



February 15, 2012

Ms. Susan M. Cospers  
Director of Technical Application and Implementation Activities  
Financial Accounting Standards Board  
401 Merritt 7  
P.O. Box 5116  
Norwalk, CT 06856-5116

**Re: File Reference Number 2011-200, Proposed Accounting Standards Update, *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements***

Dear Ms. Cospers:

Citigroup appreciates the opportunity to comment to the Financial Accounting Standards Board on the proposed Accounting Standards Update (ASU), *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements*.

Citi supports the efforts of the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board (IASB) in seeking to develop a universal accounting model for an Investment Company (Entity) for U.S. GAAP and IFRS.

However, we request the Boards continue redeliberations with the goal of reaching a consistent framework that will eliminate the significant divergence that currently exists in the respective Exposure Drafts (EDs). We do not support an outcome that creates further differences between U.S. GAAP and IFRS.

Citigroup believes the FASB and IASB EDs should align certain significant differences in the following manner:

- A non-investment company parent should retain the specialized investment company accounting in consolidation as required in the FASB ED.
- All portfolio investments (including controlling investments in investment companies and investment property entities) should be accounted for at fair value, not consolidated by the investment company, as required in the IASB ED.

- Investment Companies should be given an exception to the requirement for an exit strategy for an entity that has a stated purpose of investing only for investment income as provided in the FASB ED.
- Disclosure requirements should be consistent among the EDs with U.S. GAAP as a basis.

We believe aligning the above differences will result in a more globally accepted accounting model. Fair value rather than consolidation is the more relevant measurement attribute of investments held by companies that qualify as investment companies. We believe applying consolidation accounting to the investments of an investment company (whether in an investment company's financial statements or in a non-investment company parent's consolidated financial statements) would lead to a presentation that is not faithfully representative or useful to investors of the investment company or of the non-investment company parent. We also request that the Boards seek further consistency in disclosure requirements for investment companies as divergence would lead to greater complexity and less comparability. The disclosure requirements in U.S. GAAP have been tested over a long period of time and should be used as a platform to achieve consistency.

We would also like to raise a strong objection to the pooling-of-funds criterion. Citi believes that the requirement that investment companies have multiple unrelated investors is unnecessary when all other requirements are met. We believe non-investment company parents should retain investment company accounting for wholly owned investment companies in the parent's consolidated financial statements since fair value accounting for such entities is more relevant and faithfully representative of the business strategy and more meaningful for the users of the consolidated financial statements of the non-investment company parent. We believe including the pooling-of-funds criterion would be an inherent flaw in the proposed model. We recommend replacing the pooling-of-funds criterion with further disclosure requirements by the non-investment company parent, including:

1. The activities and purpose of the investment company
2. Nature of the portfolio investments
3. Extent of third-party investors, if any
4. Significant contractual relationships of the non-investment company parent, its affiliates and its agents with the investment company and its investees.

While we believe the remaining five investment company criteria cause the pooling-of-funds criterion to be unnecessary, the above disclosures will add further assurance to the Board that the investment company model is being applied as intended.

Our further comments are outlined in greater detail through responses to the specific questions raised in the ED, included in the following attachment.

We would be pleased to discuss our comments with you at your convenience. Please feel free to call me in New York at (212) 559-7721.

Sincerely,



Robert Traficanti  
Deputy Controller and Global Head of Accounting Policy

Cc: International Accounting Standards Board

## Attachment

### Question 1

The proposed amendments would require an entity to meet all six of the criteria in paragraph 946-10-15-2 to qualify as an investment company. Should an entity be required to meet all six criteria, and do the criteria appropriately identify those entities that should be within the scope of Topic 946 for investment companies? If not, what changes or additional criteria would you propose and why?

Citi believes an entity should not be required to meet all six criteria in paragraph 946-10-15-2 to qualify as an investment company because we do not believe the pooling-of-funds criterion should be a determinative factor for an investment company. We do believe the remaining five criteria are attributes of an investment company and would not object to an entity being required to meet them in order to be considered an investment company.

