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July 8, 2009

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

File Reference: Proposed FSP FAS 157-g

PricewaterhouseCoopers appreciates the opportunity to comment on the proposed FASB Staff Position No. FAS 157-g, Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide, Investment Companies (the "proposed FSP").

We support the Board's objective to provide further clarification and promote consistency in the implementation of FASB Statement No. 157, *Fair Value Measurements* ("FAS 157") for certain alternative investments. However, we recommend that certain aspects of the FSP be clarified or revised. As further discussed below, our specific concerns are as follows:

- The scope of the proposed FSP should be broadened to include investments in entities
 that comply with the AICPA Audit and Accounting Guide, *Investment Companies* (the
 "Guide") or another, substantially similar comprehensive basis of accounting such as
 International Financial Reporting Standards;
- Additional clarification is needed regarding the scope of the disclosure requirements.
 Providing an example would be helpful to reporting entities to fully understand the detailed disclosure requirements of paragraphs 16a. through f.;
- Items such as leverage could cause a significant difference between fair value using the proposed practical expedient and fair value under the existing FAS 157 guidance. The FSP should explicitly acknowledge this; and
- The proposed effective date is not operational. It should be modified to apply to financial statements for interim and annual periods ending after September 15, 2009, or later, with earlier application encouraged.

Scope

Paragraph 12 of the proposed FSP states "This FSP applies to investments in entities that meet the definition of an *investment company* in paragraph 1.06 of the investment companies Guide for which the entity's net asset value per share (or its equivalent, for example, partners' capital per share for an investment in a partnership) has been calculated in accordance with that Guide."

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Many institutional investors invest in foreign funds. These funds report under International Financial Reporting Standards or another comprehensive basis of accounting, and therefore would not fall within the scope of the proposed FSP. We believe that one of the objectives of the proposed FSP should be to promote comparability in the estimation of fair value for alternative investments. Accordingly, we recommend that the scope of the FSP be broadened to include investments in entities that apply accounting principles other than the accounting principles generally accepted in the United States ("US GAAP"). We recommend that the scope be expanded to read as follows:

"This FSP applies to investments in entities that a) meet the definition of an *investment company* in paragraph 1.06 of the investment companies Guide for which the entity's net asset value per share (or its equivalent, for example, partners' capital per share for an investment in a partnership) has been calculated in accordance with that Guide and b) apply US GAAP or another comprehensive basis of accounting substantially similar to US GAAP as applied to investment companies."

The scope also should be clarified to explain that the practical expedient only applies to equity interests in an investment company, and that other investments (e.g., preferred stock or debt) are not included within the scope of the proposed FSP. Further, we recommend that the scope be clarified to state the practical expedient can be applied on an instrument-by-instrument basis similar to the provisions of FASB Statement No. 159, *The Fair Value Option for Financial Assets and Financial Liabilities*.

Disclosures

Paragraph 16 requires additional disclosures for investments within the scope of the proposed FSP. The scope of the proposed FSP, as defined in paragraph 12, refers only to those investments qualifying as investment companies in paragraph 1.06 of the Guide for which the entity's net asset value per share (or its equivalent, for example, partners' capital per share for an investment in a partnership) is calculated in accordance with that Guide.

The proposed FSP also would require certain disclosures by reporting entities for each interim and annual period separately for each major category of investment, determined on the basis of the nature and risks of the investment. We believe that the additional disclosures by major category of investment can be beneficial for users of financial statements. We note, however, that FSP FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly, amended FAS 157 to define "major category" for equity and debt securities to be major security types as described in paragraph 19 of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities.

The creation of an additional definition of major category in FAS 157 that would apply to investments within the scope of the proposed FSP may create confusion. While we support allowing preparers to determine the most appropriate level of aggregation based on their judgment about the nature and risks of their portfolio of investments, it is important that FAS 157 only contains one definition of major category. We recommend that the existing definition of major category apply, and that the Board reconsider this definition for FAS 157 in its entirety at a later date



We also believe additional clarification would be helpful regarding the level of detail required under paragraphs 16a. through f. Paragraph 16 requires disclosures by major category, but paragraphs 16a. through f. appear more detailed in nature, necessitating an assessment of each individual investment.

In addition, such disclosure may be inconsistent with the portfolio investment disclosure requirements for alternative investments required by the Guide, which calls only for investments with an issuer concentration greater than 5% of net assets to be presented. Further, many entities invest in alternative investments as only one element of an overall portfolio strategy (often not exceeding 5% to 10% of the overall portfolio). The extent of the resulting disclosures may exceed their overall importance to the entity's financial position and results of operations.

We recommend the Board consider including an example in the final FSP to illustrate the application of the disclosure requirements.

Practical Expedient

Under US GAAP, investment companies are not required to fair value debt issued for leverage. This is an example of a feature that may cause a difference between the proposed practical expedient and fair value under the current guidance of FAS 157. We recommend that the Board explicitly acknowledge that there could be a significant difference between the fair value using the proposed practical expedient and the fair value otherwise determined under FAS 157.

Effective Date and Transition

The proposed FSP would be effective upon issuance, including prior periods for which financial statements have not been issued, and applied prospectively. While the measurement provisions are likely to reduce compliance burdens for some preparers, the additional disclosure requirements could require significant additional effort for reporting entities that have a large number of interests in alternative investments. Thus, if the final FSP is issued in late July or early August, transitioning to the new measurement and disclosure requirements may be difficult for reporting entities with June 30 year-ends, public companies with quarterly reporting requirements, or employee benefit plans required to file by July 31 (or later with a half month extension).

Accordingly, we recommend the Board modify the effective date of the proposed FSP so that it will be effective for interim and annual periods ending after September 15, 2009, or later, with earlier application encouraged.



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Additional Comments

Paragraph 14 of the proposed FSP lists authoritative pronouncements that permit or require a fair value measurement. However, the list is not complete and its purpose is unclear. We recommend that this paragraph be removed or revised to include all applicable standards. We also suggest that the references to partners' capital per share throughout the proposed FSP be changed to partner's capital balance to include those investment partnerships that do not have unitized capital structures.

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We appreciate the opportunity to express our views on the proposed FSP. If you have any questions regarding our comments please contact John Hildebrand (973-236-4993) or Tom McGuinness (973-237-4034).

Sincerely,