February 15, 2012

Technical Director
File Reference No. 2011-200
Financial Accounting Standards Board
401 Merritt 7
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Re: Proposed Accounting Standards Update—Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements

Summary

T. Rowe Price Associates, Inc. appreciates the opportunity to comment on the above-referenced Proposed Accounting Standards Update (the “Proposed ASU”).

We fully support the views expressed in the comment letter from the Investment Company Institute, and we emphasize these points that were made by the ICI:

1. We agree with the general rule (proposed 946-810-45-2) that an investment company is not to consolidate an investee. However, we take issue with one proposed exception (in proposed 946-810-45-3(b)), which would require an investment company to consolidate an investee investment company if the investing investment company holds a controlling financial interest in the investee in a fund-of-funds structure. Consolidation by a fund-of-funds obscures the investment strategy and results of the fund-of-funds itself, and there are more

1 Founded in 1937, Baltimore-based T. Rowe Price is a global investment management organization with $489.5 billion in assets under management as of December 31, 2011. The organization provides a broad array of mutual funds and other commingled investment funds, subadvisory services, and separate account management for individual and institutional investors, retirement plans, and financial intermediaries. Sponsored funds in the United States include registered mutual funds, and common and collective trust funds for retirement plans (collectively, the “Funds”). T. Rowe Price also is responsible for the Funds’ accounting and financial reporting, and we submit this letter in our capacity as accountants and preparers of financial statements for investment companies both public and private.
effective ways to provide information about the investment holdings and results of investee funds.

2. We emphatically agree that any entity regulated under the Investment Company Act of 1940 ("1940 Act") should be an investment company, but that determination should result from its satisfying the criteria of proposed 946-10-15-2 rather than by its regulation under the 1940 Act. Otherwise, it is conceivable that funds that are not subject to the 1940 Act, such as common or collective trust funds, might not be investment companies when their counterpart 1940 Act funds are investment companies, even if the two types of funds are otherwise indistinguishable in investment strategy and operating activities. For the sake of comparability, investment entities with the same strategies and activities should be subject to the same financial accounting and reporting treatment, regardless of the regulatory scheme to which they are subject.

**Discussion**

1. **Consolidation of controlling financial interests by a fund-of-funds**

Proposed 946-810-45-3(b) would require an investment company ("IC") to consolidate an investee IC if the investing IC holds a controlling financial interest in the investee in a fund-of-funds structure.

However, consolidation by a fund-of-funds ("FOF") is not the most useful presentation for FOF investors, particularly if only some of the underlying funds are consolidated.

- Many FOF investors intend the FOF to serve effectively as a portfolio of asset classes in a single fund investment, and look for the manager of the FOF to provide professional asset-allocation services rather than expertise in particular investment styles. Such investors are likely more interested in the FOF’s investment positioning among asset classes as represented by the investee funds, rather than in the investee funds’ specific securities selection. Certainly that securities selection drives some of the investment results of the FOF, but the greater determinant of the FOF’s performance as an asset-allocation vehicle is its relative weightings among the asset classes and investment styles of the investee funds. Hence, these investors are most interested in asset-class positioning (e.g., percentage of equity as compared to fixed income). Consolidated financial statements present these investors with excessive detail that is less germane to their investment objectives.
Alternatively, a FOF might be intended to diversify investments in one particular asset class across various managers, to avoid risk of underperformance by a single manager. Investors in such a FOF would likely judge its performance – and its adviser’s skill – by looking to the FOF’s selection of investee funds, rather than the specific investments made by the investee funds. Again, consolidation presents excessive detail that may not be particularly useful to the FOF’s investors.

The potential for confusion is increased when only some of the investee funds are consolidated. A FOF investor then faces even more difficulty in determining how much of the investment performance relates to the FOF advisers’ skill (in asset allocation, or in underlying manager selection), and how much relates to investments in specific holdings that may not have been decided by the FOF adviser. Certainly potential confusion could be mitigated through added disclosures and analysis by the FOF, but it seems better to avoid the potential altogether by eliminating the controlling-interest exception to the general rule prohibiting consolidation.

If the Board determines that FOF investors should have additional information about the investee funds, we suggest that there are more effective ways of doing this rather than through consolidation. We agree with the ICI’s recommendation to adopt a principles-based approach to determine what additional disclosure is required and how best to provide it.

- For example, the FOF could give instructions (by phone number, email address, or website link) about how to obtain full financial statements of each investee fund.

- Alternatively, the FOF could provide summarized information about each investee fund, such as investment objectives or relevant statistics and highlights (top holdings, return information, expense ratios, etc.).

- We would advise against a requirement to provide accompanying financial statements, unless requested, because of the costs that generally would be borne by investors.

Moreover, the determination of a “controlling financial interest” is measured by reference to the FOF’s interest in the investee fund, rather than by reference to the portion of the FOF’s portfolio represented by a particular investee. Hence a FOF could be required to consolidate an investee fund that is insignificant to the FOF’s entire portfolio simply because the FOF’s investment – which might be only a small percentage of the FOF – represents a major interest in a relatively small investee fund.
Finally, we would note that the requirement for FOF consolidation of (some) investee funds seems inconsistent with the exemption for master-feeder and blocker fund structures, with current practice, and with the IASB's conclusion on FOFs.

2. Investment company criteria

a. We emphatically agree that any fund regulated under the 1940 Act should be considered an IC, to ensure that SEC-registered funds are not required to report on two different bases of accounting. However, that determination should result from the defining criteria and should not depend on whether a fund is regulated under the 1940 Act. In the interest of comparability, the accounting for two funds with similar investment strategies and operations should be the same, even if one is regulated under the 1940 Act and one is not. Such situations exist presently under US law, since certain common or collective trust funds are not subject to the 1940 Act—and the number of these situations is likely to increase, given current market trends toward lower-cost investment options for large defined contribution retirement plans.

