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

**File Reference No. 2014-270**

**Re: Proposed Accounting Standards Update, *Disclosures About Investments in Other Investment Companies***

Dear Ms. Cospers:

Deloitte & Touche LLP is pleased to comment on the FASB's proposed Accounting Standards Update (ASU) *Disclosures About Investments in Other Investment Companies*.

We support the Board's efforts to improve U.S. GAAP disclosures by increasing the transparency of investments by investment companies. As we noted in our February 15, 2012, comment letter, additional disclosures that increase the transparency of information about an investee fund would improve financial reporting. In addition, we support the Board's efforts to align the disclosure requirements for investment companies regulated under the Investment Company Act of 1940 (the "1940 Act") with those for investment companies not regulated under the 1940 Act.

We agree with the Board's proposal to enhance disclosures about investment companies' investments in other companies by requiring all investment companies to (1) disclose certain information about investments held by investee funds whose fair values exceed 5 percent of the reporting investment company's net assets and (2) include the financial statements of a master fund with a feeder fund's own financial statements in a master-feeder arrangement. However, as indicated in the appendix below, we have some concerns about the operability and auditability of the proposed disclosure requirements.

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We appreciate the opportunity to comment on the proposed ASU. If you have any questions concerning our comments, please contact Trevor Farber at (203) 563-2547.

Yours truly,

Deloitte & Touche LLP

cc: Robert Uhl

**Appendix**  
**Deloitte & Touche LLP**  
**Responses to Questions for Respondents**

**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?*

Yes. We believe that all feeder funds in a master-feeder arrangement should provide the financial statements of the master fund along with their own financial statements. Expanding this requirement to include investment companies not regulated under the 1940 Act will codify general industry practice and provide additional transparency to users of the financial statements. However, we believe that the following items should be addressed before the FASB finalizes the ASU:

1. The proposed requirements indicate that an “investment company that is a feeder in a master-feeder arrangement shall present a **complete set of master fund’s financial statements**” (emphasis added). The FASB should clarify what is meant by a complete set of the master fund’s financial statements. For example, the FASB should clarify whether the financial statements of the master fund are required to have the same fiscal year-end as the feeder fund’s and whether the financial statements of the master fund are required to be audited.

We suggest that the FASB align its requirements with the SEC’s guidance in the Division of Investment Management staff’s December 30, 1998, letter and with the guidance in the AICPA Audit and Accounting Guide *Investment Companies*.<sup>1</sup> In its letter, the staff of the SEC’s Division of Investment Management indicated that it would not object if “at each feeder investment company year-end, the audited shareholder report of the feeder is accompanied by the latest audited shareholder report of the master and by an unaudited balance sheet of the master, and schedule of investments of the master as of the date of the feeder financial statements.” For example, “if the feeder has a December 31 fiscal year-end and the master has a September 30 fiscal year-end, the audited December 31 feeder financial statements would be accompanied by the audited September 30 master financial statements, and an unaudited master balance sheet and master schedule of investments as of December 31.”

2. A feeder fund may not be able to obtain the master fund’s complete financial statements (this is more likely to occur in situations in which the feeder fund invests in an unaffiliated master fund). Specifically, the governing documents may not require the master fund to prepare audited financial statements; the auditors may impose restrictions on the use of the master fund’s financial statements; or the governing documents may only require selected information be distributed to the master fund’s investors. There may also be confidentiality clauses in the governing documents of the master fund that restrict the feeder fund’s distribution of the master fund’s financial statements. In these situations, the feeder fund should not be required to include the master fund’s financial statements in its own financial statements but should be required to disclose the reason(s) for not being able to do so. This exception should be similar to the

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<sup>1</sup> Paragraph 5.40 of the AICPA’s Audit and Accounting Guide *Investment Companies* states:

When the master and feeder funds have different year-ends, the SEC has indicated that it would not object if, at each feeder investment company year-end, the audited shareholder report of the feeder is accompanied by the latest audited shareholder report of the master as well as an unaudited balance sheet and schedule of investments of the master as of the date of the feeder’s financial statements. [Footnote omitted]

practicability scope exception in ASC 946-210-50-10 that allows an investment company to disclose that it is unable to obtain the information required by paragraph ASC 946-210-50-9 when such information is not available.

