



KPMG LLP
345 Park Avenue
New York, N.Y. 10154-0102

Telephone +1 212 758 9700
Fax +1 212 758 9819
Internet www.us.kpmg.com

February 17, 2015

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

**Re: Proposed Accounting Standards Update, “Financial Services – Investment Companies (Topic 946):
Disclosures about Investments in Other Investment Companies” (File Reference No. 2014-270)**

Dear Technical Director:

We appreciate the opportunity to respond to the proposed Accounting Standards Update, Financial Services – Investment Companies (Topic 946): Disclosures about Investments in Other Investment Companies. We support the Board’s efforts to provide consistency and transparency by aligning disclosure and presentation requirements for both investment companies regulated under the Investment Company Act of 1940 (1940 Act) and those not regulated under the 1940 Act relating to master-feeder arrangements and investments owned by an investee fund.

When an investment company (the investor fund) invests all or substantially all of its assets in another investment company (the investee fund), we believe the users of the financial statements of the investor fund should have visibility into the financial information of the investee fund, including the underlying investment holdings and obligations of the investee fund. Accordingly, an investment company that invests all or substantially all of its assets in another single investment company that is not consolidated should provide a complete set of financial statements of the investee fund along with its financial statements unless (a) the investee fund and the reporting entity (the investor fund) are not affiliates and (b) the reporting entity has made exhaustive but unsuccessful efforts to obtain permission to provide the unaffiliated investee fund’s financial statements. If the reporting entity (the investor fund) invests all or substantially all of its assets in another investment company but meets both of those conditions and therefore is not permitted to provide the investee fund’s financial statements along with its financial statements, we believe it would be acceptable for the reporting entity to disclose information about the unaffiliated investee fund’s financial position, changes in net assets, and investment holdings to provide investors in the reporting entity sufficient information about the types of investments, investment activity, obligations and financial results of the investee fund.



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We also believe it would be helpful to provide more precise definitions for the terms “fund-of-funds structures” and “master-feeder structures”. However, without regard to those definitions, we believe our recommendation above should apply to all situations where an investment company invests all or substantially all of its assets in another investment company.

Our responses to the questions in the proposal are set out in Appendix A of this letter. If you have any questions about our comments or wish to discuss any of the matters addressed herein, please contact Mark Bielstein or Kimber Bascom at (212) 909-5419 or (212) 909-5664, respectively.

Sincerely,

KPMG LLP

KPMG LLP



Appendix A – Responses to FASB’s Questions

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?

We support the Board’s objective to promote greater consistency and transparency into master-feeder arrangements regardless of whether or not the feeder funds in the arrangement are regulated under the Investment Company Act of 1940. As noted in our cover letter, when an investment company invests all or substantially all of its assets in another investment company, we believe the users of the financial statements of the investor fund should have visibility into the financial information of the investee fund, including the underlying investment holdings and obligations of the investee fund. Accordingly, we agree that feeder funds that are affiliates of the master fund generally should provide the financial statements of the master fund along with the financial statements of the feeder fund. However, if the feeder fund consolidates the master fund in the feeder fund financial statements, there is no need to provide the separate financial statements of the master fund because that information would already be incorporated in the feeder fund’s consolidated financial statements.

Under the FASB’s current authoritative literature, an investment company is permitted but not required to consolidate another investment company. Certain master-feeder arrangements may be designed where a single feeder fund is formed to invest in a master fund (commonly known in the industry as “mini-masters”). Some reporting entities may determine that it is appropriate to present a feeder fund and master fund in a mini-master arrangement on either a consolidated or combined basis thereby providing full transparency into the underlying investments and obligations of the master fund. A feeder fund that consolidates or is presented in combined financial statements with the master fund (e.g., in a “mini-master” arrangement) should not be required to provide the separate financial statements of the master fund along with the consolidated or combined financial statements of the feeder fund.

As noted in our cover letter, we believe it would be helpful to provide more precise definitions for the terms “fund-of-funds structures” and “master-feeder structures”. Without a specific definition of a master-feeder structure, we believe any requirements to present the investee fund’s financial statements should apply to all situations where an investment company invests all or substantially all of its assets in another investment company.

For example, certain investment entities (e.g., “access funds”) may invest substantially all of their net assets in one or more investee funds. Without a specific definition of master-feeder arrangements those funds may not be considered master-feeder arrangements. The guidance in 946-210-45-7 states “Fund management shall consider if an investment in a single underlying fund is so significant to the



fund-of-funds as to make the presentation of financial statements in a manner similar to a master-feeder fund more appropriate.” Although access funds may not be considered master-feeder arrangements, we believe it would be appropriate for an access fund that invests substantially all of its assets in a single investee fund to provide the financial statements of the investee fund along with the access fund’s financial statements.

While it is common for non-regulated feeder funds to provide the master fund’s financial statements along with the feeder fund’s financial statements when the entities are affiliates, access funds and certain other investment entities that invest substantially all of their assets in an unaffiliated investee fund may be unable to obtain permission to provide the financial statements of the unaffiliated investee fund. In those situations, in lieu of providing the investee fund’s financial statements along with the investor fund’s financial statements, we believe it would be acceptable for the investor fund to disclose information about the unaffiliated investee fund’s financial position, changes in net assets, and investment holdings to provide investors in the reporting entity sufficient information about the types of investments, investment activity, obligations and financial results of the investee fund.

