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Technical Director, File Reference No. 1890-100
Financial Accounting Standards Board
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Response to: Discussion Paper - Effective Dates and Transition Methods

This letter represents the comments of certain members (see list on page 18) of the Asset Management Industry Accounting Policy Group (“AMIAPG”), comprising a forum of companies primarily engaged in the asset management business. The companies comprising the AMIAPG represent both publicly-traded and privately-held asset managers who collectively manage approximately 7,500 investment funds, both domestically and internationally, including registered investment companies, hedge funds, private equity funds, exchange traded funds and collective investment trusts (collectively, “funds”), in addition to separate accounts and other sponsored investment products. The companies represented by this letter collectively have subsidiaries registered as investment advisors, broker/dealers, trust banks and insurance companies. The ten member firms specifically represented by this comment letter oversee approximately \$10 trillion of assets under management. Our comments represent the perspective of preparers of financial statements at both the corporate consolidated and fund levels, all reporting under U.S. GAAP, International Financial Reporting Standards (“IFRS”) and/or other non-U.S. accounting standards.

The AMIAPG appreciates the opportunity to provide comments to the Financial Accounting Standards Board (the “FASB”) on its discussion paper, *Effective Dates and Transition Methods* (the “Discussion Paper”). It should be noted that the responses contained herein should be read in conjunction with the comments, concerns or objections contained within comment letters issued by individual member firms in response to the FASB’s proposed standards on Accounting for Financial Instruments, Revenue Recognition, Consolidation, Leases or Other Comprehensive Income (see Appendix I for a listing of comment letters submitted by members represented in this letter).

We commend the FASB’s efforts in working with the International Accounting Standards Board (“IASB”) to create a single set of high quality global standards. We also recognize the FASB’s acknowledgement of issues specific to asset managers and their efforts to revise the proposed Consolidation and Revenue Recognition standards to address those issues. The timeframes suggested in this letter are based on the FASB’s existing proposals. Those timeframes potentially could be shorter if the FASB responds positively to key issues put forth in comment letters written by asset managers on the draft standards (see Appendix I for a list of comment letters submitted by firms represented in this letter).

We understand that the FASB is requesting responses from preparers on costs, implementation time and transition methods for the adoption of the expected 2011 final guidance related to four joint projects with the IASB (Financial Instruments, Other Comprehensive Income, Revenue Recognition and Leases). We recommend that current FASB projects (not necessarily the joint projects), which meaningfully impact the asset management industry, should be completed prior to setting effective dates for these four joint projects. While responses to each individual question within the Discussion Paper are addressed below, our overall suggestions are summarized as follows:

- **Consolidation** - Consolidation issues are critical to asset managers. The asset managers represented within this letter collectively manage approximately 7,500 domestic and international investment vehicles, each of which needs to be analyzed in accordance with consolidation guidance. Without final direction on convergence with the IASB, the status of the deferral contained in Accounting Standards Update 2010-10, the definition of an investment company and resolution of guidance concerning whether an asset manager is a principal or an agent, it will be extremely difficult for asset managers to simultaneously devote the time and resources to implement other far-reaching standards such as the proposed Leases, Revenue Recognition and Financial Instruments standards.
- **Financial Statement Presentation** - Currently, the FASB is contemplating sweeping changes to financial statement presentation rather than limiting changes to those required to achieve convergence of U.S. GAAP and IFRS. If the Financial Statement Presentation proposal proceeds as currently contemplated, it is very likely that many companies will need systems upgrades, significant modifications to third party financial systems and large-scale changes in processes and controls. This inevitably will lead to additional audit and Sarbanes-Oxley procedures, increased costs and increased resource requirements. As further discussed in our response to Q5, we believe these extensive challenges will be addressed most efficiently if the FASB's Financial Statement Presentation standard is (1) finalized prior to the adoption of the FASB's other currently exposed draft standards and (2) adopted after the FASB's other currently exposed draft standards.
- **Industry Specific Guidance** - Asset managers operate in many areas where current U.S. GAAP provides specialized accounting treatment (e.g., investment companies, broker/dealers, insurance companies, bank trust companies, etc.). As a result, it is imperative that the FASB finalize its direction with regard to whether it will retain its specialized industry accounting practices or whether such specialized industries will be subject to broader, all-encompassing standards in the future.

- **Sequential Approach with Four-Year Lead Time** - Due to the significance of the proposed changes to asset managers, we believe that a sequential approach is appropriate. The nature of the broad-reaching standards, such as Accounting for Financial Instruments, Revenue Recognition, Leases and Other Comprehensive Income (generally with retrospective application requirements), should provide for four years' lead time following the adoption date of the forthcoming Consolidation guidance, with a later implementation date for Financial Instruments with Characteristics of Equity. As mentioned above, the sequential approach should provide that the Financial Statement Presentation standard be adopted last.
- **Moratorium on Significant New Standards** - We believe that the broad changes contained in the proposed standards will require a two-year moratorium, barring unforeseen circumstances, on significant new accounting standards prior to the required adoption date of the proposed standards on Accounting for Financial Instruments, Revenue Recognition, Leases and Other Comprehensive Income. Examples of significant standards would include broad changes to Income Taxes or Consolidation (to achieve IASB convergence) guidance.

