



February 17, 2015

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

RE: File Reference No. 2014-270

Dear Ms. Cospers:

PricewaterhouseCoopers LLP appreciates the opportunity to comment on the Board's recent proposal, *Disclosures about investments in other investment companies*.

We generally support the Board's decision to improve the accounting for *Financial Services – Investment Companies (Topic 946)* by providing consistent presentation and disclosure requirements for both regulated and non-regulated investment companies that invest in other investment companies. Requiring all feeder fund financial statements to provide master fund financial statements and all investment companies to disclose investments indirectly owned through another investment company that exceed 5% of the reporting investment company's net assets would increase transparency for investors. We note that many investment companies already voluntarily follow both practices.

However, due to disclosure restrictions that some funds may pose on their investors and the potential difficulty of collecting some of the required information in a reasonable period of time, we are concerned that significant operational and audit costs will be incurred in situations where the investment companies are unaffiliated. In addition, the auditors of unaffiliated feeder and master funds could also be different, which would likely result in an increase in audit procedures, and in turn, the cost incurred by a feeder fund. Therefore, we believe that the scope of the requirements should be narrowed to apply to only those master-feeder arrangements where the funds are affiliated. This could be accomplished by providing a definition of a "master-feeder" arrangement as follows: a master-feeder arrangement exists when an investment company, or multiple investment companies (the "feeder funds"), invest substantially all of their assets in another investment company (the "master fund"), *and* both the feeder and master funds are affiliated. For those arrangements that do not meet this definition, we note that GAAP already requires additional disclosures about the fair value of an investment in another fund in ASC 820-10-50-6A. We believe those disclosures, and the incremental disclosures we propose in our response to Question 3, would be useful to investors and a reasonable alternative for unaffiliated entities given the potential costs and limitations noted above.

If the Board intends the definition of a master-feeder arrangement to include unaffiliated master funds, we recommend that the Board create a practicability exemption for feeder funds that are unable to provide an unaffiliated master fund's financial statements. We believe providing an exemption, coupled with the proposed incremental disclosures described in our response to Question 3, is preferable to creating a



circumstance where a fund is incapable of complying with the new reporting requirements due to information limitations beyond their control.

Detailed responses to the Board's questions are included in the Appendix to this letter.

* * * * *

If you have any questions regarding our comments, please contact Patrick Durbin at (973) 236-5152 or Christopher May at (973) 236-5729.

Very truly yours,

A handwritten signature in cursive script that reads "PricewaterhouseCoopers LLP".

PricewaterhouseCoopers LLP



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?*

Yes. We generally agree that feeder fund financial statements should provide the corresponding master fund financial statements for both regulated and non-regulated investment companies. A master fund's financial statements are an important part of a feeder fund's financial statements in arrangements where they have been and will continue to be marketed together and should be read in conjunction with a feeder fund's financial statements. Providing a master fund's financial statements with a feeder fund's financial statements provides transparency into the activities of a master fund, which are the underlying activities of the feeder fund, and thus gives investors important decision-useful information.

However, we believe that the scope of the requirements should be narrowed by providing a definition of a master-feeder arrangement that excludes non-affiliated relationships. We believe that a master-feeder arrangement exists when an investment company, or multiple investment companies (the "feeder funds"), invest substantially all of their assets in another investment company (the "master fund"), *and* both the feeder and master funds are affiliated.

If the Board does not narrow the definition of a master-feeder arrangement, we believe the Board should allow a practicability exemption in order to address situations where it is not feasible to provide the financial statements of a master fund, similar to the existing practicability exemption in the "5 percent lookthrough" disclosure. While it is current practice for most feeder fund's financial statements to include the financial statements of the master fund, there are situations where it is not possible to do so. For example, if a feeder fund is unaffiliated with a master fund, the feeder fund may not be permitted to include the master fund's financial statements due to legal and confidentiality agreements. Additionally, as discussed further in Question 3, these situations frequently have different auditors for the feeder and master funds, which is likely to cause significant operational issues for both management and the auditor of the feeder fund depending on the meaning of "provided." Given these issues, we believe it is important to limit the scope of these master-feeder arrangement disclosures to when the feeder and master funds are affiliated.