We understand, as highlighted in paragraph BC24, the Board is concerned about the potential “abuse” of inserting an investment company into a larger corporate structure to achieve a particular accounting outcome. However, we believe the other criteria in the ED, without the pooling-of-funds criterion, would not allow such an “abuse” to occur, nor are we aware of market abuses currently performed within our industry under current rules. In each of the examples provided in the ED, the pooling-of-funds criterion is not a factor for disqualifying an entity from being an investment company. In those examples, there are attributes present in the entities’ business purpose and activities that reflect their nature are not that of investment companies.

In our view, the Board correctly concluded in paragraph BC23 that the attributes of investors (the number of investors and level of their activism) would not change the nature of an investment company. Therefore, we disagree that consideration of investor attributes should then be considered determinative of an investment company.

We agree with the Board, in paragraph BC26, that the most useful information for users of investment company financial statements is the fair value of its investments and its respective fair value measurement methodologies. We believe this principle applies not only to multiple investors in an investment company, but extends to a single parent investor (of an investment company) and the users of the parent’s financial statements. Reporting the investments at a measurement basis other than fair value would result in less transparency and create greater complexity for users to assess the financial statement position of an entity whose business purpose is to invest for capital appreciation, investment income, or both.

Citi strongly believes that a parent should be permitted to have a wholly owned investment company within its organizational structure, similar to a financial institution holding a wholly owned bank subsidiary and a wholly owned broker-dealer subsidiary.

When a wholly owned investment company meets the remaining five criteria in the ED, we believe reporting the investments of the investment company at fair value would be most relevant and faithfully representational to our investors.

**Question 3:**

The proposed amendments would remove the scope exception in Topic 946 for real estate investment trusts. Instead, a real estate investment trust that meets the criteria to be an investment property entity under the proposed Update on investment property entities would be excluded from the scope of Topic 946. Do you agree that the scope exception in Topic 946 for real estate investment trusts should be removed? In addition, do the amendments in the proposed Updates on investment companies and investment property entities appropriately identify the population of real estate entities that should be investment companies and investment property entities?

We agree that the overall scope exception in Topic 946 for real estate investment trusts should be removed.

Citi believes that investment property entities that meet the criteria for an investment company should be within the scope of Topic 946. Given the significant overlap between the two Updates, we believe a separate investment property entity reporting model introduces unnecessary complexity to U.S. GAAP.

We recommend the Board continue with the proposed Update to Topic 946 and revise the proposed Update for investment property entities to converge more closely with IAS 40, *Investment Property*. Such an outcome would reduce further complexity being introduced in U.S. GAAP and achieve further convergence with IFRS.

**Question 4:**

The proposed amendments would require an entity to reassess whether it is as an investment company if there is a change in the purpose and design of the entity. Is this proposed requirement appropriate and operational? If not, why?

We believe an entity should reassess whether it is an investment company if there is a change in the purpose and design of the entity. We believe such a requirement is appropriate and operational.

If the Board continues to include the pooling-of-funds criterion, the Board should consider further whether changes in the fund manager's ownership interest in the investment company should be included in the reassessment analysis. Such changes in the fund manager's ownership interest may not be deemed a change in the purpose and design of the entity, and without further consideration two similar fact patterns may have different conclusions.

**Question 5:**

An entity may be an investment company when it performs activities that support its investing activities. As a result, a real estate fund or real estate investment trust (that is not an investment property company) could be an investment company if the entity (directly or indirectly through an agent) manages only its own properties. However, the entity would be precluded from being an investment company if the other activities were considered more than supporting the entity's investment activities (for example, construction). Is this requirement operational, and could it be consistently applied?

In our view, an entity should still be eligible to qualify as an investment company if it provides (or holds an investment in an entity that provides) services that relate to its own investment activities or investment activities of entities other than the reporting entity.

If these services together with the primary activities of the investment company continue to meet the criteria for an investment company required in the ED, the entity should still qualify as an investment company.

The analysis should not focus on which entities benefit from the services as long as the appropriate investing activities remain the substantive activities of the investment company.

