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July 9, 2009

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

RE: Proposed FASB Staff Position 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*" (File Reference: Proposed FSP FAS 157-g)

#### Dear Technical Director:

We appreciate the opportunity to provide comments on the proposed FASB Staff Position 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 agree with the Board's decision to permit entities to measure their investments in certain investment companies at net asset value. We believe that this achieves an appropriate balance between the cost and efforts of financial reporting and the needs of the financial statement users. We also agree with the scope of the proposed FSP and the Board's decision to permit, rather than require, measurement of investments in certain investment companies at net asset value.

However, we are concerned about the possible confusion in practice that could result from describing net asset value as an estimate of fair value when such a measurement could be inconsistent with the exit price measurement objective set forth in FASB Statement No. 157, *Fair Value Measurements*. Given this concern, we believe the Board should consider describing the use of net asset value in the proposed FSP as an alternative measurement attribute, rather than an estimate of fair value. We understand that describing net asset value as an alternative measurement attribute rather than an estimate of fair value may require other changes in U.S. GAAP that currently require that such investments be measured at fair value. Using net asset value as the measurement attribute for investments in investment companies would provide accounting results similar to applying the equity method of accounting to those investments.

The Appendix to this letter includes further explanation of our views and provides our recommendations for revisions and clarifications that the Board should consider making to the proposed FSP.



If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein at (212) 909-5419.

Sincerely,





# **Appendix**

Proposed FASB Staff Position 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*" (File Reference: Proposed FSP FAS 157-g)

This Appendix to our attached letter describes a number of clarifications and editorial suggestions that we believe would significantly improve the operationality of the proposed FSP.

### Scope

Applicability to Investments in Investment Companies That Do Not Apply U.S. GAAP or That Do Not Report Net Asset Value per Share as of the Investor's Period-End Some investment companies, which would meet the definition of an investment company in the AICPA Audit and Accounting Guide, Investment Companies (the Guide), prepare financial information on a different basis than U.S. GAAP. For example, net asset value per share could be reported by an investee based on IFRS, on an income tax basis, or in a manner that incorporates one or more policies that are not in accordance with U.S. GAAP. Paragraph 12 of the proposed FSP specifies that it applies to investments in entities that meet the definition of an investment company under the Guide "for which the entity's net asset value per share...has been calculated in accordance with that Guide." Additionally, paragraph 15 of the proposed FSP specifies that entities are permitted to measure investments within its scope using net asset value per share without further adjustment "if the net asset value per share of the investment is determined in accordance with the investment companies Guide as of the reporting entity's measurement date." As currently drafted, the proposed FSP would appear to exclude any investment in an entity that does not report financial information under U.S. GAAP. Additionally, the reference to the reporting entity's measurement date in paragraph 15 of the proposed FSP could be interpreted as precluding the application of the FSP to investments in entities that do not report net asset value per share as of the same interim or annual date as the investor.

We believe that the objective of the proposed FSP should be to permit entities to measure investments in investment companies as defined in the Guide that are within the scope of the FSP using net asset value per share computed in accordance with the Guide. Accordingly, we recommend that the Board clarify that investors are permitted to measure investments within the scope of the FSP using net asset value in circumstances in which the investee reports financial information on a different basis of accounting, provided that the investee meets the definition of an investment company in the Guide and the investor has access to the information necessary to adjust the investee's reported financial information to the extent necessary to calculate net asset value per share in accordance with the Guide. We observe similar adjustments are currently made by investors that apply the equity method to investees that do not prepare financial



information in conformity with U.S. GAAP. We also recommend the FSP clarify that investors are permitted to use net asset value for investments in entities that report net asset value per share as of different interim or annual dates than the investor, provided that the investor has access to the information necessary to determine the investee's net asset value per share in accordance with the Guide as of the investor's measurement date.