Our responses to the questions contained in the Discussion Paper are as follows:

Q2. Focusing only on those proposals that have been published as Exposure Drafts (accounting for financial instruments, other comprehensive income, revenue recognition and leases):

- a. **How much time will you need to learn about each proposal, appropriately train personnel, plan for, and implement or otherwise adapt to each new standard?**

As preparers of corporate consolidated financial statements, we believe that the time it will take to fully assess each proposed standard, once released in final form, will vary from standard to standard. We note that final guidance has yet to be issued by the FASB regarding Consolidation, and that the final Consolidation guidance may diverge from that being proposed by the IASB. A potential change to the consolidation model and, more specifically, the removal of the deferral provided by Accounting Standards Update 2010-10 (the "Deferral") for a reporting entity's interests in certain investment funds, will have significant ramifications for asset managers. The removal of the Deferral, the issuance of guidance regarding the definition of an investment company and the issuance of guidance related to principal and agent considerations in the context of consolidation accounting are all ongoing Board initiatives that will trigger fund-by-fund analyses and require extensive documentation and potential system enhancements for asset managers. We urge the FASB to give adequate lead time for companies to complete their analyses of the final standards. As the proposed standards are currently written, we believe such lead time should allow a minimum of four years from the date of adoption of the Consolidation guidance to the date of adoption of other currently proposed standards.

A four-year lead time will provide adequate time to develop internal working groups for implementation of the standards, train internal personnel and external users of financial statements, establish proper control procedures and work with both auditors and regulators to fully vet the impending changes (discussed more fully in our response to Q3). This lead time will allow asset managers and their investment funds not only to explore the adoption-date ramifications of the guidance but also to fully analyze and properly understand any retrospective adoption implications so that adequate disclosures may be made which are meaningful to users of the financial statements.

Additionally, since the changes proposed in certain of these proposed standards are fundamental model changes drafted in an effort to converge U.S. GAAP and IFRS, a four-year lead time would be consistent with comments made by the chairman of the Securities and Exchange Commission (“SEC”) at the 2010 AICPA National Conference on current SEC and Public Company Accounting Oversight Board (“PCAOB”) Developments regarding the minimum implementation period needed for any such convergence. As previously stated, we also urge the FASB to impose a moratorium, barring unforeseen circumstances, on significant issuances of guidance for a minimum of two years prior to the adoption date of the final standards. Examples of substantive issuances would include broad changes to Consolidation or Income Tax guidance. A two-year moratorium would freeze guidance and would give companies adequate time to complete their implementation analyses, documentation and disclosures. A similar moratorium was announced by the IASB in July 2006 on any new accounting standards with an effective date between January 1, 2006 and December 31, 2008. That moratorium provided a period of stability for companies who were required to adopt IFRS for the first time in financial statement periods commencing on or after January 1, 2005, and who were still adjusting their accounting systems and putting new processes and controls in place in the periods following the initial adoption.

The currently-proposed Revenue Recognition and Leases standards pose specific implementation issues that may clarify why we believe that a four-year lead time would be necessary. As currently written, these proposed standards require the application of completely different models that will impact corporate preparers in the asset management industry. Although we do not believe it was the FASB’s intent to defer income recognition for asset management base fees, should the revenue recognition proposal move forward as drafted, the impact would be significant in terms of the time it would take to work through, on a contract-by-contract basis, the documentation of assumptions to be used. In addition, revenue recognition policies related to bundling, multiple element and onerous contracts would need to be reassessed. The tracking of these items would require modifications to financial systems, controls and processes. Similarly, the proposed Leases standard will require significant efforts to assess, conclude and document assumptions related to contingent rentals and lease terms. Additionally, the proposal to separately account for the lease and service components of a contract will be particularly time intensive, without significant added benefit to users.

- b. What are the types of costs you expect to incur in planning for and adapting to the new requirements and what are the primary drivers of those costs? What is the relative significance of each cost component?**

At the corporate consolidated level as financial statement preparers, as well as within highly regulated investment funds, broker/dealers and trust banks, our expected costs for planning and adopting the proposed requirements likely would be significant. For example, from a corporate perspective, the lease assessments that would be required by the proposed Leases standard will require increased or new functionality of systems to track decisions made regarding the “more likely than not” lease term estimates used in determining the right-of-use asset and related lease obligation, especially in light of the required continuous reassessments of assumptions used in such calculations. In addition, during the transition period, dual tracking of “old” to “new” revenue recognition models, onerous contract liabilities, lease costs, etc. would need to be implemented in order for preparers to fully understand the financial statement impacts such that they can be clearly communicated to financial statement users. Further, it is likely that many companies will require significant modifications to third party financial systems to properly implement the Financial Statement Presentation guidance currently proposed in the FASB’s staff draft.

Many companies will not have internal resources to absorb the incremental work and may incur significant consulting and project management-related expenses. Additional audit and Sarbanes-Oxley compliance expenses, which could be significant, also would be incurred due to the changes in processes and controls related to financial reporting.

At the investment fund level, certain funds would incur significant time and/or costs (in the form of consulting or additional personnel) in order to develop and implement methodologies and systems for expensing implied transaction costs for debt instruments under the proposed Accounting for Financial Instruments standard, if adopted. System changes would also be required. In addition, U.S. registered investment funds likely will incur significant additional audit and Sarbanes-Oxley compliance expenses given the number, breadth and complexity of the financial instruments held.