**Question 6:**

The proposed implementation guidance includes examples of relationships or activities that would indicate that an entity obtains or has the objective of obtaining returns from its investments that are not capital appreciation or investment income. Do you agree with these examples? If not, how would you modify the examples while still addressing the Board's concerns identified in paragraphs BC15 and BC16?

We are in agreement with the two examples that do not qualify as investment companies but request further clarification.

Example 2 did not qualify as an investment company because the entity, which is seeking capital appreciation, did not have an exit strategy in its investment plan. We find the exclusion of an exit strategy for an entity that is seeking to profit solely from capital appreciation a unique fact pattern as compared to general practice.

The intent of Example 2 appears to prevent investment company accounting for transactions that are more strategic in nature for the investor(s). We agree that investments of investment companies should be for capital appreciation, investment income, or both and not for strategic purposes that maintain or enhance an investor's competitiveness within its respective industry.

We recommend Example 2 be more direct on this point and provide a fact pattern that is more conclusive that the entity was not investing for capital appreciation, investment income, or both. We would be happy to work with the Staff to improve the example or others in the Exposure Draft.

In terms of the Board's concern regarding potential abuse in BC15 and BC16, we believe all the criteria for an investment company, other than the pooling-of-funds criterion, will provide an effective deterrent for such an occurrence in practice.

As discussed in our response to Question 1, we do not believe the pooling-of-funds criterion should be a determinative factor for an entity to qualify as an investment company. Therefore, we do not agree that the conclusions to these examples rely on this criterion being met.

**Question 7:**

To be an investment company, the proposed amendments would require an entity to have investors that are not related to the entity's parent (if there is a parent) and those investors, in aggregate, must hold a significant ownership interest in the entity. Is this criterion appropriate? If not, why?

We do not believe it is appropriate to have a criterion that requires investors to be unrelated to the entity's parent (if there is a parent) and to have those unrelated investors, in the aggregate, hold a significant ownership interest in the entity.

We do not believe the pooling-of-funds criterion in the ED should be a determinative factor for an investment company and ask the Board to reconsider this criterion as an indicator rather than a requirement.

It is our view that the other investment company criteria listed in the ED are more reflective of the characteristics of an investment company. We believe there is no conceptual basis to preclude an entity with a single investor from being considered an investment company when:

- i. The activities and express business purpose of the entity are to invest for capital appreciation, investment income, or both
- ii. Ownership in the entity is represented by units of investments
- iii. The investor benefits from professional investment management
- iv. Substantially all of the investments of the entity are managed and evaluated on a fair value basis, and
- v. The entity provides financial information about its investment activities to its investor.

An investment company will be managed on a fair value basis regardless of the number of investors in the investment company. We do not support prohibiting investment

company accounting to an entity due solely to the number of unrelated investors. Our view is that an investment that is clearly made for capital appreciation, investment income, or both is best reflected at fair value and consolidation accounting for the investment would not present useful information to the investors of the non-investment company parent. We believe such a requirement is excessive and does not capture the principal characteristics of an investment company.

As previously mentioned, Citi strongly believes that a parent should be permitted to have a wholly owned investment company within its organizational structure, similar to a financial institution holding a wholly owned bank subsidiary and a wholly owned broker-dealer subsidiary. When a wholly owned investment company meets the remaining five criteria in the ED, we believe reporting the investments of the investment company at fair value would be most relevant to our investors and faithfully representational.

In addition, requiring the pooling-of-funds criterion may put parent investors subject to the proposed “Volcker Rule” of the Dodd-Frank Wall Street and Consumer Protection Act of 2010 at a significant disadvantage. As we understand it currently, the proposed “Volcker Rule” may require an institution to hold not more than 3% of certain “covered funds” that have third-party investors. The “Volcker Rule”, when finalized, combined with the pooling-of-funds criterion would now mean that financial institutions may automatically be required to source 97% of the capital structure for certain funds from third parties. We believe a 97% threshold would be excessive to achieve investment company accounting and may preclude financial institutions subject to the “Volcker Rule” from effectively participating in this industry.

