useful information to its investors.

Furthermore, we believe investment property entities should follow the proposed investment company accounting guidance, and not have a separate set of accounting guidance. Within the investment company guidance the requirements should allow for entities with single investors who are maximizing their expected cash flows, for example, either through the collection of rental income or opportunistic sales of the properties to be considered investment companies.

Question 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?

Yes, we agree that an investment company’s interests in other investment companies and investment property entities should be measured at fair value.

Presentation and Disclosure

Question 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?

No, we believe the concept of an investment company consolidating an investment company or an investment property entity is inappropriate. As such, we do not support the proposed presentation and disclosure requirements.
Question 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?

No, we believe the concept of an investment company consolidating an investment company or an investment property entity is inappropriate. As such, we do not support the proposed presentation and disclosure requirements.

Question 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?

No, we believe the concept of an investment company consolidating an investment company or an investment property entity is inappropriate. As such, we do not support the proposed presentation and disclosure requirements.

Retention of Specialized Accounting

Question 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?

Yes, we support the FASB proposal to allow a non-investment company parent to retain the investment company specialized accounting in consolidation. This guidance is another area of divergence with the IASB. As we believe the FASB proposal is appropriate, we strongly encourage the IASB to converge to the FASB view on this item.

Effective Date and Transition

Question 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?

Yes, we agree with this proposed transition.

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

The proposed amendments must be considered in conjunction with the proposed investment property entity guidance and proposed updates to current consolidation guidance. If the guidance is adopted as proposed, we believe that significant effort will need to be applied in order to reassess and document conclusions under the proposed new standards, requiring the
input and collaboration of many parties company-wide. Should consolidation conclusions change as a result of the updated guidance, processes for gathering information and performing consolidations and de-consolidations will need to be adjusted. Consequently, we believe a minimum of 24 months should be allowed for implementation. In addition, we believe the effective date should be coordinated for all three standards (Investment Companies, Investment Property Entities, Consolidations) given their significant interdependencies.

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

No. We do not believe early adoption would be beneficial to financial statement users, due to the lack of comparability it would create.

Nonpublic Entities

Question 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 believe the final guidance should apply to both public and nonpublic entities. Our view is due to the fact that the guidance affects the accounting in entities financial statements as opposed to a disclosure-only standard. Nonpublic entities may have a public subsidiary, so in consolidation having one basis of accounting is helpful. Otherwise, a nonpublic parent would be required to reverse the public subsidiary’s accounting.