Investments That Do Not Report Net Asset Value on a per Share Basis

Some investees within the scope of the proposed FSP do not provide investors information about net asset value per share, but instead provide information regarding investors' percentage interest in the investee's net asset value. We believe that the proposed FSP should not exclude such investments and recommend that the FSP clarify that such investments are not excluded from its scope.

### Investment No Longer Has a Readily Determinable Fair Value

There are circumstances in which an investment in an investment company that previously had a readily determinable fair value under paragraph 3 of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*, no longer has a readily determinable fair value in a subsequent period (for example, it is de-listed) and vice versa. Application of the FSP should be permitted as of the date that the fair value is no longer readily determinable. In those situations, it would be appropriate for investors to disclose when the use of net asset value is first applied to an existing investment that was previously accounted for at fair value.

### **Election Dates**

For investments acquired after the effective date of the FSP, we believe that an entity should be permitted to elect to use net asset value per share as the measurement attribute as of the acquisition date of the investment and should not be permitted to change that election for as long as the entity holds the investment unless there is a change in the determination of whether the investment is within the scope of that guidance (as discussed in the preceding paragraph).

Election of Practical Expedient on an Investment-by-Investment Basis

Based on our current understanding of the FSP, we believe that an entity's election to use net asset value as the measurement attribute can be made on an investment-by-investment basis. That is, an entity would not be required to establish a broad accounting policy of measuring all of its investments within the scope of the FSP using net asset value. However, to avoid confusion in practice, we recommend that an investor's ability to elect the use of net asset value on an investment-by-investment basis be explicitly addressed in the FSP. Additionally, we believe that an entity's decision to measure a particular investment using net asset value should be applied consistently to its entire position in that particular investment security and we recommend that this clarification be reflected in the FSP.



Prohibition on Application of the Practical Expedient by Analogy

To avoid confusion in practice regarding whether an entity is permitted to estimate fair value using a measurement objective that differs from its estimate of a current exit price determined in accordance with Statement 157, we recommend that the FSP state that its guidance should not be applied by analogy for measurements that are outside its scope.

#### Measurement

Investments Purchased at a Discount or Premium to Net Asset Value per Share

The proposed FSP does not address circumstances in which an investor acquires an investment within its scope at a premium or discount to the investee's net asset value per share. It appears that an investor would be permitted to measure an investment purchased at a discount or premium using net asset value, which would result in a day one gain or loss. That day one gain or loss (i.e., the difference between the transaction price and the initial measurement) would not result from the circumstances described in paragraph 17 of Statement 157. Rather, it would arise from the application of an initial measurement attribute that does not reflect the price at which the investment would be exchanged in a current transaction. If the Board believes that such day one gains and losses should be recognized in earnings when an entity acquires an investment within the scope of the FSP at a premium or discount to net asset value and elects to measure the investment using net asset value, the FSP should provide that clarification. If the Board does not believe that such day one gains and losses should be recognized in earnings, then the FSP should clarify how the investor should account for the difference between the acquisition price and net asset value at the acquisition date.

Further discussion of day one gains and losses is included below in the Disclosures section of this appendix.

## Impairment Considerations

Because net asset value per share for an investment within the scope of the proposed FSP may differ from the amount an entity could realize by selling that investment currently, the FSP should address how and when an impairment charge should be recognized. For example, if an entity intends to sell (or concludes that it is more-likely-than-not that it will be required to sell) an investment within the scope of the proposed FSP, the Board should address whether the entity should recognize an impairment charge for any excess of the investor's share of the investee's net asset value over the estimated selling price (i.e., exit price) of the investment in the period the entity decides to sell the investment or in the period in which the actual sale takes place.



#### **Disclosures**

Application of Disclosure Requirements When Practical Expedient is Not Applied
Paragraph 16 of the proposed FSP indicates that its disclosure requirements apply "If an
investment is within the scope of this FSP..." That language suggests that those disclosures are
required regardless of whether the investor elects to measure the related investments using net
asset value. We believe that the objective of the disclosure requirements in the proposed FSP
should be to provide supplemental information to investors in circumstances in which the
reporting entity is measuring an investment using net asset value rather than its current exit price.
Therefore, the first sentence of paragraph 16 should be revised to clarify that the disclosures
apply to investments that are measured at net asset value per share pursuant to the practical
expedient described in paragraph 15 of the FSP.