The additional costs mentioned above have not been estimated as of the date of this letter, given that the final guidance has yet to be issued and formal project plans have yet to be created. However, from initial discussions, we believe these costs will be significant. This also illustrates the importance of a four-year lead time between the date of adoption of the Consolidation guidance and the required adoption dates of other proposed standards, due to the detailed fact- and data-gathering which must occur.

Q3. Do you foresee other effects on the broader financial reporting system arising from these new standards? For example, will the new financial reporting requirements conflict with other regulatory or tax reporting requirements? Will they give rise to a need for changes in auditing standards?

Regulatory Environment

Asset managers operate in a highly regulated environment and are impacted by rules and regulations promulgated by the SEC, the Financial Industry Regulatory Authority, the Office of the U.S. Comptroller of the Currency, the Federal Deposit Insurance Corporation, the Internal Revenue Service and various non-U.S. regulatory authorities and lending institutions. After reviewing the proposed changes to the guidance, we recommend incorporating into the transition period a sufficient amount of time to allow impacted industries to work with their regulators and lenders to adjust certain requirements in order to minimize conflicts between the accounting/reporting requirements and regulatory requirements. To date, our regulators have been silent on the timing of when adjustments will be made to current requirements or if re-filings of regulatory reports will be required for retrospective application of the new guidance. Therefore, as discussed in our responses to both Q2 above and Q5 below, we believe that an implementation date of four years from the date the final Consolidation guidance is adopted will provide sufficient time for regulatory requirements to be fully vetted and adjusted. Below are some specific examples of impacts we have noted:

The changes to these proposed standards impact broker/dealers and trust banks that have capital requirements. For example, capital calculations for broker/dealers typically are based on equity less intangible assets (Computation of Net Capital for Broker/Dealers pursuant to Rule 15c3-1) with minimum net capital requirements based on the greater of a multiple of liabilities or a flat amount. As the proposed Leases standard will result in a disallowed asset and a recorded liability, and the Revenue Recognition standard will result in a new liability related to deferred management fees, net capital will be reduced, while required minimum net capital will increase. As an illustration, the proposed Revenue Recognition standard requires the deferral of asset management fee revenue until satisfaction of the entire performance obligation has been achieved. Such a change will generate a new liability (i.e., deferred revenue) that is not included in the capital calculation today, which will impact capital requirements. Further, under the proposed Leases standard, the capitalization of the right-of-use asset will be excluded from the capital calculation, as it is an illiquid asset (non-allowable asset), while the lease obligation will be classified as a liability, which also will impact capital ratios and minimum net capital requirements. If regulatory capital requirements are not also adjusted correspondingly, then individual companies will need the time to adjust their capital structures. Please see Appendix II for a numerical example of a broker/dealer's capital requirement under both current and proposed guidance.

In addition to the possible impacts associated with the regulatory requirements discussed above, companies will need time to work with their lending institutions to renegotiate the terms of financial covenants associated with their debt arrangements as a result of the impacts of the proposed standards. For example, any financial covenant ratios consisting of an Earnings Before Interest, Taxes, Depreciation and Amortization (“EBITDA”) calculation will be impacted by the proposed Leases standard to eliminate the current concept of rent expense (included in EBITDA as a deduction) and instead to recognize amortization expense associated with the right-of-use asset and interest expense on the accretion of the lease obligation in the statement of income (both excluded from EBITDA).

U.S. mutual funds are registered with the SEC under the Investment Company Act of 1940 and are required to adhere to the rules and regulations prescribed by the SEC. In addition, to qualify as a regulated investment company, a mutual fund must comply with various sections of the Internal Revenue Code. For those U.S. registered mutual funds that follow U.S. GAAP, there are instances where there are differences between proposed U.S. GAAP and current regulatory standards that would impact the timing of implementation. For example, under Regulation S-X, a regulated investment company is required only to present the current period balance sheet and income statement. Under the FASB’s Financial Statement Presentation staff draft proposal, a U.S. registered mutual fund may be required to present comparative information. In addition, it is uncertain whether U.S. registered mutual funds would be required under future Financial Statement Presentation guidance to provide a cash flow statement as part of its financial statements, whereas currently a cash flow statement is not required for those funds under SEC or industry-specific guidance. The differences in financial statement presentation being considered by the FASB must be considered by the SEC to allow for convergence with Regulation S-X.

As stated above, the SEC has been silent on the timing of when adjustments will be made to current requirements or if re-filings of reports will be required for retrospective application of the new guidance. As noted above, we recommend an implementation date of four years subsequent to the adoption date for the Consolidation guidance to provide time for regulatory requirements to be fully vetted and adjusted.

Tax Reporting

At our corporate consolidated levels, as well as within our highly regulated mutual funds, broker/dealers, bank trust companies, etc., current “book-tax” timing differences will need to be reassessed and new “book-tax” timing differences could arise as a result of implementing these proposed standards. For example, at the corporate level, new book-tax differences may result from the Revenue Recognition proposal to defer management fee revenue and the Leases proposal to eliminate rent expense and instead to amortize a right-of-use asset and to accrete interest expense on the lease obligation. Under the proposed Accounting for Financial Instruments standard, the taxing authorities have not yet provided feedback on timing of when adjustments will be made to current tax rules or if re-filings of prior year returns will be required for retrospective application of the new guidance. A full and detailed analysis of all book-tax timing differences, as well as other impacts, would be necessary as part of the implementation. Additionally, at a consolidated reporting level, more items that previously were reported through other comprehensive income may flow through the income statement, which also would lead to new book-tax timing differences.

