



February 16, 2012
Susan M. Cospers, Technical Director
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Via Email to director@fasb.org

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Re: File Reference No. 2011-200

Dear Ms Cospers:

We appreciate the opportunity to comment on the Proposed Accounting Standards Update, *Financial Services—Investment Companies (Topic 946) Amendments to the Scope, Measurement, and Disclosure Requirements*.

We support the objective of the FASB and IASB to develop consistent criteria for determining whether an entity is an investment company. However, we believe that some of the criteria may be unnecessary or could be combined into a simpler structure that is more principles-based and focus on three core criteria.

- We believe that the nature of the activities and express business purpose criteria should be viewed as one core criterion for determining whether an entity is or is not an investment company. We question whether these actually are separate criteria as one is the substance of the business model and the other is one form of evidence of the existence of the business model. We believe that the proposal could be made more principles-based by combining the two criteria with overall emphasis being on the business model being that of an investment entity. In addition, the criterion that substantially all investments be managed, and performance evaluated, on a fair value basis would be a factor supporting the nature of the activities and express business purpose criterion for certain types of investments.
- We believe the second core criterion for determining whether an entity is or is not an investment company should focus on the pooling of funds and unit ownership.
- The third core criterion should relate to the reporting entity; however, we believe that the reporting entity should be a legal entity with an exception provided for investment performance activities of another entity that are separately reported and allocated to investors.

We would be pleased to discuss our comments with you. If you have any questions, please contact John Hepp or Mark Scoles, Partners in the Accounting Principles Consulting Group, at 312.602.8050 or 312.602.8780, respectively.

Sincerely,

/s/ Grant Thornton LLP

Our specific comments follow.

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?

We believe that some of the criteria may be unnecessary or could be combined into a simpler structure that is more principles-based.

We believe that the nature of the activities and express business purpose criteria should be viewed as one core criterion for determining whether an entity is or is not an investment company. We note that the original criterion of investment activity has now been deconstructed into two separate criteria: nature of the activities and express business purpose. We question whether these actually are separate criteria as one is the substance of the business model and the other is one form of evidence of the existence of the business model. Our comment letter to the IASB on their proposal suggested that the proposal could be made more principles-based by combining the two criteria with overall emphasis being on the business model being that of an investment entity. We suggest that the FASB adopt a similar approach. In addition, the criterion that substantially all investments be managed, and performance evaluated, on a fair value basis would be a factor supporting the nature of the activities and express business purpose criterion for certain types of investments.

We believe the second core criterion for determining whether an entity is or is not an investment company should focus on the pooling of funds and unit ownership.

The third core criterion should relate to the reporting entity; however, we believe that the reporting entity should be a legal entity with an exception provided for investment performance activities of another entity that are separately reported and allocated to investors.

We have provided additional comments relative to specific criteria in our answers to questions that follow.

Question 2: The definition of an investment company in the proposed amendments includes entities that are regulated under the SEC's Investment Company Act of 1940. Are you aware of any entities that are investment

companies under U.S. regulatory requirements that would not meet all of the proposed criteria in paragraph 946-10-15-2? If so, please identify those types of entities and which of the criteria they would not meet.

We believe that certain entities such as money market funds and certain bond funds that are regulated under the Investment Company Act of 1940 might not meet the fair value management criterion. Measurement at fair value is a secondary consideration in managing those investments when evaluating performance.

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 with removal of the scope exception for real estate investment trusts. Per our letter in response to the Proposed ASU, *Investment Property Entities* (File No. 2011-210), we do not agree with creation of a separate classification of investment property entities. The two core criteria we refer to in our answer to Question 1 should indicate whether an entity is an investment company or not. Holding investment property would not preclude an entity from meeting those criteria. Similarly, we believe that the option to account for investment property at fair value through earnings should be available for other types of entities that do not meet the criteria to be investment companies.

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 agree with the proposal. A change in the purpose and design of an entity should be an exceedingly rare event. However, if such a change does occur, it would be appropriate to reassess the accounting model because the criteria depend, fundamentally, on the business model (purpose) and design of the entity.

Nature of the Investment Activities

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 entity) 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?

We believe that this requirement is operational and could be consistently applied.

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 agree with these examples. However, as noted in our response to the proposed ASU on investment property entities, we believe that entities such as those described in Example 3 should have the option of reporting their investment properties at fair value through earnings.

Unit Ownership and Pooling of Funds

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 agree with these criteria for determination as to whether an entity is an investment company. We believe there should be an exception for entities owned by employees of the sponsor of an investment fund that invests on a parallel basis with the investment fund..

