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February 15, 2012

Susan M. Cospers, CPA  
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**Re: October 21, 2011 Exposure Draft of a Proposed Accounting Standards Update (ASU), *Financial Services—Investment Companies (Topic 946): Amendments to the Scope, Measurement, and Disclosure Requirements* [File Reference No. 2011-200]**

Dear Ms. Cospers:

One of the objectives that the Council of the American Institute of Certified Public Accountants (AICPA) established for the PCPS Executive Committee is to represent the views of local and regional firms on professional issues in keeping with the public interest, primarily through the Technical Issues Committee (TIC). This communication is in accordance with that objective. These comments, however, do not necessarily reflect the positions of the AICPA.

TIC has reviewed the ED and is providing the following comments for your consideration.

### **GENERAL COMMENTS**

TIC supports most of the proposed criteria to qualify for investment company accounting. TIC has concerns about the application of the criteria to single-investor entities and fund-of-funds structures. TIC has also provided responses below to questions concerning effective date, transition and application to nonpublic entities.

### **SPECIFIC COMMENTS**

#### Unit Ownership and Pooling of Funds

**Question 9:** *Certain entities may meet all of the other criteria to be an investment company but have 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?*

Yes, the criteria in this proposed Update should be amended to address situations in which the entity has a single investor. It is common to set up single investor entities in the industry. A single investor may want to segregate his/her investment for a dedicated strategy or to fulfill a regulatory or tax obligation. An investor may want to invest a significant amount in a particular strategy or an existing fund which is closed but the fund manager has offers of new capital. Indeed, many of the pension funds or sovereign government funds, and funds dedicated for family enterprises or high net-worth individuals, may have only one investor.

The revised investment company definition in this proposed Update will exclude a large number of the single-investor investment funds from qualifying as investment companies and would require them to follow industry guidance merely due to the single investor criteria. This outcome would ignore the practical operation and business purpose of these funds.

TIC believes the single-investor issue deserves additional consideration and more principles-based guidance to ensure that the appropriate entities operating in the investment industry will qualify under the investment company definition.

#### Interests in Other Entities

**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.*

TIC disagrees with the proposed amendment for fund-of-funds structures, which would require an investment company to consolidate another investment company or an investment property entity if the investment company holds a controlling financial interest in the entity in a fund-of-funds structure. The proposal, however, does allow an exception from the consolidation guidance for master-feeder structures.

Given the significant differences under this proposed Update between fund-of-funds and master-feeder presentations, substantial judgment will be required to assess the structures of the funds and the related party involvement in order to arrive at the appropriate consolidation decision. Indeed, practice will vary significantly given the often various legal, regulatory or tax restrictions imposed on the funds.

A consolidated financial statement of an investment company may not be useful to the investors or unit holders because the financial performance and investment details from the subsidiary investee are also represented in the financial statements, while the

investors of the consolidating fund have no rights or obligations related to these underlying investments at the subsidiary level. Meanwhile, the liabilities and non-controlling interests of the subsidiary funds will also be presented on the consolidated financial statement, which may result in investors' confusion and misunderstanding of the potential obligations or cash flows associated with their underlying investment in the consolidating fund. Generally, investors in a particular fund only care about their proportionate share of the fair value of the fund they own. Consolidation may also delay the issuance of the financial statements, which would be troublesome to investors.

In some cases, consolidation may not be possible due to the investor's inability to obtain necessary information. It is not uncommon for investors to own significant financial interests in a fund but to lack any voting or participating rights in the operations or management of the entity. Such investors may have very restricted access to financial information of the funds to enable them to compile consolidated financial statements without undue effort.

Currently, investment companies account for their investments in other investment companies at fair value as one line item in the portfolio. TIC recommends the proposed Update be amended to retain the existing practice, which also would converge with the IASB's proposal for investment companies.

#### Effective Date and Transition

**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?*

TIC believes adjusting the opening balance of retained earnings in the period of adoption is the preferable transition method since restating prior periods presented would be burdensome for many entities.

**Question 20:** *How much time would be necessary to implement the proposed amendments?*

TIC is uncertain how much time would be necessary to implement the proposed amendments but recommends that the FASB set the effective date to accommodate the needs of the preparers, which could involve a two-year period for public companies. An additional year for nonpublic entities should also be considered. TIC also recommends that the effective date for this ASU be identical to the effective date established for the planned ASU, *Real Estate (Topic 973): Investment Property Entities* (the Investment Property Entities ASU). The exposure drafts are interrelated and should have consistent effective dates.

TIC requests that the effective date for nonpublic entities exclude interim periods during the initial year of adoption. Many private entities do not prepare interim financial statements and, those that do, will need a complete annual period (i.e., an extra year from the effective date applicable to public companies) for initial implementation of the standard. TIC therefore recommends that the effective date for private entities be stated in the following format:

*For nonpublic entities, the amendments are effective for fiscal years ending after December 15, 20XX, and interim and annual periods thereafter.*

**Question 21:** *The proposed amendments would prohibit early adoption. Should early adoption be permitted? If yes, why?*

TIC agrees that early adoption should be prohibited. The proposed Update, together with the proposed Investment Property Entities ASU, introduced a number of significant changes from current practice in the definition of investment companies and investment property entities. Additional disclosures are also required under the proposals. The financial services industry is highly competitive in nature, and companies will often benchmark their investment performance with their peers. Allowing investment companies to early-adopt the proposal will lead to inconsistent reporting of financial results and investment performance. As a result, TIC strongly encourages the Board to prohibit any options for early adoption.

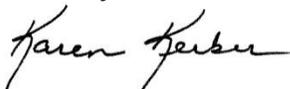
#### Nonpublic Entities

**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?*

TIC agrees that the proposed amendments should apply to both public and nonpublic entities. There are very few differences between public and nonpublic investment entities in terms of the nature of their investment activities, express business purpose and fair value management. The reporting and disclosure rules should be applied consistently to both public and private entities to ensure full compliance and adherence to the GAAP standards and consistency in the quality and depth of information for the investors.

TIC appreciates the opportunity to present these comments on behalf of PCPS member firms. We would be pleased to discuss our comments with you at your convenience.

Sincerely,



Karen Kerber, Chair  
PCPS Technical Issues Committee

cc: PCPS Executive and Technical Issues Committees