From the funds’ perspective, the Accounting for Financial Instruments proposal would require all transaction costs to be expensed for book purposes. This requirement would create book-tax differences, since such costs will continue to be capitalized for tax purposes. As highlighted in the various comment letters to the FASB on this proposal and further illustrated in Appendix III, implementation of this proposal is likely to result in information that will result in investor confusion.

Q4. In the context of a broad implementation plan covering all the new requirements, do you agree with the transition method as proposed for each project? If not, what changes would you recommend and why? In particular, please explain the primary advantages of your recommended changes and their affect on the cost of adapting to the new reporting requirements.

In the context of a broad implementation plan covering the new requirements of the proposals on Accounting for Financial Instruments, Revenue Recognition and Other Comprehensive Income, we generally agree that retrospective application of the proposed standards is appropriate. It is our view that the retrospective application of such proposed standards would enhance comparability between years and increase users’ understanding of the financial information presented.

However, we have concerns regarding the FASB's proposal for a limited retrospective application of the proposed Leases standard. Our concerns are primarily in two areas: (1) the use of probabilities in a retrospective application and (2) the scope of leases to be accounted for retrospectively. In adopting the proposed Leases standard, as currently drafted, management will be required to use judgment in areas such as the determination of the probability of exercising a renewal option or in estimating contingent rentals. Retrospective application of such judgments would be distorted by the benefits of hindsight and, therefore, while not intentional, would not result in truly comparable financial information. In addition, certain lease contracts which are no longer in effect as of the effective date of the proposed Leases standard would be required to be retrospectively restated (i.e., generally if they were outstanding within the last five years). Such leases would be approaching the end of their lease term during the retrospective application periods; therefore, the amount of amortization and interest expense would likely not materially differ from the amount of rent expense that would otherwise have been recognized under current GAAP. Due to the significant efforts that will be required to adopt this proposed standard and the marginal benefit to users of retrospectively restating expired leases, we generally believe the proposed Leases standard should not be applied to lease contracts which are no longer in effect as of the effective date.

Q5. In thinking about an overall implementation plan covering all of the standards that are the subject of this Discussion Paper:

- a. **Do you prefer the single date approach or the sequential approach? Why? What are the advantages and disadvantages of your preferred approach? How would your preferred approach minimize the cost of implementation or bring other benefits? Please describe the sources of those benefits (for example, economies of scale, minimizing disruption, or other synergistic benefits).**

We favor the sequential approach to implementing the new standards. We believe an approach that provides adequate time for implementation and a logical grouping of standards to adopt over a series of effective dates is preferable to the single-date approach. To preface our response to this question, we have made the assumption that the significant implementation effort will not begin until each new standard has been finalized. Companies are significantly burdened with having to absorb, interpret and provide comments on proposed standards and to keep up with FASB's redeliberations. We strongly believe it is inappropriate to assume that companies also will be able to begin implementation efforts on any new standard while the level of proposed standards and finalization thereof continues at the current pace. Accordingly, a key element to our preference for this implementation approach is the assumption that we will have adequate time for implementation, and that the FASB will impose a two-year moratorium on substantive issuances of guidance prior to the adoption dates. The advantages we have identified for the sequential approach are as follows:

- A sequential approach spreads the burden of implementation over several years. The volume and complexity of the new standards are significant. As discussed in our response to Q2, we anticipate implementation efforts will be extensive and will involve a great number of individuals and departments across the organizations including technology, finance, Sarbanes-Oxley, legal, tax, treasury, procurement, fund operations, etc. A sequential approach to implementation allows preparers to focus their attention on a few new standards at a time which we believe will be more manageable, particularly in conjunction with the moratorium on additional standards suggested in our response to Q2, and will provide for greater accuracy and care in implementation.
- Grouping interrelated standards provides for efficiencies in implementation. For example, individual elements of an overall contract may fall within different standards. The process of inventorying contracts for purposes of implementing new standards will be more efficient and productive if it is performed once with multiple standards in mind.
- We believe that with the sequential approach, users of financial statements likely would better understand the changes occurring at each adoption date because they would be able to narrow their focus to a smaller group of changes each period.

As for the disadvantages of a sequential approach, we note the following:

- Multiple years of changes to significant accounting policies could cause confusion among users of financial statements. Retrospective transition methods and robust disclosures should help to mitigate that potential as comparability across periods presented will not be compromised.
- Certain system-related modifications and processes may be less efficient with a sequential approach. For example, the process of reconciling various system reports for pre- and post-adoption results to ensure all changes have been appropriately captured would be required with each adoption date under a sequential approach as compared to a single reconciliation effort for the single-date approach.

b. Under a single date approach, what should the mandatory effective date be and why?