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 believe that the unit-ownership and pooling-of-funds criteria should not consider interests issued to debt holders. The unit-ownership and pooling-of-funds criteria would be met by an entity that issues interests representing the most substantive residual interest (i.e. equity or partnership interests); however, the criteria would not be met by an entity that also issues subordinated debt.

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? We believe that an entity that is a wholly owned investment of a parent entity that is required to or not precluded from measuring its investments at fair value should be permitted to report at fair value.

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? We agree that the determination of unit ownership and pooling of funds should not depend on whether an investor is passive.

Fair Value Management

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?

We believe that any entity whose investors transact at fair value ultimately will measure its investments at fair value for purposes of reporting to investors; however, for certain of these entities fair value measurement might be a secondary consideration in managing those investments when evaluating performance. We do not believe an entity that meets all of the other criteria should be excluded from being considered an investment company based on fair value management if other performance measures are the primary consideration when managing the investments.

The basis for conclusions states that this criterion is included because fair value is the most useful information for investors, but does not state why it is a pre-requisite for investment company status. We agree that fair value is useful information, but, depending on the nature of the investments and the needs of the users, the intervals at which fair value is measured and the degree to which fair value is considered in the short term management of an entity may vary. Therefore the meaning of fair value management may not always be the same: fair value management for marketable equity securities and for real estate, for example, could differ. We also note that this criterion was not included in the proposal for investment property entities, although the requirements are otherwise nearly identical and therefore question whether this criterion is necessary for a type of entity that could include real estate investments.

For these reasons we believe that management and evaluation of investments on a fair value basis should be a factor supporting the nature of the activities and express business purpose criterion for certain types of investments.

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.

We do not believe that an investment company should consolidate another investment company either in a fund-of-funds structure or in a master-feeder structure unless it owns 100% of that investment company.

Consolidation of investment company entities raises issues about the accounting for dispositions of ownership interests. We note that the consolidated entity would exclude amounts attributable to the noncontrolling interest from the calculation of the financial highlights, which appears to indicate that the noncontrolling interest is not a part of the equity of the consolidated group. We also believe that there could be other issues. For example, would a disposition of ownership interests that does not result in a loss of control be an equity transaction (a transaction among owners)?

We would prefer that Board investigate other alternatives to consolidation of entities with noncontrolling interests such as the IASB's proposal where an investment company would measure its investment in another investment company subsidiary at fair value but would provide additional disclosures to enhance the transparency of the subsidiary's operations, an approach that would also have the benefit of being more fully converged.

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?

We believe that if an investment property entity is also an investment company, then we believe it should be consolidated, or not consolidated, using the same criteria as used for consolidating other entities. We do not support creating a separate category of investment property entity.

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?

We agree with this proposal.

Presentation and Disclosure

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 noncontrolling interest. Do you agree that the amounts attributable to the noncontrolling interest should be excluded from the calculation of the financial highlights? If not, why?

While we agree with excluding amounts attributable to the noncontrolling interests from the financial highlights, we believe that this is an indicator that an investee investment company with a noncontrolling interest should not be consolidated.

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?

While we agree with excluding the effects of a consolidation from the expense ratio, we believe that this is an indicator that that Board should consider alternatives to consolidation for investments in an investment company with a noncontrolling interest.

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 agree with the disclosures included in the proposed amendment.

Retention of Specialized Accounting

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 agree with this requirement.

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?

Rather than provide a practicability exception that might be difficult to evaluate we believe entities should have an option. We note that this may be similar to some of the situations that arise on adoption of IFRS. In that event, we suggest wording similar to that in IFRS 1 that

permits an entity to elect to measure investments at the date of transition to IFRSs at fair value and use that fair value as its deemed cost at that date, rather than requiring the entity to demonstrate that retrospective application is not practicable.

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

The amount of time will vary significantly based on whether the classification of the entity changes or not. The most burdensome aspect would be calculating the carrying amounts of its investees as though it had always accounted for its investments in conformity with other applicable U.S. GAAP. If the Board adopts the deemed cost approach we recommend in our response to Question 19 that burden could be greatly reduced.

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

We do not see any reason to prohibit early adoption due to comparability concerns. If Investment Company accounting better represents the business model of the reporting entity, then early adoption would most likely benefit the users of the financial statements.

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?

A large number of entities that would apply this proposed update are private entities. We do not see any reason why the proposed amendments would not apply to private entities.