In order to ensure that funds regulated under the 1940 Act would also satisfy the defining criteria, we suggest clarification of the “exit strategy” discussion in the implementation guidance (proposed 946-10-55-10). Many funds—such as index funds, FOFs, and tax-managed funds—invest for the purpose of capital appreciation, and yet legitimately have no plans to sell investment holdings except as required to satisfy redemption requests or, in the case of FOFs or index funds, to reflect changes in asset allocation strategies or composition of the index. Even though these funds might not sell the funds’ investment holdings, these funds’ investors earn capital appreciation through increases in value of their fund shares, which can be sold as the investors’ exit strategy. Accordingly, so long as the securities held by a fund can be sold or otherwise disposed of at fair value, the fund should be deemed to have a potential exit strategy regardless of its intent to avail itself of such opportunities for disposition.

b. The proposed fair-value-management criterion could pose issues for stable value funds, which are often organized as common or collective trusts and are thus not subject to 1940 Act regulation. Many stable value funds currently account for underlying investments at fair value, but transact with shareholders at contract value. Although the fair value of underlying investments is integral to establishing the crediting rates earned by shareholders, it is not clear from the implementation guidance (proposed 946-10-55-

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2 See also the response infra to Question 1 posed in the Proposed ASU.

3 SEC-registered funds are required to report using investment company GAAP (as required by Regulation S-X, Article 6); if they are not also ICs within the meaning of ASC 946, they would also be required to report using “regular” GAAP.
16) whether such funds would satisfy the fair-value-management criterion. If they did not, and thus no longer were ICs eligible for specialized accounting, this would be an undesirable – and perhaps unintended – consequence of the Proposed ASU.

The uncertainty exists because proposed 946-10-55-16 requires that “investment company activities must demonstrate that fair value is the primary measurement attribute used to make a decision about the financial performance of those assets [emphasis added],” while existing ASC 946-210-45-11 provides that “contract value is the relevant measurement attribute for that portion of net assets of an investment company attributable to fully benefit-responsive investment contracts...[emphasis added],” which are the typical investments of stable value funds. We suggest clarifying the intended application of this requirement to stable value funds and suggest that such funds should be considered ICs, consistent with current practice.

Responses to Certain Questions Posed in the Proposed ASU

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?

Response: We agree that an entity should be required to meet all six criteria; however, we recommend that some of the criteria, and especially the related implementation guidance, be revised or clarified as described earlier.

Question 2: The definition of an investment company in the proposed amendments includes entities that are regulated under the SEC’s [sic] 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.

Response: As described earlier, it is not clear whether certain types of registered funds (e.g., index funds, FOFs, tax-managed funds) would satisfy the “exit strategy” component of the express-business-purpose criterion, based on the proposed implementation guidance. It is also not clear whether fixed-income funds investing for total return – interest income and capital appreciation – must also satisfy the “exit strategy” requirement, since their investment objective is not solely income-oriented.
**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?

**Response:** We agree with the proposed requirement that substantially all of an IC’s investments be managed on a fair value basis. However, as described earlier, it is not clear how this requirement would apply to stable value funds, and we believe that such funds should continue to be ICs that are eligible for specialized accounting.

**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.

**Response:** As described earlier, we do not agree that a FOF should be required to consolidate a controlling financial interest in a less-than-wholly-owned investee IC. We agree with the proposed non-consolidation for a master-feeder structure, and think that this should be the accounting for FOFs as well.

**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?

**Response:** We agree that investments in other ICs should be measured and reported at the fair value of the investee ICs. We believe fair value of the investee is the most meaningful presentation for ICs.

**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?
Response: As described earlier, we do not agree with consolidation of less-than-wholly-owned investee ICs; however, if consolidation is nonetheless required, we agree that amounts attributable to a noncontrolling interest should be excluded from the computations in the financial highlights.

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?

Response: Proposed 946-20-50-16 requires disclosure of the nature and extent of any significant restrictions on the ability of investees to transfer funds to the investing IC in the form of cash dividends, or interest, or repayment of loans or advances. This may not be practical for funds that hold many securities (often numbering in the hundreds or even thousands). The reporting IC may not have access to such information from investees, or it could be required to summarize countless underlying legal documents such as loan agreements. Moreover, we question the frequency of such situations and the usefulness of this information to investors, particularly since US-registered funds already disclose (under Reg. S-X) non-income-producing securities. At the least, we suggest that such disclosures be limited to an investee that represents a significant portion (say, 10%) of the IC’s portfolio.

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?

Response: We agree that this requirement should be retained. The specialized accounting is the most meaningful presentation of an IC’s financial position and results of operations, and that remains the most meaningful presentation even when the IC is consolidated by a non-IC parent.

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

Response: We agree with the ICI that implementation by issuers will require a full calendar year after release of final amendments, particularly if the proposed amendments are adopted without the changes we suggest.
Conclusion

We commend the Board for its efforts to develop consistent criteria to determine whether an entity is an IC, and to improve comparability in financial reporting for ICs under U.S. GAAP and IFRS. We support those efforts, and we sincerely appreciate the opportunity to express our views. Thank you for your consideration.

If you have any questions concerning our comments or would like additional information, please contact the undersigned at (410) 345-8472 or Gregory_Hinkle@troweprice.com.

Respectfully submitted,

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