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Mr. Russell G. Golden
Technical Director
Financial Accounting Standards Board
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File Reference No. 1810-100: Proposed Accounting Standards Update, “Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities”

Dear Mr. Golden,

Thank you for the opportunity to comment on the proposed Accounting Standards Update, *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities* (the “Proposal”). Affiliated Managers Group, Inc. (“AMG”) is a global asset management company with equity investments in leading boutique investment management firms (“Affiliates”). AMG made its first Affiliate investment in 1994, and today manages approximately \$250 billion in assets through its Affiliates, and offers over 350 products across a broad range of investment styles, asset classes and geographies to institutional and retail clients around the world.

We support the efforts of the Financial Accounting Standards Board (“FASB”) to improve the relevance and transparency of financial reporting, however we believe that certain aspects of the Proposal do not further these objectives. Our comments are focused on certain aspects of the Proposal that we believe do not further these objectives. In particular, we believe that the proposed framework for convertible debt, noncontrolling investments and transaction costs would not improve, and may deminish, the relevance and transparency of financial reporting.

Additionally, we are supportive of the FASB’s and the International Accounting Standards Board’s (“IASB”) objective of realizing a single set of global accounting standards and are concerned with the differences remaining between the FASB’s and IASB’s proposals on financial instruments. Because the financial instruments project is one of the key convergence items on the joint agenda, we believe that the FASB and IASB should work together to develop consistent principles in this area before a final standard is issued.

Our comments, including proposed alternatives, are discussed below. We hope that our comments will assist the FASB in identifying potential alternatives to the issues raised.

Convertible Debt

In 2009, the FASB changed the accounting for convertible debt and required the liability and equity components of convertible debt to be accounted for separately. At that time, we did not support this accounting change because the FASB had not yet completed its project on Financial Instruments with Characteristics of Equity. We continue to be concerned that the Proposal will become effective before this important project is exposed for comment and finalized. This process could result in entities having to change their accounting for the same instruments up to three times in five years. For this reason, we recommend that the current accounting treatment for convertible debt be retained until the project on Financial Instruments with Characteristics of Equity can be completed.

Under the Proposal, certain types of convertible debt may be required to be carried at amortized cost while others may be marked-to-market through the income statement. We do not support an accounting model that requires issuers to mark-to-market convertible debt as we believe this would distort net income and make it more difficult for investors to evaluate the true economic performance of an entity, including the entity's cost of capital.

We have typically used the proceeds from the issuance of our convertible debt to acquire interests in new Affiliates. In our industry, the purchase price of a business acquired is primarily allocated to intangible assets and goodwill. Once recorded, these assets are not remeasured at fair value (unless an impairment occurs). Recording changes in the fair value of our convertible debt through earnings (even if it is only the debt portion) when the corresponding assets are not also adjusted to fair value creates earnings and balance sheet distortions that would be confusing to investors. For example, the comparability of financial statements would be reduced by creating significant differences in net income and balance sheet presentation between companies using convertible instruments to fund acquisitions versus companies using other financing options eligible for amortized cost treatment. Changes in interest rates and credit ratings would impact current earnings of entities reporting debt at fair value but not entities reporting debt at amortized cost. In both cases the entities' borrowing strategy and cost of capital may be similar. There should be symmetry in the accounting treatment of convertible and non-convertible debt when a majority of the balance sheet assets are not also remeasured at fair value.

We would propose that these instruments continue to be accounted for under the current model, with the debt component of the instrument recorded in a manner that reflects the issuer's non-convertible debt borrowing rate and the embedded derivative recorded in equity. If the Board concludes that the entire instrument should be recorded at fair value on the balance sheet, then we suggest that changes in fair value be recorded in other comprehensive income.

Equity and Cost Method of Accounting

The Proposal would limit the criteria for the use of the equity method of accounting to investments that are “related” to the entity’s consolidated business. The equity method of accounting provides investors with relevant and timely information about investees. The Proposal’s limitations regarding the application of the equity method would create ambiguity as to when the equity method may be applied and would result in a lack of comparability amongst entities with noncontrolling interests in investees.

We believe the equity method of accounting provides meaningful information to financial statement users based on its “one-line consolidation” approach. Because the consolidation model is applied to controlled entities regardless of how “related” the operations are, this distinction should not be applied to equity method investees. We have equity method investees with operations that are very similar to the investees that we consolidate. The investments we make, whether they are accounted for under the equity method or consolidated, are intended to be indefinite. The value of these firms to our investors is based on the cash flows we receive from them, not increases or decreases in the value of their underlying business. However, because our equity method and consolidated Affiliates generally operate autonomously, and because the guidance describing “related” entities focuses on how intertwined they are, it may be possible to conclude that our existing equity method investees do not meet the definition of “related” and therefore should be marked-to-market. These mark-to-market adjustments would obscure the cash flow generated by the investees and would not be consistent with how our investors value AMG as a whole. We suggest the existing guidance regarding equity method accounting be retained.

We also do not agree with the elimination of the cost method of accounting for non-marketable investments. The process to gather the inputs necessary to fair value these investments on a quarterly basis will be time consuming and costly and would not result in more meaningful financial information for users. Furthermore, obtaining the appropriate information from investees on a timely basis may not be possible given the noncontrolling nature and limited operational involvement in the investee. Using market comparable and other assumptions that are not specific to the investee may limit the reliability of the valuation assumptions that directly impact reported net income. We suggest the existing guidance regarding cost method accounting be retained.

We believe that if the equity or cost method is eliminated for certain investments, then changes in the fair value of these investments should be recorded in other comprehensive income with appropriate disclosure of the assumptions used to value the interests. We would propose retaining the current impairment model which requires an other-than-temporary decline in value (below carrying value) to be recognized in net income.

Transaction Costs for Investment Companies

The Proposal would require investment companies to record transaction costs as expenses rather than as part of investment gains or losses. This approach would require investment funds to include transaction costs in the expense ratio reported to investors. Investors rely on expense ratios in the evaluation and comparison of investment options.

The expense ratio is generally a consistent measure of a fund's operating costs. Transaction costs can be volatile and unpredictable depending on how frequently a portfolio's investments change during a period, the amount of subscriptions and redemptions and how the costs are calculated, among other factors. The inclusion of transaction costs in the expense ratio will make it more difficult for investors to compare expenses of different funds and to assess changes in fund expenses year-over-year. We propose these costs continue to be accounted for as a reduction of the fund's investment return rather than an increase to its expense ratio.

We hope that our comments will assist the FASB in identifying potential alternatives to the issues raised.

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We appreciate the opportunity to express our views on the Proposal. If you have any questions regarding our comments or proposed alternatives, we would be happy to participate in discussions with the FASB staff and board members, and if desired, we would also be pleased to meet. Please feel free to contact me at (617) 747-3300 at any time.

Sincerely,



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Chief Financial Officer and Treasurer

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