February 10, 2012

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

Re: Exposure Drafts concerning Investment Companies and Investment Property Entities

Dear Technical Director:

The University of Notre Dame (the “University”) maintains a diverse portfolio in its investment pool, primarily related to endowment, which includes investments in entities meeting the existing guidelines in Topic 946 for investment company accounting. For both internal investment pool accounting and for purposes of GAAP-based financial reporting, the University measures the fair value of its investments in such entities on the basis of net asset value per share (or its equivalent) in accordance with the “practical expedient” provision in ASU 2009-12.

The amendments proposed in the Investment Companies ED would require an entity to meet all six of the criteria in paragraph 946-10-15-2 to qualify as an investment company. However, there likely are entities in which the University invests that would meet all but perhaps one of these requirements, specifically, the proposed requirement with respect to “pooling of funds” under which investors not related to the parent must hold a significant ownership interest in an investment entity (i.e. instances in which the University may be considered a “single investor”). Assuming this would scope the investment entity out of Topic 946 guidance, the University could no longer apply the practical expedient under ASU 2009-12 for purposes of measuring the fair value of its investment in the entity.

The inability to utilize the practical expedient raises concerns in several respects for colleges and universities like Notre Dame and other not-for-profits. First and perhaps foremost, the University would be required to undertake a more extensive assessment of fair value. Unlike financial services and investment firms, not-for-profits are not experts in performing the valuations that may be entailed. Furthermore, the prospect of different not-for-profits performing their own assessments of fair value for similar investments, as a result of single investor legal structures, is likely to produce different results, perhaps significant. Given that firms with valuation expertise often arrive at different valuations for the same investment (an example in recent news being the inconsistent valuation by large mutual funds of...
their privately-traded Facebook shares), there is no reason to think that not-for-profit valuations would be any less variable. Retaining the ability to use the practical expedient, however, would at least promote consistent valuation of similar investments among not-for-profits.

Other challenges presented by the loss of the practical expedient include the following:

- **Timeliness.** Under current circumstances (i.e. with the practical expedient available), the University’s valuation process extends several months past its fiscal year end. Any requirement to undertake more extensive assessments of fair value may extend this process further, delaying the broader financial reporting process. Extension of the valuation process would also impact the quarterly fair value assessments performed for internal purposes, which in turn may affect timely processing of transactions among the thousands of individual endowment and other funds that hold units in the investment pool.

- **Transparency/access to information.** There are conceivable situations in which colleges and universities may have difficulty obtaining the detail required to perform an adequate assessment of fair value, given the nature of the investment. For example, an entity whose holdings represent an allocated share of a pool of securities held in another entity may pose challenges in terms of obtaining adequate information about the underlying securities. The fact that many colleges and universities report on a fiscal year that is different from the calendar year could also be a complicating factor.

- **Disclosure.** The bulk of the University’s investments are currently valued using the practical expedient. Based on the proposed Investment Company ED, there likely is a material amount of investments that would be scoped out of Topic 946, requiring a more extensive assessment of fair value. Additional disclosures describing the valuation inputs and techniques used to measure these investments would add volume and complexity to what are already lengthy footnote disclosures concerning investments. However, it is not clear that this would add value for users of the University’s financial statements.

- **Cost.** Although the extent is unclear, each of the above concerns also implies an additional level of cost in both valuing certain investments and complying with related reporting requirements.

In the interests of mitigating the potential circumstances described above and promoting consistency between the two EDs, we would suggest adding an exemption to the Investment Company ED that is similar to the one in paragraph 973-10-15-3 of the proposed Investment Property Entities ED. Specifically, this would provide an exemption to the “unit ownership” and “pooling of funds” criteria for an investment entity with a parent that is a not-for-profit entity under Topic 958 that measures its investments at fair value. Such an addition might be as follows:

946-10-15-3(b) Notwithstanding the criteria noted in paragraph 946-15-10-2, a subsidiary entity that does not meet the criteria in paragraph 946-10-15-2(b) through (c) may still be within the scope of this Topic provided the subsidiary entity has a parent entity that is required to account for its investments at fair value in accordance with this Topic or another Topic or has a parent entity that is a **not-for-profit entity** under Topic 958 that measures its investments at fair value.
Additional provisions in the Investment Company ED would require an investment company to consolidate a controlling financial interest in another investment company in a fund-of-funds structure, as well as make certain additional disclosures. We understand the desire to improve consistency among how investment companies reporting under U.S. GAAP treat such controlling interests and the desire to increase the transparency of the underlying assets and liabilities of an investment company’s investees. However, we feel it would be important to emphasize that as investors in investment companies such as hedge funds, private equity and other alternative vehicles, the information we use in analyzing such investments is not limited to what is reported in these entities’ financial statements. On the contrary, we receive a significant amount of information from investment company management in the course of our own due diligence work that is incremental to what is reported in the financials of these companies, including information about underlying portfolio companies, leverage and valuation techniques. Furthermore, since most investment companies report on a calendar year, their reporting cycles do not neatly align with the June 30 year end used by Notre Dame and most other colleges and universities. Thus, the audited financial statements of investees are not the only important source of information about investee financial position and results. Investment managers regularly supply the University with additional information that it needs to complete its quarterly and fiscal year end accounting and reporting. The point here is that the University feels its needs are largely being met under existing guidance with respect to information needed to understand the financial position of its investments in investment companies, and to account for and conduct its own reporting with respect to those investments.

We appreciate your solicitation of feedback and the opportunity to comment on new guidance when it is proposed. We are also happy to address any questions you may have regarding this comment letter.

Sincerely,

The Controller’s Group
University of Notre Dame