We acknowledge the FASB’s concern about the potential for abuse where investment companies may be used for circumventing consolidation of investees. However, we believe the other criteria for an investment company effectively addresses this risk and proper disclosure by the investment company parent can overcome these concerns. We recommend the non-investment company parent provide detailed disclosures when the parent or its affiliate is a single investor in the investment company (or owns substantially all the investment entity), including:

1. The activities and purpose of the investment company
2. Nature of the portfolio investments
3. Extent of third-party investors, if any
4. Significant contractual relationships of the non-investment entity parent, its affiliates and its agents with the investment company and its investees

**Question 8:**

The proposed unit-ownership criterion would require an entity to have ownership interests in the form of equity or partnership interests to be an investment company. The entity would consider only those interests in determining whether it meets the proposed pooling-of-funds criterion. Therefore, a securitization vehicle, such as a collateralized debt obligation, may not qualify as an investment company under the proposed amendments because it may not meet the unit-ownership or the pooling-of-funds criterion. The entity would not consider interests held by its debt holders when evaluating these criteria to be an investment company. For entities that do not have substantive equity interests (for example, those considered variable interest entities under Subtopic 810-10), should the unit-ownership and pooling-of-funds criteria to be an investment company consider interests held by debt holders? Please explain?

We do believe a balanced approach should be sought such that investment companies that wish to employ leverage in their capital strategies would not be automatically disqualified.

Investment Companies should have an option to utilize long-term debt as percentage of its capital structure or have separate classes of interests that may be deemed debt for financial reporting.

We believe further implementation guidance is needed to clarify the unit-ownership criterion. We request the Boards to consider the following:

- It is not clear from the ED whether the FASB intended only for equity instruments, in legal form, to satisfy this criterion. What if those legal form equity instruments were classified as debt under US GAAP?
- Would legal form debt that also is entitled to a proportion of equity returns qualify for this criterion?
- Would investment entities that issue some debt as part of the capital structure automatically not qualify?
- What happens if different ownership units have different proportionate rights?

**Question 9:** Certain entities may meet all of the other criteria to be an investment company but has only a single investor (for example, a pension plan). The amendments in FASB's proposed Update on investment property entities provides that if the parent of an entity is required to measure its investments at fair value under U.S. GAAP or the parent entity is a not-for-profit entity under Topic 958 that measures its investments at fair value, the entity would not need to meet the unit-ownership and pooling-of-funds criteria to be an investment property entity. Considering the Board's concerns identified in paragraph BC24, should the criteria in this proposed Update be amended to address situations in which the entity has a single investor.

Citi strongly believes entities with a single investor should be eligible to qualify as investment companies for the reasons stated in our responses to Questions 1 and 7. We

believe the pooling-of-funds criterion should not be a determinative factor for an investment company since, as stated in BC 23, the number or nature of investors will not change the nature of the entity.

We are not aware of market abuses or the potential for market abuses that the Board has highlighted in BC24. We believe the five remaining criteria (exclusive of the pooling-of-funds criterion) will act as an effective deterrent for an occurrence of such potential abuse. To overcome any remaining concerns, we also recommend that the Board require additional disclosure by the parent of a single investor investment company as discussed earlier in our response to Question 7.

The Board's mission statement in the Rules of Procedure, amended and restated through February 28, 2011, require the FASB to establish or improve standards "that provides decision-useful information to investors and other users of financial reports."

We strongly believe financial institutions should be permitted to have a wholly owned investment company within its organizational structure, along with a wholly owned bank subsidiary, a wholly owned broker-dealer subsidiary and a wholly owned insurance company subsidiary. Investors would be evaluating this subsidiary's performance based on fair value information and the measurement methodologies that we disclose. We believe the application of this accounting model is consistent with the Board's mission statement and its observations in BC26.

**Question 10:**

The unit-ownership and pooling-of-funds criteria in the proposed amendments do not consider the nature of the entity's investors for evaluating if an entity is an investment company. That is, the criteria do not differentiate between passive investors and other types of investors. Do you agree that the nature of the investors should not be considered in evaluating the unit-ownership and pooling-of-funds criteria?