For these reasons, we believe the requirement for an investment company to provide the financial statements of an investee fund along with its financial statements should not be based on whether the reporting entity is a feeder fund in a master-feeder arrangement. Instead, without a specific definition of master-feeder structures, the Board should require an investment company that invests substantially all of its assets in another investment company and does not consolidate the investee fund to provide the investee fund’s financial statements along with its financial statements unless (a) the investee fund and the reporting entity are not affiliates and (b) the reporting entity has made exhaustive but unsuccessful efforts to obtain permission to provide the unaffiliated investee fund’s financial statements. In that case, we believe it would be acceptable for the reporting entity to disclose the information about the investee fund described in our response to Question 3 in lieu of providing the financial statements of the investee fund.

We believe our recommended approach will enhance comparability by ensuring more consistent application of requirements to provide financial statements of an investee fund in situations where there is a need for additional transparency about an investee fund’s financial position and investment activities. At the same time our approach alleviates concerns about the lack of a clear definition of master-feeder arrangements as well as the inability of certain unaffiliated funds to obtain permission to provide the financial statements of an 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?

We agree with the proposed requirement for all investment companies, including those regulated under the 1940 Act, to 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 investee funds held by all investment companies. However, as discussed in our response to Question 1, certain types of funds (e.g., access funds) may invest in non-affiliated investment companies. In those situations, a non-affiliated investee fund may be unwilling to provide the investor fund the necessary information to comply with the proposed amendment, or it may not provide the necessary information prior to the issuance of the investor fund's financial statements. For this reason, we support the Board's decision to maintain the practicability exception in paragraph 946-210-50-10 if the information about the investee's portfolio is not available. To ensure consistency in application, the Board should clarify that only when a reporting investment company has made an exhaustive but unsuccessful effort to obtain the necessary information is the information considered not available.

If information about the investee's portfolio is available, we believe a reporting investment company should aggregate investments across underlying funds for purposes of determining whether investments held by investee funds exceed five percent of the reporting investment company's net assets. If the objective of the Board's proposal is to require disclosure of the reporting investment company's concentration of investments, aggregation of investments across underlying funds would be appropriate when investee portfolio information is available. In addition, we believe that the reporting investment company should only be required to consider investments that are required to be disclosed in each underlying fund's financial statements (i.e., investments that exceed 5 percent of net assets) when aggregating investments.

Question 3

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

We agree that the proposed requirement for feeder funds to provide the financial statements of their master fund generally would only affect non-regulated funds since feeder funds regulated under the 1940 Act already are required to provide their master fund's financial statements. In practice, we understand that most non-regulated feeder funds already present their affiliated master fund's financial statements along with their own financial statements. However, investment company reporting entities that are not affiliated with investment company investees may be prohibited from providing the financial statements of one or more of those investees after making exhaustive efforts to obtain permission to do so. As a result, we recommend that the Board provide specific guidance addressing situations where an investment company reporting entity that invests substantially all of its net assets in an unaffiliated investment company is prohibited from providing the financial statements of the investee. In those circumstances, in lieu of providing the investee fund's financial statements along with the investor fund's financial statements, we believe it would be acceptable for the investor fund to disclose information about the unaffiliated investee fund's financial position, changes in net

assets, and investment holdings to provide investors in the reporting entity sufficient information about the types of investments, investment activity, obligations and financial results of the investee investment company. For example, the following disclosures about the unaffiliated investee investment company should be considered:

- (a) Summarized financial information about the investee fund's assets, liabilities, and changes in net assets;
- (b) Fair value disclosures required by ASC Topic 820, Fair Value Measurement, including disclosures necessary to provide transparency into the underlying investment company's investments, fair value measurement methods and assumptions, valuation techniques, etc.; and
- (c) Pro-rata condensed schedule of investments.

Depending on the manner in which the Board requires an investment company to provide the financial statements of an investment company investee, there could be significant potential audit issues including principal auditor considerations, audit report issues, and auditor independence considerations (e.g., if the investee fund's financial statements are a required part of the notes to the financial statements of the reporting investment company). Therefore we recommend that the Board discuss the relevant audit considerations of the requirements with the AICPA's Auditing Standards Board and Financial Reporting Executive Committee prior to finalizing the proposed standard.

Question 4

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

We believe unaffiliated investment companies may encounter challenges that would extend the time needed to implement the proposed amendments. Affiliated investment companies would likely be able to implement the proposed amendments in a much more limited amount of time.

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?

If the Board agrees with our recommendation to identify the specific circumstances in which an investment company would be required to provide the financial statements of an investee fund, and to define the term "not available" to mean that the reporting entity has made exhaustive but unsuccessful efforts to obtain the necessary information to comply with the standard, we believe the effective date should be the same for both public business entities and 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?

We agree that the proposed amendments should be applied on a prospective basis and that early adoption should be permitted. In practice, many non-regulated feeder funds already provide their affiliated master fund's financial statements. As a result, the proposed requirement for a feeder fund to provide its master fund's financial statements may not significantly affect current practice for many affiliated master-feeder arrangements. However, the impact may be more significant in some arrangements where the master and feeder funds are not affiliated. In those cases, the cost to apply the new requirements retrospectively may exceed the benefits.