February 17, 2015

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

Re: Financial Services—Investment Companies (Topic 946)
Disclosures about Investments in Other Investment Companies
File Reference No. 2014-270

Dear Ms. Cosper:

The Investment Company Institute¹ appreciates the opportunity to comment on the proposed Accounting Standards Update, Disclosures about Investments in Other Investment Companies. The proposal would require investment companies regulated under the Investment Company Act of 1940 (“RICs”) to disclose investments held by investee funds where the RIC’s proportional share of the investment exceeds five percent of the RIC’s net assets. The RIC would be required to disclose such “indirect investments” in either its schedule of investments (as components of the investment in the investee) or in a note to that schedule. The proposal includes a “practicability exemption” that would permit the RIC to disclose that information about the investee fund’s investments is not available, if that is the case. The proposal explains that current GAAP requires investment companies not regulated under the Investment Company Act of 1940 to provide disclosure about investments held by investee investment companies, and that the proposal would increase consistency in investment company reporting and improve transparency into investee funds.

We see little benefit associated with the proposal where the investee fund is a RIC, and recommend that RICs be exempt from the proposed disclosure, provided all investee funds held at the

¹The Investment Company Institute (ICI) is a leading, global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI’s U.S. fund members manage total assets of $17.6 trillion and serve more than 90 million U.S. shareholders.
report date are RICs. In addition, we are concerned that the proposed disclosure could cause a violation of the investee fund’s portfolio disclosure policies described in its registration statement filed with the SEC. If the Board proceeds with the proposal notwithstanding our recommendation to exempt RICs investing solely in other RICs, then we recommend that the practicability exemption be expanded to cover situations where the proposed disclosure by the investor RIC would violate the investee RIC’s portfolio disclosure policies. Finally, we seek clarification of the meaning of “investment” and “individual investee” as those terms are used in 946-210-50-9. We elaborate on our recommendations below.

**RICs Investing in RICs**

RICs must publicly disclose all of their portfolio holdings four times per year not more than 60 days after period end. Such holdings information is readily available on the SEC’s website and typically can also be accessed on the fund sponsor’s website. Because such holdings information is readily available, we see little benefit associated with requiring RICs to disclose in their financial statements their proportional share of the investee RICs’ portfolio holdings. Shareholders in the investor RIC who are interested in its investee RICs can easily access a wealth of information about the investee RICs, including portfolio holdings, investment objectives and policies, expenses, total returns, portfolio turnover, and more. In contrast, where the investee fund is not a RIC, such information typically would not be publicly available, and a shareholder in the RIC may benefit from disclosure of the investee fund’s portfolio holdings that are more than five percent of the RIC’s net assets.

While there would be little benefit associated with requiring RICs to disclose information about investee funds’ holdings that is readily available elsewhere, there would certainly be cost. For example, RICs would have to develop systems to identify investee fund holdings that exceed the five percent disclosure threshold, and would have to modify financial reporting systems to incorporate the disclosures. As a practical matter, we expect RICs investing in other RICs rarely would have indirect holdings that amount to more than five percent of the investor RIC’s net assets. This is because most RICs register with the SEC as “diversified” investment companies, meaning that, as to 75 percent of their total assets, not more than five percent may be invested in any one issuer. Nevertheless, if required to comply with the proposal, RICs would incur costs associated with developing systems to

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2 RICs must transmit to shareholders semi-annually a report containing financial statements and other information not more than 60 days after period end pursuant to rule 30e-1 under the Investment Company Act of 1940 (“1940 Act”). Such financial statements must comply with rule 12-12 of Regulation S-X, which requires a schedule of investments identifying all securities held at the report date. The report transmitted to shareholders must be filed with the SEC on Form N-CSR pursuant to 1940 Act rule 30b-2. Once filed Form N-CSR is publicly available. RICs must file with the SEC Form N-Q not more than 60 days after the close of their first and third fiscal quarters pursuant to 1940 Act rule 30b1-5. Form N-Q must include a schedule of investments identifying all securities held at the report date. Once filed Form N-Q is publicly available. Money market funds are subject to the requirements above and must also disclose the entire portfolio monthly on the fund’s website not more than five business days after month end pursuant to 1940 Act rule 2a-7.

3 Under section 5(b)(1) of the 1940 Act an investment company is diversified if at least 75 percent of its assets are represented by cash, U.S. government securities, securities of other investment companies and other securities limited in respect of any one issuer to an amount not greater than five percent of the value of total assets, and to not more than ten percent of the outstanding voting securities of such issuer.
identify five percent holdings, even though such five percent holdings would occur very infrequently. For the reasons described above, we recommend that the proposal apply only to RICs that invest in investment companies that are not regulated under the 1940 Act.

**Portfolio Disclosure Policies**

RICs are required to describe in their registration statement filed with the SEC their policies and procedures relating to disclosure of the fund’s portfolio securities.\(^4\) Those policies and procedures must describe, among other things, the frequency with which information about portfolio securities is disclosed, and the length of the lag, if any, between the date of the information and the date on which the information is disclosed. For example, a RIC may publicly disclose its portfolio holdings only four times per year with a sixty day lag, as required by applicable rules. Other RICs may voluntarily disclose portfolio holdings more frequently. For example, some RICs disclose their top ten holdings monthly with a fifteen day lag in addition to the required quarterly disclosures.

We are concerned that an investor RIC’s disclosure of an investee RIC’s holdings, as required by the proposal, could cause a violation of the investee RIC’s portfolio disclosure policies. For example, consider an investor RIC with a January 31 fiscal year end that invests in an investee RIC with a December 31 fiscal year end. Assume that the investee RIC’s portfolio disclosure policies permit public disclosure of portfolio holdings only four times per year as required by applicable rules (i.e., the investee RIC discloses its holdings at March 31, June 30, September 30 and December 31 on a sixty day lag). Disclosure by the investor RIC in its January 31 financial statements of its proportional share of the investee RIC’s portfolio holdings that exceed five percent of the investor RIC’s net assets would violate the investee RIC’s portfolio disclosure policies. We recommend that the practicability exemption at 946-210-50-10 be expanded to cover situations where the proposed disclosure by the investor RIC would violate the investee RIC’s portfolio disclosure policies.

**Clarification of Terms**

We seek clarification of the meaning of the term “investment” as used in 946-210-50-9. In particular, 946-210-50-1 and 946-210-50-6 require aggregation of all investments in any one issuer for purposes of identifying investments that exceed one percent and five percent of net assets. Is that same concept of aggregation of all investments in any one issuer applicable for determining whether disclosure of an investment is required under 946-210-50-9? For example, if an investee investment company holds several different securities issued by the same issuer, should those securities be aggregated for purposes of determining whether the investor investment company’s proportional share of that aggregate investment exceeds five percent of its net assets?

Additionally, we seek confirmation that an investment company which is invested in two or more investment companies should not aggregate holdings in a particular issuer across those investee investment companies for purposes of determining whether the investor investment company’s proportional share of that “investment” exceeds five percent of its net assets. We believe use of the term

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\(^4\) See Item 16(f) of **SEC Form N-1A**.
“individual investee” suggests that the Board does not intend an investment company to aggregate its proportional share of investments in the same issuer held by two or more investee investment companies and, therefore, each investee investment company’s holdings should be treated as separate and distinct for purposes of determining whether disclosure of that investment is required under 946-210-50-9.

We appreciate the opportunity to comment on the proposal and would be pleased to provide any additional information you may require. If you have any questions on our comments or recommendations please contact the undersigned at 202/326-5851 or smith@ici.org.

Sincerely,

Gregory M. Smith
Senior Director