We do not favor a single-date approach to implementing the new standards particularly since the Financial Statement Presentation standard is likely to require major system changes for many companies. If the Board decided to require a single-date approach, we believe the mandatory effective date should be **no earlier** than four years from the adoption date of the Consolidation guidance and, more likely much later, due to the significant changes anticipated in any forthcoming Financial Statement Presentation standard. We believe the implementation effort to simultaneously adopt all of the new standards that are the subject of the Discussion Paper will be a multi-year undertaking, requiring systems changes or upgrades for many companies, and the timeframe for which should be assumed to begin only after all standards have been finalized.

c. Under the sequential approach, how should the new standards be sequenced (or grouped) and what should the mandatory effective dates for each group be? Please explain the primary factors that drive your recommended adoption sequence, such as the impact of interdependencies among the new standards.

In order to determine the preferred grouping and priority of proposed standards, we first considered the overall goal of the new standards. We grouped those aimed at resolving differences in accounting between U.S. GAAP and IFRS apart from and ahead of the Financial Statement Presentation standard that strives to establish a completely new format for financial reporting. We then considered the FASB's progress to date toward a final standard as well as the extent to which certain topics intersect with each other for further grouping. As a result of our considerations, we believe the groupings should be as follows:

Groups of New Standards		Proposed Effective Date
Group 1	Consolidation	Dependent upon the significance of the changes.
Group 2	Accounting for Financial Instruments, Revenue Recognition, Leases and Other Comprehensive Income	Four years from the adoption date of the Consolidation standard ⁽¹⁾ .
Group 3	Financial Instruments with Characteristics of Equity	At least four years from the adoption date of the Consolidation standard but after Group 2.
Group 4	Financial Statement Presentation	At least four years from the adoption date of the Consolidation standard but after Groups 2 and 3.

(1) Note that due to the issues outlined throughout this letter, we believe that, should one or more of the standards listed in Group 2 above be finalized after the adoption date of final Consolidation guidance, the effective date for Group 2 standards should be four years from the finalization of the last of those standards.

First and foremost, we believe the Financial Statement Presentation standard, to the extent pursued by the FASB in its current form, should become effective on its own after the mandatory effective dates of all other standards and as a converged standard with IFRS. Accordingly, we have grouped it individually and with the latest effective date. Given the fact that the adoption of this standard most likely will result in a dramatic change in financial reporting under both U.S. GAAP and IFRS, we believe adopting it along with other standards would complicate the implementation effort and create unnecessary challenges to financial statement users trying to understand the individual impact of other newly adopted standards. We encourage the FASB to continue to pursue convergence in the Financial Statement Presentation project, however, due to the pervasive nature of the changes proposed within the work plan for the project, we recommend that this proposed standard be finalized and communicated prior to the effective dates of proposed standards within the other groups with ample time for comment by constituents. Having a full understanding of the changes required by this standard prior to implementing the other proposed standards, will enable preparers to make well-informed decisions and build sufficient flexibility into their accounting and operating infrastructures in connection with the implementation of the other proposed standards, potentially easing the implementation burden of the Financial Statement Presentation standard. For example, implementation of any of the other proposed standards may require new general ledger accounts to be set up. By finalizing the Financial Statement Presentation standard prior to the adoption dates of the other proposed standards, these new accounts could be

set up to capture activity in sufficient detail to allow the company to eventually meet the requirements of the Financial Statement Presentation standard by simply repointing the existing general ledger accounts to new line items on the face of the new financial statements without having to further parse the activity details at a later date.

Also of great importance to asset managers is finalizing the FASB's consolidation guidance, including finalizing the definition of an investment company. The firms represented by this letter collectively manage approximately 7,500 investment vehicles, each of which needs to be analyzed for any change in U.S. GAAP Consolidation guidance. Even without a change in the ultimate consolidation status of investment vehicles, a change to the accounting guidance represents an extremely time consuming and detailed review and documentation effort for all relevant contracts and related facts and circumstances. We believe the cost of the resources required to perform such analyses while simultaneously implementing the broad-reaching Revenue Recognition and Leases standards would far outweigh the benefits gained by users. Further, we are concerned that if the FASB and the IASB do not converge their respective Consolidation standards, we will be required to perform time-intensive and costly fund-by-fund consolidation analyses multiple times in a relatively short amount of time if we are ultimately required to adopt IFRS. Therefore, we recommend the FASB and the IASB continue their efforts to limit any significant divergence prior to finalizing their respective Consolidation standards.

Of the remaining new standards, we grouped those standards which have been exposed to date together in Group 2. We believe the standards in Group 2 also have interrelated topics and the greatest potential for overlap. For example, with the proposed changes to Accounting for Financial Instruments and the use of other comprehensive income to record temporary changes in fair value, it seems appropriate to simultaneously adopt the changes proposed in the Other Comprehensive Income standard with the changes to the proposed Accounting for Financial Instruments standard. Likewise, as previously mentioned, there may be contracts that have elements affected by the proposed Revenue Recognition and Leases standards (e.g., leases with a service component). In these cases, it would be beneficial to evaluate a contract one time for the impact of various new standards.

- d. Do you think another approach would be viable and preferable? If so, please describe that approach and its advantages.**

We have no other suggested approach.

Q6. Should the Board give companies the option of adopting some or all of the new standards before their mandatory effective date? Why or why not? Which ones? What restrictions, if any, should there be on early adoption (for example, are there related requirements that should be adopted at the same time)?