Finally, we believe the Board should clarify what is meant by "shall present a complete set of the master fund's financial statements with its own financial statements." It is unclear if the Board intends the master fund financial statements to be part of feeder fund basic financial statements and related notes for them to be in accordance with GAAP, or if the Board intends that the two standalone financial statements be provided to users in the same document. Our view is the latter, which is consistent with current industry practice. If the Board's intent is that the master fund financial statements be part of the feeder fund financial statements, we foresee operational challenges related to the form of the audit report, the ability to audit the feeder fund, and circumstances where the feeder and the master fund have different year ends.

Please refer to our response to Question 3 for further discussion regarding the operational and auditor reporting concerns.



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 agree that "5 percent lookthrough" disclosures should be required for both regulated and non-regulated investment companies. This requirement would allow for transparency into the investee funds when any significant investment concentrations exist. This requirement would result in greater consistency among all investment companies.

There are likely to be situations where investment companies may not be able to make the required disclosure. For example, it becomes more difficult to obtain the necessary information when the investment companies are unaffiliated. Additionally, some investment companies may be unable to obtain the necessary information on a timely basis from the investee fund. In these situations, we support the Board's decision to maintain the practicability exemption.

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

We believe the proposed disclosure requirements are more easily operable and auditable when investment companies invest in affiliated investment companies. Operational and audit issues arise when the investment companies are unaffiliated. The impact of these scenarios is discussed below.

Requirement for feeder fund financial statements to provide master fund financial statements
As discussed in our response to Question 1 above, there may be situations where it is not feasible for a feeder fund to provide a master fund's financial statements. When a feeder fund and a master fund are unaffiliated, it may not be possible to overcome certain legal and confidentiality agreements between the management of the investment companies to obtain sufficient or timely audit evidence from an unaffiliated master fund and its auditor. Even where the audit firm is the same, potential legal difficulties could arise in meeting the requirement to provide master financial statements with feeder financial statements if the funds are unaffiliated.

In Question 1 above, we also discussed our concern as to what is meant by "shall present a complete set of the master fund's financial statements with its own financial statements." If this language is not clarified to be consistent with current industry practice, it would likely result in a significant increase in auditing procedures than what is required by a regulated feeder fund today.

If the Board does not limit the scope of master-feeder arrangement disclosures to affiliated entities, we believe the Board should create a practicability exemption from including a master fund's financial statements when it is not feasible. If the feeder fund invokes the practicability exemption, we believe its financial statements should disclose why the practicability exemption was applied, as well as include disclosures about the master fund. The disclosures about the master fund could include: (1) the disclosures required by ASC 820-10-50-6A, which have the objective of providing additional information about the nature and risks of the master fund, (2) the 5 percent lookthrough disclosure, (3) performance and management fee terms of the master fund, and (4) a summary of significant accounting policies.

Alternatively, the practicability exemption could allow for the feeder fund to use "fund-of-funds" presentation on the face of the financial statements. This presentation would show the net earnings



that the feeder fund received from the master fund, as opposed to an allocation of income and expenses from the master fund. If electing this approach, each of the disclosures proposed above should be included in the feeder fund's financial statements. We understand that this or similar presentations are commonly used by access funds, which are investment companies that provide investors the ability to invest in unaffiliated investment companies that the investors would normally not have access to.

Requirement for investment companies to disclose information about investments indirectly owned through another investment company that exceed 5 percent of the reporting investment company's net assets

We believe this disclosure requirement should be straightforward to audit and enact for investment companies that only invest in affiliated investment companies.

For regulated investment companies that invest in unaffiliated regulated investment companies, there may be issues regarding how timely the necessary information can be obtained in order to prepare the proposed disclosures. When these situations arise, investment companies could continue to rely on the practicability exemption.

Timing and other issues may arise for regulated investment companies that invest in unaffiliated non-regulated investment companies. The other issues include: (1) different year-end dates for the investment companies and (2) legal and confidentiality agreements that may not allow for the investments to be disclosed. When these situations arise, investment companies could continue to rely on the practicability exemption.

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

Implementation of both disclosure requirements should be relatively straightforward for an investment company that invests in an affiliated investment company. However, when an investment company invests in an unaffiliated investment company, the implementation time is likely to be more significant, as the access to the investee fund information may not be available in a timely manner, or at all.

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?*

We believe the Board should consider our responses to the questions above when determining the effective date. We support delaying the implementation date for non-regulated investment companies, as the information for these entities could potentially be more difficult to collect.

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. We agree the disclosures should be applied prospectively, and that early adoption should be permitted.