October 17, 2013

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

Via email: director@fasb.org
File Reference No. EITF-12Gr

Re: Proposed ASU, *Consolidation – (Topic 810): Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity*

Dear Technical Director:

This letter represents the comments of certain members (see list on page 6) of the Asset Management Industry Accounting Policy Group ("AMIAPG"), comprising a forum of companies primarily engaged in the asset management business. The companies represented by this particular letter include publicly traded and privately held asset managers who collectively manage more than 3,200 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 six companies represented by this letter collectively have subsidiaries registered as investment advisors, broker/dealers, trust banks and insurance companies, and oversee approximately $4.4 trillion of assets under management.

We appreciate the opportunity to provide comments to the Financial Accounting Standards Board (the "FASB" or the "Board") on the Proposed Accounting Standards Update ("Proposed ASU"), *Consolidation – (Topic 810): Measuring the Financial Liabilities of a Consolidated Collateralized Financing Entity* ("the Proposal" or the "Proposed ASU"). We believe that revised guidance regarding the accounting for, and presentation of, the difference between the fair value of the assets of a consolidated collateralized financing entity ("CFE") and its obligations would be helpful. We support the Board's intention to discontinue, in these instances, the use of appropriated retained earnings balances within stockholder's equity in consolidated balance sheets and to eliminate the related impact to consolidated income statements, specifically for changes in such appropriated earnings that are presently included in both net income and net income attributable to noncontrolling interests.

We offer the following comments to clarify and enhance certain aspects of the Proposed ASU, which relate to:

- Calculation of a CFE's Financial Liabilities
- Consolidated Income Statement Recognition and Presentation of CFE Balances
- CFE Disclosures
- Accounting Policy Election
- Timing and Transition

<u>Calculation of a CFE's Financial Liabilities</u>

We disagree with applying the model in the Proposed ASU to a reporting entity's beneficial interest, because of its potential non-economic income statement impact, and instead support a valuation that is consistent with guidance in other applicable Accounting Standards Codification Topics ("Topics").

Paragraph 810-10-30-2A of the Proposed ASU sets forth a calculation to determine a value of the financial liabilities of a CFE that is based on the sum of the fair values of the financial assets of the CFE and the carrying values of the nonfinancial assets of the CFE, "less the sum of the fair values of financial assets and the carrying values of nonfinancial assets attributable to the beneficial interest(s) owned by the reporting entity and the carrying values of any beneficial interests that represent compensation for services rendered by the reporting entity."

Upon consolidation, the reporting entity holding an investment in the CFE (the "Investing Entity") must eliminate its investment against the corresponding value on the CFE's balance sheet. We believe that, when applying the guidance in the Proposed ASU, the carrying value of any beneficial interests held by the Investing Entity should be equivalent to the value of that beneficial interest on the Investing Entity's standalone books and records, as determined under other applicable Topics; however, this is not clear in the Proposed ASU. As such, this Proposal may be interpreted to suggest assigning a value to a beneficial interest holding that is not based on other existing Topics. Using any value other than an Investing Entity's standalone carrying value (determined under other Topics) will result in a remaining balance upon consolidation of the CFE (after elimination entries). Presumably, this remaining balance would be recorded into the statement of net income of the consolidated entity. We believe it is not the Board's intent that a net income impact would result from the unmatched elimination upon consolidation of the beneficial interest held by the Investing Entity with its carrying value on its books and records before the consolidation. Accordingly, we urge the Board to consider amending the guidance proposed in paragraph 810-10-30-2Ab.1. to the following:

1. The sum of the fair value of financial assets and the carrying value of nonfinancial assets attributable to ~~the beneficial interest owned by the reporting entity~~ <u>the value of any beneficial interests owned, as determined by other applicable Topics.</u>

We understand that the Board has concerns with using fair value as the value of a CFE's financial liabilities attributable to a reporting entity in situations where CFEs contain nonfinancial assets, such as real estate. This is generally not the case in certain types of CFEs, such as bank loan CFEs. Holdings of nonfinancial assets in these structures would be on a limited and short-duration basis, as the intent of these structures is to hold bank loans and similar assets, and not nonfinancial assets. We believe that altering the accounting model to deviate from current U.S. GAAP for accounting for stand-alone beneficial interests in these types of structures lacks conceptual merit.