We do not believe the FASB should allow the option of adopting some or all of the new standards prior to their mandatory effective dates. Due to the fundamental changes provided by these proposed standards, the financial statements of most companies will be significantly different subsequent to adoption. If companies were permitted to adopt some or all of the proposed standards early, there would be a significant reduction in comparability of financial results across companies for users of financial statements. In addition, early adoption by only certain companies within an industry will create an expectation on the part of users of the financial statements, such as investors and analysts, who will want to understand the effects on all companies they are analyzing. This would create undue burden and reputational impact on the companies that choose to not early adopt along with their peers. For example, if a significant number of peer companies within an industry choose to adopt early, analysts may request additional information from those companies that did not yet adopt the standard(s) before they are ready to disclose such information. This may cause such companies to be forced to shift their focus from the implementation efforts in an effort to provide high-level estimated impacts for the benefit of analysts, bank partners, lenders, customers or other investors.

Q7. For which standards, if any, should the Board provide particular types of entities a delayed effective date? How long should such a delay be and to which entities should it apply? What would be the primary advantages and disadvantages of the delay to each class of stakeholders (financial statement preparers, financial statement users, and auditors)? Should companies eligible for a delayed effective date have the option of adopting the requirements as of an earlier date?

As with past accounting standard implementations, there will be aspects to the implementation of the new requirements for financial statement users, preparers and auditors that will need to be considered in the establishment of effective dates. These aspects may relate to a number of factors, including the comparability of implementation results to the results under IFRS guidance, the ability to harness requisite data and the related costs. These circumstances will vary among different types of entities. For example, the FASB is contemplating modifications to the Consolidation guidance which may significantly impact asset managers; as a result, these contemplated changes and their related impact form the basis for the suggested effective date and transition approach we recommend in Q5.a. It is also readily apparent from the inclusion of Q9 in this discussion paper that private companies may warrant differing effective dates from public companies. Further, there may be considerations for the size of a company or whether it is a for-profit or not-for-profit enterprise.

Similar to our responses to the other questions in this discussion paper, it is difficult to comment with specificity to any one project, given the issues identified in the respective exposure processes of each project and their uncertain resolution. Likewise, we cannot comment with specificity to any one project regarding an appropriate length of delay.

Despite this uncertainty around the ultimate requirements that result from each project, we believe the question of effective dates begs a much larger issue with the FASB and IASB convergence efforts around specialized industry accounting (e.g., investment companies, trust company banks, insurance companies, etc.). Without any sense of whether specialized industry accounting guidance will be retained, it is difficult to assess whether standards should have special considerations for the effective date of any one project for different types of entities. To illustrate this point, we refer to the current Consolidation guidance, and related deferral, where the specialized investment company industry requires separate consideration. We recommend that the FASB formalize its thoughts on specialized industry accounting to facilitate its assessment of effective dates for the new standards and formally expose their proposals as a discussion paper to obtain additional preparer and user insights. We also recommend that such direction should be clarified prior to the final issuance of the proposed standards covered by the Discussion Paper.

Finally, we generally do not believe that if a firm is eligible for a delayed effective date that early adoption of the related new guidance is appropriate, because we believe that firms with similar circumstances should have comparable financial statement requirements.

Q8. Should the FASB and IASB require the same effective dates and transition methods for their comparable standards? Why or why not?

Yes, the FASB and IASB should require the same effective dates and transition methods. Development of a single set of high quality global standards reduces the complexity that exists with multiple accounting languages, achieves greater global comparability of information, and generates process and cost efficiencies for multinational issuers.

By maintaining the same effective dates and transition methods, the FASB and IASB will retain the benefit of converging accounting guidance along a standard timeline, including maintaining comparability between reporting entities and fully leveraging process and cost efficiencies for stakeholders.

The convergence of effective dates and transition methods within the area of the proposed Consolidation standards would provide asset managers with the greatest efficiencies. Given the amount of time and cost that would be incurred to assess whether or not certain investment vehicles are required to be consolidated, it would be highly beneficial to perform such an exercise only once.

Also, many issuers have statutory reporting requirements for their foreign subsidiaries and these subsidiaries are increasingly being required to report under IFRS. To the extent that head office accounting standards and foreign subsidiary accounting standards can be kept parallel, efficiencies will be maintained for all interested parties.

We urge the FASB and the IASB to issue converged Consolidation guidance (except within the suggested moratorium period mentioned previously), and to require the same effective dates and transition methods for their comparable standards.

Q9. How does the Foundation's ongoing evaluation of standards setting for private companies affect your views on the questions raised in this Discussion Paper?

Private Company & Blue Ribbon Panel Considerations

We are supportive of the Blue Ribbon Panel ("Panel") as we agree that private companies have considerations that are different from public companies. An example of this difference can be seen in the initial standards issued related to *Financial Instruments with Characteristics of Equity* wherein a deferral for private entities was necessary. Without the deferral, much of the equity of private companies would have been characterized as liabilities, which would have made private company financial statements more confusing, result in a lack of comparability between public and privately-held entities, potentially place privately-held entities at a competitive disadvantage in accessing debt markets and potentially result in unnecessary additional costs.

We fully support a transition period that takes into consideration the Panel's recommendations, which were released on January 26, 2011, regarding the needs of private company financial statements.

