February 15, 2012

VIA ELECTRONIC MAIL

Technical Director
Financial Accounting Standards Board
401 Merritt 7, P.O. Box 5116
Norwalk, CT 06856-5116


Dear Ms. Cosper:

Fidelity Management & Research Company (“FMR”), the investment adviser to the Fidelity Group of Funds, appreciates the opportunity to provide comments on the Proposed Update. Our comments are intended to address certain impacts the Proposed Update could have on open-end investment companies (or “mutual funds”) registered with the U.S. Securities and Exchange Commission (“SEC”) under the Investment Company Act of 1940 (“1940 Act”).

FMR supports the FASB’s efforts to establish consistent criteria for determining whether an entity is an investment company. In addition, we strongly support the criteria that any entity regulated under the 1940 Act meets the definition of an investment company under Topic 946 on the sole basis of this regulatory status. However, we are concerned that the consolidation requirement for fund-of-funds will result in financial statements that are less meaningful to investors and will adversely impact fund operations.

1. Fund-of-Funds Consolidation

We do not agree with the proposed requirement that an investment company consolidate another investment company if it holds a controlling financial interest in that entity through a fund-of-funds structure. Fund-of-funds, which include mutual funds that invest in other mutual funds, provide an efficient and simple method of allowing investors to have their assets allocated across asset classes, industries or market segments or to achieve diversification in a specific segment of the market. While it is possible for an investing fund to technically have a controlling financial interest in another underlying fund under certain circumstances, we believe additional factors should be considered regarding the purpose or use of the underlying fund when evaluating whether consolidation of that entity is appropriate.

In the case of a mutual fund investing in another mutual fund, when the purpose of the investment is to allocate assets to a separate investment manager, who, in turn, independently manages those assets for current income, capital appreciation, or both, we believe that presenting the single investment in the underlying fund on a fair value basis is appropriate. This will allow shareholders to appropriately distinguish between information about the investing fund’s activities, including its investments in

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1 FMR and its affiliates serve as the investment adviser for approximately 455 registered investment companies in the Fidelity Group of Funds with aggregate net assets of over $1.5 trillion.

2 The term fund-of-funds is not defined in the Proposed Update and could have varying meanings in practice. We suggest formally defining the term fund-of-funds to ensure consistent application.
operating companies, and information about its underlying fund investees. To contrast this, when an underlying entity is established as a subsidiary of the investing fund to support the operations of the investing fund, as is common with blocker entities discussed further below, we believe consolidation of the underlying entity is appropriate because the underlying entity exists solely to facilitate the investing fund making its own investments.

If the FASB requires mutual funds to consolidate other mutual funds based purely on its controlling financial interest criteria, we are concerned that the financial statements will be difficult for shareholders to understand and may distort the relative importance of one holding over another. For example, an investment in an underlying fund that represents a controlling financial interest in that underlying fund may be immaterial relative to the overall net assets of the fund. Consolidation would have the unintended consequence of placing more emphasis on the portfolio of this underlying fund compared to a larger one that does not represent a controlling financial interest of the investing fund. For example, consider a large fund-of-funds with fifteen underlying funds. One of the underlying funds may be a small portion of the investing fund, perhaps 2%, but that holding could be a controlling interest of the underlying fund if the underlying fund is sufficiently small. Another underlying fund could be 20% of the investing fund’s holdings, but may be a very large underlying fund such that the holding would not be a controlling interest of that underlying fund. In this situation, the fund would be required to consolidate the 2% holding, thus placing more emphasis on a less material investment. Another important variable that would impact the timing and frequency of consolidation is the size of the underlying fund, which can vary significantly based on other shareholder flows over time. This is not within the control of the investment adviser of the investing fund.

If consolidation is required, an investing fund would need to separately list holdings of the consolidated underlying funds on its schedule of investments even though those holdings are not actively managed by the investing fund’s adviser. We believe this further limits the usefulness of the financial statements as these statements would be less transparent since an investor would not know whether the investing fund holdings were actively selected by its investment adviser or if they are held indirectly through the underlying fund and were selected by a separate manager. Holdings information may be further complicated in certain other fund structures where an investing fund invests both in underlying funds and in securities. In addition, if consolidation is required, non-controlling financial interests would be added to the financial statements, a concept that may not be widely known or fully understood by mutual fund investors.