The Appendix to this letter includes an example of Day 1 consolidation of a CFE by an Investing Entity under current U.S. GAAP, resulting in the use of appropriated retained earnings (Example 1), an example of a Day 1 consolidation of a CFE as recommended above (Example 2), and an example of a Day 1 consolidation of a CFE, as we believe would be required by the guidance in the Proposed ASU (Example 3). We believe that Example 3 illustrates the net income impact that may result upon a Day 1 consolidation of a CFE under the guidance in the Proposed ASU. Example 2 retains the value of a reporting entity's beneficial interests, before and after consolidation of a CFE, thereby avoiding potential non-economic income statement impact.

Consolidated Income Statement Recognition and Presentation of CFE Balances

Under current practice, it is common for the value attributed to third-party investors in consolidated CFEs to be presented as noncontrolling interests on consolidated statements of income and comprehensive income, and as balances of appropriated retained earnings on consolidated balance sheets. We believe that the guidance in the Proposed ASU should be clarified to more clearly articulate that, as a result of applying the guidance in the Proposed ASU, consolidated statements of income and comprehensive income will no longer reflect these changes in third-party balances as noncontrolling interests. Likewise, these changes in value attributed to third-party investors in consolidated CFEs will be recorded and presented as changes in the value of the debt issued by the consolidated CFEs, and will no longer accumulate and be reported as appropriated retained earnings.

Additionally, the Proposed ASU does not specify the income statement classification for interest income earned or expense incurred by the consolidated CFE. For CFEs measured at fair value under the fair value option, certain reporting entities currently elect to classify the interest income and expense of a CFE as part of the change in the fair value of the CFE's financial assets and liabilities and disclose this fact in accordance with ASC 825-10-50-30b. The Securities and Exchange Commission and the Board have not previously objected to this treatment. We request the Board specifically allow for a reporting entity to elect to classify interest income and expense of a CFE as part of the change in fair value of the financial assets and the carrying value of nonfinancial assets, and disclose this fact, similar to the requirement under ASC 825.

We note that paragraph 810-10-35-9 indicates that "changes in the sum of the fair value of financial assets and the carrying value of nonfinancial assets attributable to the beneficial interests (other than beneficial interests that represent compensation for services) owned by the reporting entity shall be recognized in the consolidated statement of comprehensive income of the reporting entity." We believe that this paragraph is unclear and is not necessary if the carrying value of the beneficial interests held by the Investing Entity is equivalent to the value of its beneficial interest, as determined under other applicable Topics.

CFE Disclosures

The Proposed ASU revises the required disclosures for the financial assets and liabilities of a consolidated CFE. Specifically, the Proposed ASU indicates that the financial liabilities of the CFEs measured in accordance with the Proposed ASU are scoped out of the disclosures prescribed by Topic 820, *Fair Value Measurements* ("ASC 820") and Topic 825, *Financial Instruments* ("ASC 825"). For the fair value of the CFE's financial assets, the Proposed ASU requires that the reporting entity disclose the information required by ASC 820 and ASC 825. Given the broad disclosure requirements in ASC 825, we suggest the Board clarify the requirements by adding the intended paragraph references (e.g., ASC 825-10-50-10 through 19).