In addition, we recommend that the required adoption dates for private companies be two years beyond the adoption date for public companies. This recommendation is based on the limited capacity of many private companies to:

- 1) Dedicate resources to understand the new guidance as well as train resources for implementation. Private companies' finance and accounting teams typically are not staffed at the level of public companies and therefore will need additional time to increase staff and train current staff for the work required to implement new standards within their accounting systems and processes.
- 2) Change their processes and controls. Some private companies are in the process of developing Sarbanes-Oxley-like programs. The addition of changes related to the adoption of these new standards will take private companies additional time at currently staffed levels to implement in a way that controls remain effective.

- 3) Implement system changes. Private companies may not have upgraded their accounting, controls and operational systems at the same level of rigor and intensity as public companies that have experienced Sarbanes-Oxley implementations or IFRS conversions. In fact, Sarbanes-Oxley implementation efforts are just now taking place in some private companies.

* * * * *

We appreciate the opportunity to express our views on the Discussion Paper and hope that the Board will consider our comments in their deliberations. Should you have questions on our comments, or with regard to the FASB's continuing deliberations on Consolidation and Revenue Recognition guidance, please feel free to contact any of the representatives listed below.

/s/ David K. Stewart, Senior Vice President & Controller	Ameriprise Financial, Inc.	(612) 678-4769
/s/ Steven E. Buller, Managing Director	BlackRock, Inc.	(212) 810-3501
/s/ Denis McAuley III, Principal Accounting Officer	Federated Investors, Inc.	(412) 288-7712
/s/ Stacey H. Friday, Director - Accounting Policy		(412) 288-1244
/s/ Leah Kwartler, V.P. Accounting Policies & Standards	Fidelity Investments	(617) 392-2692
/s/ Michael J. Corcoran, Senior Vice President and Controller	Franklin Templeton Investments	(650) 525-7510
/s/ Elaine J. Sabatino, Controller, Americas		(650) 312-3239
/s/ David A. Hartley, Group Controller & Chief Accounting Officer	Invesco Ltd.	(404) 892-0896
/s/ Steve Swain, Financial Reporting & Policies Manager	Janus Capital Group, Inc.	(303) 336-4473
/s/ Timothy J. Lorber, Director and Head of Accounting Policy	Legg Mason, Inc.	(410) 454-2839
/s/ Mark A. Schieber, Senior Vice President & Controller	Waddell & Reed Financial, Inc.	(913) 236-1980
/s/ James D. Campbell, Director of Accounting Policy & Controls	Wellington Management Company, LLP	(617) 790-7634

APPENDIX I

List of Relevant Comment Letters Submitted by Firms Participating in this Letter

<u>Comment</u>		Submitting Company
<u>Letter</u>		
Consolidation (File Reference 1750-100)		
	6	Ameriprise Financial, Ltd.
	23	Invesco, Ltd.
	24	BlackRock, Inc.
	29	Federated Investors, Inc.
	31	Legg Mason, Inc.
	33	Wellington Management Company, LLP
Comprehensive Income (File Reference (1790-100))		
	43	Federated Investors, Inc.
Consolidation Round Table (File Reference 1800-UCF)		
	1	BlackRock, Inc.
	4	Federated Investors, Inc.
Accounting for Financial Instruments (File Reference 1810-100)		
	230	Franklin Templeton Investments
	249	Federated Investors, Inc.
	253 & 253A	BlackRock, Inc.
	257	Fidelity Investors
	1007	Invesco, Ltd.
	1468	Ameriprise Financial, Ltd.
Revenue Recognition (File Reference 1820-100)		
	415	Federated Investors, Inc.
	476	Invesco, Ltd.
	481	Ameriprise Financial, Inc.
	559	BlackRock, Inc.
Leases (File Reference 1850-100)		
	305	Ameriprise Financial, Ltd.
	548	Invesco, Ltd.
	569	BlackRock, Inc.
	598	Federated Investors, Inc.

APPENDIX II

Example - Potential Impacts of Proposed Revenue Recognition and Leases Standards on Broker/Dealer Regulatory Capital Calculation (pursuant to Q3):

(in Billions)	Regulatory Capital Under Existing Guidance	Regulatory Capital Under New Guidance	Regulatory Capital Impact(a)	
Cash	55	55	-	
ST Investments	150	150	-	
Right of Use Asset	-	15	c	(15)
Receivables	70	70	-	
Other Assets	25	25	c	-
Assets	300	315		(15)
Accounts Payable	90	90	-	
ST Debt	60	60	-	
<i>Lease Liability</i>	-	10		
<i>Deferred Revenue</i>	-	20		
Other Liabilities	25	25	-	
Liabilities	175	205	*	-
Equity	125	110		(15)
Non-allowable assets (sum of c)	(25)	(40)	(15)	(b)
Regulatory Net Capital	100	70	(30)	(b)
Minimum Net Capital (6- 2/3 rd % of Aggregate Indebtedness (*) or flat amount)	12	14	(2)	(b)
Excess Net Capital	88	56	(32)	(b)

(a) - Assuming no change to Regulatory requirements

(b) - Represents potential need for capital infusion.