### Aggregation of Investments for Disclosure

Paragraph 16 of the proposed FSP sets forth disclosure requirements for each major category of investment and specifies that major category shall be determined on the basis of the nature and risks of the investment. We observe 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, sets forth disclosures for each major category of securities and refers to the discussion of major security types in paragraph 19 of Statement 115 (as amended by FSP FAS 115-2 and FAS 124-2, Recognition and Presentation of Other-Than-Temporary Impairments). Additionally, paragraph 9 of FSP FAS 132R-1, Employers' Disclosures about Postretirement Benefit Plan Assets, provides examples of major categories of plan assets for purposes of applying the disclosure requirements set forth in that FSP. It is not clear whether the definition of major category of investment is intended to be consistent with the disclosure guidelines in FSP FAS 157-4, FSP FAS 132R-1, or some other level of disaggregation.

### Requirement to Disclose Fair Value

Paragraph 16a states that an entity is required to separately disclose "the fair value of investments to which the reporting entity has applied the practical expedient in paragraph 15..." That language could be read to suggest that reporting entities are required to determine the fair value (i.e., exit price) of those investments for disclosure purposes, even though they used net asset value per share for measurement purposes in their financial statements. We do not believe that this was the Board's intent. Consequently, we recommend that the language be revised to clarify that entities are required to separately disclose the carrying amount of investments that were measured at net asset value per share using the practical expedient in paragraph 15 of the FSP.



### Disclosure of Day One Gains and Losses

As discussed in the Measurement section of this appendix, the proposed FSP does not address circumstances in which an investor acquires an investment that is within its scope at a premium or discount to the investee's net asset value per share. We believe that entities should be required to disclose the amount of any day one gains and losses. Similarly, if the practical expedient is applied after initial recognition of an investment (for example, because the investee is delisted in a subsequent period and fair value is no longer readily determinable), we believe that entities should be required to disclose the amount of any gain or loss resulting from the difference between the investment's net asset value per share and the prior measurement at its estimated exit price under Statement 157.

Potential Significant Differences Between Net Asset Value per Share and Fair Value
There could be circumstances where a reporting entity is aware of potential significant
differences between the net asset value per share calculated in accordance with the Guide and
fair value. For example, this situation could exist if there are significant restrictions on the
investor's ability to redeem or sell the investment or an investor is aware of recent transactions at
amounts significantly different than net asset value. We believe entities should disclose
potentially significant differences for which they are aware. Such disclosures could include the
statement that the amount was not quantified.

### Fair Value Hierarchy Disclosures

We believe that the FSP should either clarify how an investment measured using the practical expedient should be categorized in the fair value hierarchy for purposes of providing the disclosures already required by Statement 157 or indicate that such investments should be disclosed within a separate category for investments measured using net asset value.

#### **Effective Date and Transition**

We agree with the proposed effective date and transition.

#### **Other Comments**

# *Objective*

Paragraph 1 of the proposed FSP states that it "amends FASB Statement No. 157, *Fair Value Measurements*, to provide application guidance for 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*." We believe that the objective of the proposed FSP would be more appropriately described as follows:



...amends FASB Statement No. 157, *Fair Value Measurements*, to provide a practical expedient that permits entities to measure certain investments in investment companies based on net asset value per share determined in accordance with the AICPA Audit and Accounting Guide, *Investment Companies*, rather than at estimated exit prices.

# Addition of a Basis for Conclusions Section

We observe that much of the content in the "Background" section of the proposed FSP discusses the Board's rationale for permitting the use of net asset value for investments within its scope (for example, refer to the discussion in paragraphs 9 and 10). We recommend that the Board include a Basis for Conclusions section in the FSP and that such discussion be moved to that section.