Citi agrees that the nature of the investors should not be considered in evaluating the unit-ownership and pooling-of-funds criteria as noted in BC23, the nature of the investor will not change the nature of the entity. As discussed previously in our responses to Questions 1, 7 and 9, we do not believe the pooling-of-funds criterion should be a determinative factor for an investment company

**Question 11:**

The proposed amendments would require that substantially all of an investment company's investments are managed, and their performance evaluated, on a fair value basis. Do you agree with this proposal? If not, why? Is this proposed amendment operational and could it be consistently applied? If not, why?

Citi agrees with the criterion that requires substantially all of an investment company's investments be managed, and performance evaluated, on a fair value basis. We believe this is a critical factor to qualify for the investment company reporting model.

We agree with the Board's comments in BC26 that the most useful information for users of the investment company's financial statements is the fair value of its investments, including its measurement methodology. Therefore, it is a natural extension that an investment entity that manages and evaluates its performance on a fair value basis should account for these investments at fair value.

**Question 12:**

The proposed amendments would retain the requirement that an investment company should not consolidate or apply the equity method for an interest in an operating company unless the operating entity provides services to the investment company. However, the proposed amendments would require an investment company to consolidate controlling financial interests in another investment company in a fund-of-funds structure. An investment company would not consolidate controlling financial interests in a master-feeder structure. Do you agree with this proposed requirement for fund-of-funds structures? If not, what method of accounting should be applied and why? Should a feeder fund also consolidate a controlling financial interest in a master fund? Please explain.

Citi does not agree with the proposed requirement to consolidate controlling financial interests in a fund-of-funds structure. We believe that consolidating controlling interests in a fund-of-funds structure would not provide useful information to investors.

As noted in previous questions, we believe fair value accounting for investments rather than consolidation accounting is the more relevant measurement attribute for investors in investment companies. Measuring controlled investments made by an investment company at fair value closely aligns the financial reporting with the nature of the entity and how it is managed. In line with IFRS, requiring an investment company to carry controlled investments at fair value would increase comparability in the financial statements with other non-controlling investments made, and not having this consistency of reporting distorts the performance assessment.

Consolidation of controlled investments would result in less transparency and create greater complexity for users to assess the financial position and performance of an entity whose business purpose is to invest for capital appreciation, investment income, or both.

Applying fair value to fund-of-fund structures and master-feeder structures consistently would provide investors with the most meaningful information for users of the financial statements of these types of entities.

**Question 13:**

The proposed amendments would require an investment company to consolidate a controlling financial interest in an investment property entity. Should an investment company be subject to the consolidation requirements for controlling financial interests in an investment property entity? If not, what method of accounting should be applied and why?

As noted in our response to Question 3, we believe that investment property entities that meet the criteria of an investment company should be within the scope of Topic 946 and the Proposed Accounting Standards Update for investment property entities should be more closely aligned with IAS 40, *Investment Properties*.

Consistent with our response to Question 11 and our views expressed in our response to Question 3, we believe investments of an investment company should be reported on a fair value basis and not be subject to consolidation requirements. This view is equally applicable to controlling financial interests in investment property entities. We believe fair value accounting is the most relevant and faithfully representational information for users of an investment company's financial statements.

We believe that financial information related to third-party owned non-controlling interests is not relevant to investors of investment companies, and should not be included in the investment company's financial position. We believe the proposal to exclude this non-controlling interest information from the financial highlights of an investment company with a controlling financial interest in a less-than-wholly-owned investment company is consistent with our view.

**Question 14:**

The proposed amendments would prohibit an investment company from applying the equity method of accounting in Topic 323 to interests in other investment companies and investment property entities. Rather, such interests would be measured at fair value. Do you agree with this proposal? If not, why?

Citi agrees with this proposal for the reasons outlined in our responses to Questions 11-13. We believe reporting investments on a fair value basis provides the most meaningful information to investors of an investment company.

**Question 15:**

An investment company with a controlling financial interest in a less-than-wholly-owned investment company subsidiary or an investment property entity subsidiary would exclude in its financial highlights amounts attributable to the non-controlling interest. Do you agree that the amounts attributable to the non-controlling interest should be excluded from the calculation of the financial highlights? If not, why?