3. Under U.S. GAAP, a master-feeder arrangement is not defined. Investment companies look to the SEC Division of Investment Management's November 7, 1997, letter<sup>2</sup> and to the definition of a master-feeder structure in SEC Form N1-A<sup>3</sup> to determine whether they are required to apply the current specialized accounting in ASC 946 for master-feeder structures. However, there should be a clear, principle-based definition of a "master-feeder" arrangement in the Codification (or in implementation guidance) that includes considerations for identifying a master-feeder arrangement. This guidance should indicate whether the evaluation should focus on the investor fund's ownership percentage of the investee fund, the significance of the investor fund's investment relative to its other investments, and the legal form of the investee fund.

**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?*

Yes. We believe that all investment companies 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 or the fact that this information is not available. This disclosure enhances the transparency of an investment company's concentration of risk in a particular investment. However, the FASB should consider providing additional implementation guidance to ensure that this requirement would be consistently applied. For example, the FASB should consider clarifying (1) how to apply this guidance when the investee funds have different fiscal year-ends, (2) whether exposure to an underlying investment through multiple different investee funds should be aggregated in the preparation of this disclosure, and (3) whether the disclosure should only include equity investments or should also include convertible securities and debt securities.

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<sup>2</sup> The SEC Division of Investment Management's November 7, 1997, letter includes the following guidance:

**Fund of Funds Considerations**

In recent years, the number of fund of funds arrangements, in which one fund ("top tier fund") invests its assets in shares of another fund ("underlying fund") rather than directly in securities, has increased. In some of these arrangements, the top tier fund has invested a significant amount of its investments in an underlying fund. The degree of investment raises financial reporting concerns for these top tier funds. Top tier funds, like all other funds, report each investment separately on their financial statements. When a top tier fund has a significant amount of its portfolio invested in a single underlying fund or owns a controlling interest in an underlying fund, registrants should consider providing additional financial information to shareholders.

For example, if the top tier fund has a significant portion of its portfolio invested in an underlying fund, the top tier fund should consider accompanying its financial statements with those of the underlying fund. Additionally, if a top tier fund owns a controlling interest in an underlying fund, current accounting literature may require consolidating the financial statements of an underlying fund and the top tier fund.  
[footnotes omitted]

<sup>3</sup> SEC Form N-1A defines a master-feeder fund as "a two-tiered arrangement in which one or more Funds (each a "Feeder Fund") hold shares of a single Fund (the "Master Fund") in accordance with section 12(d)(1)(E)" of the Investment Company Act of 1940.

The FASB should also consider whether entities could satisfy this disclosure requirement by referring to other investment company financial statements that are publicly available. For example, if a registered investment company (RIC) invests in other RICs, the investors can obtain information about the investee RIC (including its investments) from its publicly available financial statements.

We also agree with the Board's decision to retain the practicability scope exception in ASC 946-210-50-10 that allows an investment company to disclose that it is unable to obtain the information required about investments held by its investee funds that exceed 5 percent of the its net assets when such information is not available. An investment company may only receive a summary portfolio from its investees, and the investee fund may not report certain investments that do not meet the significance criteria for that particular fund.

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

Yes. We believe that the proposed disclosure requirements are generally operable and auditable. Under current U.S. GAAP and SEC guidance, certain investment companies are already required to comply with the proposed amendments. However, like those described in the first two questions, there may be situations in which an entity and its auditors do not have access to the information required for the disclosures. Accordingly, we believe that it is important to retain the practicability scope exception in paragraph 946-210-50-10 and to include a similar scope exception for proposed disclosure requirements in paragraph 946-205-45-6, as discussed in our answer to question 1.

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

A transition period of at least one year from the issuance of the new standard should give entities sufficient time to implement the ASU's requirements. This would allow time for modifications to agreements that would limit an entity's ability to obtain the information it needed to comply with the disclosure requirements.

***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?*

No. The effective date for investment companies other than public business entities should be consistent with that for public business entities. For nonregistered investment companies, the most significant change would be the requirement to include the financial statements of the master fund with the feeder fund's financial statements. We do not believe that nonpublic entities should be afforded special consideration related to this amendment.

***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?*

Yes. The proposed disclosure requirements should be applied prospectively, and early adoption should be permitted. Investment companies do not usually present comparable financial information; therefore, requiring them to apply the proposed disclosures retrospectively would not be relevant or beneficial to users of the financial statements. In situations in which an investment company presents comparable financial information, the benefit of requiring retrospective application would not outweigh the cost. The disclosure amendments in the proposal enhance transparency of the investment company's current exposures to its investments, which would be most relevant to users of the most recent reporting period's financial statements.