



February 23, 2015

Technical Director
Financial Accounting Standards Board 401
Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

File Reference No. 2014-270

Dear Ms. Cosper:

The Financial Reporting Executive Committee (FinREC) of the American Institute of Certified Public Accountants (AICPA) appreciates the opportunity to comment on the Financial Accounting Standards Board's December 4, 2014, Exposure Draft of a Proposed Accounting Standards Update—*Financial Services—Investment Companies (Topic 946): Disclosures about Investments in Other Investment Companies*.

FinREC supports the Board's effort to provide consistency and transparency through alignment of disclosure and presentation requirements for investment companies regulated under the Investment Company Act of 1940 (1940 Act) with those investment companies not regulated under the 1940 Act. The proposed ASU will require feeder funds (both regulated and non-regulated) to provide the master fund's financial statements along with the feeder fund's financial statements. It will also require all investment companies (regulated and non-regulated) to disclose each investment owned by an individual investee fund that exceeds five percent of the reporting investment company's net assets at the reporting date.

While we support the Board's intent to align disclosure and presentation requirements for regulated and non-regulated investment companies, we have some concerns regarding operability and auditability of the proposed disclosure and presentation requirements. We recommend that the FASB engage representatives of the AICPA (FinREC, Auditing Standards Board, and the Investment Companies Expert Panel) to discuss audit challenges relating to the proposed presentation requirement before finalizing this project. Additionally, we believe any investment company that invests substantially all of its assets in another investment company should either present the financial statements of the investee fund or provide information concerning the investments and operations of the investee fund.

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The Appendix to this letter includes our responses to questions raised in the Exposure Draft.

As mentioned above, representatives of FinREC, ASB, and the AICPA Investment Companies Expert Panel are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

Jim Dolinar
Chairman
FinREC

Brent Oswald
Chairman
AICPA Investment Companies Expert Panel

Appendix

Question 1: *Do you agree that all feeder funds in a master-feeder arrangement (those that are regulated under the Investment Company Act of 1940 and those that are not regulated under that Act) should provide the financial statements of their master fund along with their own financial statements? Why or why not?*

Comment

We believe that any investment company, regulated or non-regulated, that invests substantially all of its assets in another investment company, including feeder funds in a master-feeder arrangement, should provide the financial statements of the investee fund along with its own financial statements.

This requirement should apply when the investor fund does not consolidate the investee fund. We believe that investor funds that consolidate the investee fund should not be required to provide the financial statements of their investee fund along with their own consolidated financial statements. In addition, we note that it is currently prevalent for proprietary feeder funds (managed and sponsored by the same financial institution as the master fund) to attach the master fund's financial statements. This is not always the case for a fund that invests substantially all of its assets in another non-proprietary fund.

Furthermore, please refer to our response to Question 3 for a discussion of operational challenges.

Question 2: *Do you agree that all investment companies (those that are regulated under the Investment Company Act of 1940 and those that are not regulated under that Act) should be required to disclose in their financial statements information about investments held by investee funds that exceed 5 percent of the reporting investment company's net assets? Why or why not?*

Comment

Yes, we agree that all investment companies, both regulated and non-regulated, should disclose information about investments held by investee funds that exceed five percent of the reporting investment company's net assets. We agree that this requirement will result in greater consistency and transparency into the investments held by investee funds. However, we note that while proprietary funds usually have access to financial statements of investee funds and, therefore, will be able to provide such information, non-proprietary funds may not be able to do so. We acknowledge that in the latter situations, the practicability exemption that is being retained in the proposed ASU would be more frequently invoked. We support the Board's decision to maintain the practicability exemption if the information about the investee's portfolio is not available. Please refer to our response to Question 3 for additional considerations.

We also note that as currently proposed, the 5% "look-through" disclosure would be applied to investments held by each individual investee fund, and not in aggregate across multiple investee funds. Since the intent of this disclosure is to provide information regarding significant investment exposures, we believe that aggregating the exposure

across multiple investee funds is more meaningful in cases where such information is available. We do not believe that the investor fund should be required to undertake exhaustive efforts in order to obtain information regarding investments held by an investee fund that represent less than 5% of the investee fund's net assets.

Question 3: *Are the proposed disclosure requirements operable and auditable? If not, which aspects pose operability and/or auditability issues and why?*

Comment

We acknowledge that certain challenges exist that may affect operability and auditability of the proposed presentation and disclosure requirements.