In the past, upon adoption of Accounting Standards Update 2009-17, *Consolidations (Topic 810): Improvements To Financial Reporting By Enterprises Involved With Variable Interest Entities* ("ASU 2009-17"), many of the newly consolidated CFEs gave rise to changes in the reporting entity's financial statements. Due to the minimal beneficial interest held by the reporting entity, the vast majority of the assets and liabilities of the CFEs were attributable to noncontrolling interests on the consolidated income statement and appropriated retained earnings on the consolidated balance sheet of these reporting entities. As a result, many reporting entities spent considerable time educating their management, investors, analysts and auditors of the nature of the changes to the financial statements, including preparing reconciliations between the reported U.S. GAAP earnings (which include the consolidation of the CFEs) and earnings attributable to the reporting entities' investors. Further, the CFE consolidation process is typically manual because it frequently involves CFEs that are private investment entities not required otherwise to prepare quarterly U.S. GAAP financial statements. As a result, consolidating these entities often entails the manual creation of the CFEs' standalone U.S. GAAP financial statements, and any changes to the process may have a significant operational impact. Altering the existing accounting treatment and disclosure arrangements on the existing CFEs by reporting entities as a result of the Proposed ASU, only to potentially deconsolidate them in the near term, once the amendments to the Consolidation guidance are finalized (see Timing and Transition comment below), has the potential to cause reporting entities to incur undue effort and costs and generate confusion for financial statement users, rather than only deconsolidating the CFEs when the Consolidations Project is complete.

Accounting Policy Election

We note that paragraph 810-10-15-17A indicates that this guidance is elective for all reporting entities that consolidate a CFE. We suggest that the Board clarify why the guidance in this Proposed ASU is elective if its intent is to remove diversity in practice. Paragraph 810-10-15-17A of the Proposed ASU indicates that "a reporting entity that does not elect to apply this guidance, shall measure the financial liabilities of the consolidated financing entity in accordance with other applicable Topics." We understand that this provision could result in certain reporting entities using amortized cost to measure the liabilities of consolidated CFEs, while the assets of consolidated CFEs may be reported at fair value, or otherwise, under other applicable Topics. The difference between the value of the assets and liabilities of a consolidated CFE in this situation would presumably still be reported as noncontrolling interest in the consolidated statements of income and comprehensive income, and as appropriated retained earnings on the consolidated balance sheet, resulting in continued diversity in practice and presentation, from those that would elect to apply the guidance in the Proposed ASU. We believe that the Board should consider requiring this accounting model for all consolidated CFEs to better meet its intent to avoid diversity in practice.

If the Board continues with an accounting policy election, we agree that it is important for entities to disclose their policy as well as how they have applied this guidance (full retrospective or modified retrospective approach) upon transition.

Timing and Transition

If the Board decides to move forward with the Proposed ASU, we recommend the Board align the effective dates for the Proposed ASU with the pending amendments to the Consolidation (Topic 810): Principal versus Agent guidance. We believe the pending amendments to the Consolidation guidance could result in the deconsolidation of many existing CFEs where the reporting entity serves as investment manager, but owns an immaterial amount, or none of the CFEs' beneficial interests.

We believe that simultaneous adoption of the Proposed ASU and the amendments to the Consolidation guidance will benefit financial statement users and reduce administrative burdens for the reporting entities currently consolidating these types of CFEs.

If the Board decides to move forward with the Proposed ASU, whether the timing is prior to the completion of the amendments to the Consolidation guidance or not, we recommend an implementation period of at least six months. We believe it will take several months to update the consolidation process and re-educate management, investors, analysts and auditors for the changes to financial statements.

While we believe the effective date of the Proposed ASU should coincide with that of the amended Consolidation guidance, we recognize that some firms may benefit from early adoption of the Proposed ASU and, accordingly, we support the Board's inclusion of this option.

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We appreciate the opportunity to provide comments on the Proposed ASU. Should you have any questions, please feel free to contact any of the representatives below.

/s/ David K. Stewart, Senior Vice President & Controller	Ameriprise Financial, Inc.	(612) 678-4769
/s/ Gail Dowd, Vice President, Director of Financial Reporting	Eaton Vance Corp.	(617) 672-8325
/s/ Leah Kwartler, Vice President, Accounting Policy and Standards	Fidelity Investments	(617) 392-2692
/s/ Elaine Sabatino, Vice President, Accounting and Financial Reporting	Franklin Templeton Investments	(650) 312-3239
/s/ Aimee B. Partin, Director of Accounting Policy and Disclosures	Invesco, Ltd.	(404) 724-4248
/s/ Timothy J. Lorber, Director, Head of Accounting Policy and Corporate Controls	Legg Mason, Inc.	(410) 454-2839

Attachment

APPENDIX A

Example Day 1 consolidation of a CFE by an Investing Entity. Before consolidation, the stand-alone books and records of the Investing Entity reflect the investment in the CFE in accordance with applicable U.S. GAAP.