If FASB believes additional disclosure is warranted for fund-of-funds structures when an investing fund has a controlling financial interest in an underlying fund, we would recommend additional disclosures in the investing fund’s financial statements to either include or refer to the location for a shareholder to obtain the most recent financial statements of the underlying fund. If this information is not publicly available, then additional disclosures could be incorporated in the footnotes to the financial statements that describe the investment objective and strategy of significant underlying funds, determined on the basis of the relative size of the underlying fund investment to the investing fund’s net assets. We would encourage the FASB to develop a disclosure framework to assist financial statement preparers when greater transparency is warranted.

II. Operational Issues with Consolidation

There are several operational issues with fund-of-funds consolidation. It may be difficult to obtain information from a third party asset manager on a timely basis. Certain information, such as investment holdings and other financial information may be subject to public disclosure policies that restrict disclosure of such information until well after the investing fund’s fiscal year-end, impacting the ability to
meet the SEC’s 60 day filing deadline. Further, we are concerned that the investing fund may be required to analyze every investment in an underlying fund under the complex variable interest entity model proposed in paragraph 10-15-13 of Topic 810 Consolidation. This analysis may require an assessment at each reporting period to determine if the fund is a variable interest entity or a voting interest entity. We would encourage the FASB to classify any mutual fund registered under the 1940 Act as a voting interest entity.\(^3\)

In a fund-of-funds structure, ownership percentages in the underlying funds may change over time, resulting in changes in the consolidation conclusion from period-to-period. An entity may consolidate one period and not the next as a result of subscriptions and redemptions by third parties outside its control. This could result in financial statements that are distortive and confusing to investors. Finally, the operational costs of consolidation and increase in audit fees would result in additional costs to be absorbed by shareholders. Audit fees would increase due to the increased effort to review the consolidation, as well as additional audit procedures over underlying funds with different year-ends.

### III. Consolidation of Blocker Entities

As discussed above, there may be limited situations where we believe consolidation by mutual funds of certain entities that are deemed to be investment companies is warranted. For example, due to tax requirements, a mutual fund may design and form wholly owned “blocker” entities to meet its investment objectives and strategies. In these situations, the wholly owned blocker is established to facilitate the fund making its own investments. We believe in these cases that transparency into the wholly-owned blocker is warranted and that consolidation is appropriate. Such an approach is consistent with FASB’s guidance to permit consolidations of entities that provide services to the registrant in paragraph 810-45-3(a) of Topic 946 and per proposed guidance in Topic 973 Investment Property Entities.\(^4\)

### IV. Additional Disclosure Requirements

With respect to the proposed requirement to disclose financial support\(^5\), we are unclear as to how the FASB intends to apply this requirement to the activities of mutual funds and their investees, most notably issuers of high-yield and defaulted debt securities. We believe the FASB should clarify the scope of financial support agreements, and that new investments made by the mutual fund or typical debt restructurings should not be considered financial support.

\(^3\) We believe that the Voting Interest Model is what is most applicable to mutual funds registered under the 1940 Act as the purpose and design of these entities is such that they would not have any the characteristics of a Variable Interest Entity as noted in 810-10-05-8. We also believe that a mutual fund could not be a principal in that the fund itself is not the decision maker. Instead, the decision maker would be the asset manager.

\(^4\) BC46. The Board decided that it would be inappropriate for an investment property entity to consolidate other controlling financial interests unless the subsidiary is in an operating entity that provides services to the investment property entity. However, the Board believes that consolidation of controlling financial interests in operating entities that provide services to the investment property entity is appropriate because the business activities of the operating entity are integral to the business activities of the investment property entity. The Board also believes that this requirement would prevent structuring opportunities in which entities establish a separate entity for property-related operations to avoid providing information related to property-related expenses.

\(^5\) ASC 946-20-50-15.
We also noted the proposed requirement to disclose the nature and extent of any significant restrictions on the ability of investees to transfer funds to the investment company. We believe the intent of the disclosure requirement is unclear in the Proposed Update and are concerned that this proposed requirement could not be practically implemented without researching information for thousands of holdings. Mutual funds are already required to disclose information pertaining to non-income producing and defaulted securities under SEC requirements. We do not believe the additional restriction disclosure called for in the exposure draft would provide additional benefit for mutual fund investors.

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As noted above, we have concerns associated with consolidation of controlling financial interests of fund-of-funds structures. We ask the Board to consider additional disclosures as an alternative to consolidation to assist investors in gaining increased transparency. We appreciate the opportunity to respond to this Proposed Update and welcome the opportunity to meet to discuss any of the issues addressed in this letter.

Very truly yours,

/s/ Kenneth B. Robins

Kenneth B. Robins
Treasurer
Fidelity Equity and High Income Funds

/s/ John R. Hebble

John R. Hebble
Treasurer
Fidelity Fixed Income and Asset Allocation Funds