Consistent with our responses to Questions 11-14, Citi believes investments of an investment company should be measured on a fair value basis as this information is most relevant to the users of the investment company's financial statements. Accounting for the investments on a fair value basis would make this question irrelevant.

Applying consolidation accounting to investments and then excluding the impact of the non-controlling interest from an investment company's financial highlights is an inconsistent application of the accounting model. We believe the financial information related to non-controlling interests held by third parties is not relevant information for investors of an investment company and should not be included in the investment company's financial position. We believe excluding such information from the financial highlights is consistent with this view.

**Question 16:**

If an investment company consolidates an investment property entity, the proposed amendments require the investment company to disclose an additional expense ratio that excludes the effects of consolidating its investment property entity subsidiaries from the calculation. Do you agree? If not, why?

Consistent with our responses to Questions 11-15, Citi believes investments of an investment company should be measured on a fair value basis as this information is most relevant to users of the investment company's financial statements. Accounting for the investments on a fair value basis would make this question irrelevant.

Applying consolidation accounting to investment property entity subsidiaries and then excluding such impact from an investment company's financial highlights is an inconsistent application of the accounting model. We believe the financial information related to non-controlling interests held by third parties is not relevant information for investors of an investment company and should not be included in the investment company's financial position. We believe excluding such information from the financial highlights is consistent with this view.

**Question 17:**

Do you agree with the additional proposed disclosures for an investment company? If not, which disclosures do you disagree with, and why? Would you require any additional disclosures and why?

We do not object to the additional proposed disclosures for an investment company.

**Question 18:**

The proposed amendments would retain the current requirement in U.S. GAAP that a noninvestment company parent should retain the specialized accounting of an investment company subsidiary in consolidation. Do you agree that this requirement should be retained? If not, why?

We strongly agree with the proposal that a noninvestment company parent should retain the specialized accounting of an investment company subsidiary in consolidation. Retention of the specialized accounting upon consolidation would be similar to other U.S. GAAP, such as Topic 940, Broker and Dealers.

We believe that once an entity is established as an investment company, the provisions of the ED should apply to its financial statements regardless of consolidation by a non-investment company parent.

As noted in our responses to the previous Questions, Citi believes investments of an investment company should be reported on fair value basis, and consolidation requirements should not apply. From a consolidated perspective, the group is also holding the investments for capital appreciation, investment income or both, and reporting the investments at fair value will be equally appropriate to users on a consolidated basis. Consolidation accounting would not be the most meaningful and faithfully representational reporting model to these financial statement users.

**Question 19:**

An entity that no longer meets the criteria to be an investment company would apply the proposed amendments as a cumulative-effect adjustment to retained earnings as of the beginning of the period of adoption by calculating the carrying amounts of its investees as though it had always accounted for its investments in conformity with other applicable U.S. GAAP, unless it is not practicable. If not practicable, the entity would apply the proposed amendments as of the beginning of the period of adoption. Do you agree with this proposal? If not, why?

We believe that applying the requirements retrospectively would generally be impracticable and thus would require most entities to apply the standard prospectively.

**Question 20:**

How much time would be necessary to implement the proposed amendments?

In consideration of the other proposed amendments to Topic 810, Citi recommends the Board provide an effective date to this ASU that is consistent with the other proposals and requests application of the ASU to begin no earlier than the beginning of the second annual reporting period after the Board finalizes the proposals. For example, if the FASB completes deliberations for this project and issues a final ASU by September 2012, we believe application should first begin no earlier than January 1, 2014.

**Question 21:**

The proposed amendments would prohibit early adoption. Should early adoption be permitted? If yes, why?

We are not opposed to providing an option for reporting entities to early adopt the final amendments.

**Question 22:**

The proposed amendments would apply to both public and nonpublic entities. Should the proposed amendments apply to nonpublic entities? If not, how should the proposed amendments differ for nonpublic entities and why?

We believe the amendments should apply to both public and nonpublic entities.