CFE Debt Tranches:	Fair Value (FV)	Par Value	
Tranche A	135	165	
Tranche B	100	140	
Tranche C	95	125	
Residual Tranche	70	95	
Total Capitalization	400	525	
Options for calculating Investing Entity's Beneficial Interest (BI) in the CFE:			
Investing Entity's U.S. GAAP stand-alone carrying value	7	7	(10% of FV of residual tranche)
Investing Entity's carrying value / total capitalization	0.0175	0.0133	
Investing Entity's carrying value / residual tranche	0.1000	0.0737	
BI of Third Parties	0.9825	0.9867	

EXAMPLE 1

Day 1 - Using Investing Entity's carrying value for BI (CURRENT ACCOUNTING BEFORE ADOPTION OF PROPOSED ASU):

	CFE	Investing Entity	Consolidation Adj	Consolidated Reporting Entity
Cash	100	-	-	100
Investments in CFE	-	7	(7)	-
Investments	500	-	-	500
Debt	(400)	-	7	(393)
Retained Earnings	(200)	(7)	200	(7)
Appropriated Retained Earnings	-	-	(200)	(200)

EXAMPLE 2

Day 1 - AFTER ADOPTION OF PROPOSED ASU -- Using Investing Entity's carrying value for BI (AMIAPG PROPOSED ACCOUNTING IN COMMENT LETTER):

	CFE	Investing Entity	Consolidation Adj	Proposed ASU Adjustment	Consolidated Reporting Entity
Cash	100	-	-	-	100
Investments in CFE	-	7	(7)	-	-
Investments	500	-	-	-	500
Debt	(400)	-	7	(200)	(593)
Retained Earnings	(200)	(7)	200	-	(7)
Appropriated Retained Earnings	-	-	(200)	200	-

FV of CFE assets	600
Assume Investing Entity's carrying value is representative of its BI	(7)
Value of debt per Proposed ASU	593
FV of debt less Investing Entity carrying value	(393)
Proposed ASU Adjustment required (increase to debt value)	200

NOTES: If this approach it utilized, (i.e. paragraph 810-10-30-2Ab1 is the Investing Entity's carrying value as valued by other U.S.GAAP Topics -- recommended in the comment letter), then the Day 1 Retained Earnings after consolidation equals the Retained Earnings of the Investing Entity before consolidation.
The net result of this is effectively a reclassification of the Appropriated Retained Earnings balance to the Debt balance.

EXAMPLE 3

Day 1 - AFTER ADOPTION OF PROPOSED ASU -- Using % of CFE capitalization for BI (AN INTERPRETATION OF GUIDANCE PROVIDED IN THE PROPOSED ASU):

	CFE	Investing Entity	Consolidation Adj	Proposed ASU Adjustment	Consolidated Reporting Entity
Cash	100.0	-	-	-	100.0
Investments in CFE	-	7.0	(7.0)	-	-
Investments	500.0	-	-	-	500.0
Debt	(400.0)	-	7.0	(196.5)	(589.5)
Retained Earnings	(200.0)	(7.0)	200.0	-	(7.0)
Appropriated Retained Earnings / Current P&L for difference?			(200.0)	196.5	(3.5)

FV of CFE assets	600.0
Assume Investing Entity's BI is based upon CFE's total capitalization	0.9825
Value of debt per Proposed ASU	589.5
FV of debt less Investing Entity carrying value	(393.0)
Proposed ASU Adjustment required (increase to debt value)	196.5

ISSUE: The consolidation does not balance by 3.5 if any other value, other than the Investing Entity's carrying value, is utilized. Where is the 3.5 recorded -- into Current P&L on Day 1?