Providing the financial statements of the investee funds, including master-feeder arrangements

We believe that a proposal to require an investment company that invests substantially all of its assets in another investment company to provide the financial statements of the investee fund would only affect non-regulated funds because this presentation is currently required for funds regulated under the 1940 Act. Although non-regulated investor funds in these situations often provide the financial statements of the investee fund, investor funds that are not affiliated with the investee fund may be precluded from presenting the investee fund's financial statements where legal and confidentiality constraints exist. Even in situations where investor funds that are not affiliated with the investee fund may be able to address legal and confidentiality issues and obtain the right to attach the investee fund's financial statements, significant implementation time may be necessary to navigate the legal issues in order to comply with the proposed requirement.

As a result of such challenges, we recommend that the Board include a practicability exemption when the investment company that invests substantially all of its assets in another investment company is unable, after reasonable efforts, to attach the investee fund's financial statements. In those circumstances we recommend the reporting investment company provide disclosures about the investee fund's most recent available financial statements. These disclosures would assist users of the reporting investment company's financial statements in understanding relevant information regarding its investment in the investee fund, such as 1) investment portfolio (by type of investment and industry or geography; the percentage of the investment portfolio in each fair value hierarchy level); 2) balance sheet (investments, total assets, borrowings, net assets); and 3) statement of operations (investment income, expenses, realized gains/losses, unrealized gains/losses). Please also see our discussion about auditability issues below.

Additionally, we recommend that the Board clarify in the final ASU what would be required to be provided when the investee fund and investor fund have different year-end dates. For example, a reporting investment company may be required to include a full set of financial statements of the investee fund as of the investee fund's most recent fiscal year-end and a balance sheet and schedule of investments as of the reporting investment company's reporting period end.

We support the Board's proposal to require separately presenting the investee fund's financial statements together with the investor fund's financial statements. Although the proposed presentation raises certain audit and reporting considerations, we believe other presentation options, such as required supplemental information or including the investee fund's financial statements in the notes to the investor fund's financial statements, raise more significant auditability issues. We recommend the FASB engage representatives of the AICPA (FinREC, ASB, and Investment Companies Expert Panel) to discuss auditability issues that may arise.

Disclosures for an investee fund's investments that exceed 5 percent

We believe that where regulated funds invest in other affiliated funds, the investor fund would have access to the information required to comply with the proposed disclosure requirement. However, when both regulated and non-regulated funds invest in unaffiliated investment companies, they may not have access to the information needed to comply with the proposed requirement. Investment companies that invest in other investment companies may have different fiscal year-end dates, or legal and confidentiality agreements may exist that would not afford timely access to the necessary information of the underlying fund. For example, legal or regulatory restrictions may prevent the investee fund from selectively disclosing information to the investor fund and not all investors, or the organizational documents may prohibit the disclosure of such information. We believe the practicability exemption retained in the proposed ASU may commonly be invoked in these situations.

Question 4: *How much time would be necessary to implement the proposed amendments?*

Comment

We believe that affiliated funds, especially those with the same fiscal year-end dates, may be able to implement the proposed amendments relatively quickly. However, for non-affiliated funds, a considerable amount of time may be needed to obtain financial statements or portfolio information of another investment company (in order to comply with either of the proposed requirements) and/or obtain legal permission to include investee fund's financial statements along with the investor fund's financial statements.

Question 5: *Should the effective date for investment companies other than public business entities be one year after the first annual period for which public business entities are required to adopt the proposed amendments?*

Comment

We believe the Board should first consider constituents' feedback on the proposed ASU, and especially responses to Questions 3 and 4 above, before determining the effective date. Due to the legal issues involved in obtaining permission to use non-proprietary non-regulated investee fund's financial statements, we support a delay in the effective date for investment companies other than public business entities.

Question 6: *Do you agree that the proposed disclosure requirements should be applied prospectively and that early adoption should be permitted? Why or why not?*

Comment

Yes, we agree that the proposed disclosure requirements should be applied prospectively and that early adoption should be permitted. Investment companies are currently required to present a single (not comparative) balance sheet and schedule of investments as of the close of the latest period. As such, we do not believe that retrospective application of 5% disclosure requirement is necessary. We support the Board's effort to provide consistency and transparency through alignment of disclosure and presentation requirements for regulated and non-regulated investment companies. We believe the proposed disclosures are meaningful to the users of financial statements, and therefore, support early adoption.