APPENDIX III

Comment Letter - Potential Impacts of Accounting for Financial Instruments on U.S. Registered Mutual Funds (pursuant to Q3)

October 27, 2010

Mr. Tom Linsmeier
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, Connecticut 06856-5116

Re: Financial Instruments Public Roundtable

Dear Mr. Linsmeier:

BlackRock, Inc. (“BlackRock”) appreciates the opportunity to have participated in the FASB’s October 19th Public Roundtable on *Accounting for Financial Instruments and Revisions to the Accounting for Derivative Instruments and Hedging Activities—Financial Instruments (Topic 825) and Derivatives and Hedging (Topic 815)* (the “Proposed ASU”).

During the Roundtable, we expressed concern that one of the consequences of requiring investment companies to expense transaction costs would be the creation of book/tax differences that could confuse investors. The purpose of this letter is to provide clarity regarding your question as to how such book/tax differences would differ from those that exist today.

Investment companies currently capitalize transaction costs for both book and tax purposes. Although the costs are recognized immediately as part of unrealized loss on the statement of operations for book purposes, the unrealized loss is not recognized for tax purposes until the security is sold, at which time the costs are included as part of realized gain/loss for both book and tax. Thus, there currently is symmetry for both book and tax purposes.

Under the Proposed ASU, transaction costs would be expensed for book purposes but would continue to be capitalized for tax purposes. Expensing for book purposes would result in taxable Net Investment Income (“NII”) in excess of book NII²(see the example that follows). As registered investment companies are required to distribute all of their taxable income to avoid income tax, such distributions would be part book net investment income and part book return of capital. Registered investment companies are required by Rule 19(a) of the Investment Company Act of 1940 to send a notice to shareholders, on a separate piece of paper, accompanying each payment, whenever there is a distribution in excess of accumulated book net investment income. Thus, as a result of the Proposed ASU, shareholders may be notified that they received a book return of capital, even though at the end of the calendar year they would receive a tax Form 1099 that would disclose no such tax return of capital.

² Under current guidance, transaction costs for investment companies are reported as a component of Realized and Unrealized Gain/Loss rather than as part of NII; as a result, NII for book and tax purposes does not differ.

Appendix III (continued)

In addition to creating additional cost to send the notices, investment companies would need to maintain two sets of accounting records for every lot of every security. The impact of expensing transaction costs is illustrated through the following example.

**Expensing Transaction Costs -
 Book/Tax Difference Created Under Proposed ASU**

	<u>Proposed ASU Book Treatment</u>	<u>Current Book Treatment</u>	<u>Tax Treatment</u>
Dividends & Interest, less expenses			
Dividends & Interest (excluding transaction costs)	\$500	\$500	\$500
Transaction costs	<u>(5)</u>	<u>-</u>	<u>-</u>
Net Investment Income ("NII")	495	500	500
Realized and Unrealized Gain/Loss			
Cost at purchase (excluding transaction costs)	1,000	1,000	1,000
Transaction costs	<u>-</u>	<u>5</u>	<u>5</u> ⁽¹⁾
Cost basis	1,000	1,005	1,005
Assumed market value, end of period	<u>1,100</u>	<u>1,100</u>	<u>1,100</u>
Unrealized appreciation	100	95	95
Distribution (to avoid tax)			
Distribution from book NII	500	500	500
Distribution from book NII	495 ⁽²⁾	500	500 ⁽³⁾
Book return of capital	5 ⁽²⁾	-	-

(1) Although included in the cost basis for tax purposes, the transaction costs are not recognized for tax purposes until the security is sold.

(2) For the tax year ended 12/31/10, the fund made a distributuon from book NII of \$495 and a \$5 book return of capital.

(3) Form 1099 (Dividend) would reflect Taxable/Ordinary Income of \$500.

* * * * *

Appendix III (continued)

We hope that the example above clarifies your question regarding the book/tax differences that would occur as a result of the proposal to expense transaction costs. For your reference, we have included Appendix A which outlines our additional comments regarding the proposal to expense transaction costs. We look forward to the Board's continued deliberations on this project. Please contact me at (212) 810-5467 should you have any questions regarding our response.

Sincerely,

Ann Cavanaugh
Director

Appendix III (continued)

Appendix A

1. Expensing transaction costs is likely to distort an investment company's expense ratio.

Expense ratios generally are viewed by investors and analysts as an indicator of ongoing, expected costs and are used to compare funds. The proposal to expense transaction costs would introduce volatility into funds' expense ratios (expense/average net assets), which would undermine the ability of investors to compare expected ongoing costs of funds.

- Main expense ratio components are advisory, custodian, distribution and transfer agent fees which are relatively stable as a percent of a fund's net asset value
- Transaction costs on the other hand can be volatile and may vary as they are impacted by:
 - Where a fund is in its life cycle (during ramp up, a fund is likely to have more purchases leading to higher transaction costs). An actively managed portfolio likely also will have a higher expense ratio.
 - Expensing transactions costs could increase expense ratios by 0.2% to 0.5% (average total expense ratios generally range from .5% to 2.0%).

2. The Proposed ASU contains no specific guidance for measuring implicit transaction costs.

- Equity securities have stated commissions while fixed income securities are traded based on a bid-ask spread.
- Investment companies would need to develop their own methodologies to calculate fixed income transaction costs.
- IFRS compliant funds currently do not break out and expense implicit commissions on fixed income securities.

3. The Proposed ASU would not change an investment company's total return.