



Ernst & Young LLP
5 Times Square
New York, NY 10036

Tel: +1 212 773 3000
ey.com

Ms. Susan M. Cospers
Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5166
Norwalk, CT 06856-5116

17 February 2015

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

Dear Ms. Cospers,

We appreciate the opportunity to comment on the Proposed Accounting Standards Update (ASU), *Financial Services – Investment Companies (Topic 946): Disclosures about Investments in Other Investment Companies* (the proposed ASU) from the Financial Accounting Standards Board (FASB or Board).

We support the Board's efforts to increase transparency about an investment company's investments in other investment companies by improving the existing disclosure requirements. The proposed ASU would enhance investment companies' financial reporting and would align certain presentation and disclosure requirements for investment companies regulated under the Investment Company Act of 1940 (the Act) with those of investment companies not regulated under the Act. However, as discussed in the Appendix, we believe that the FASB can do more to address concerns about the operability and auditability of the proposed ASU.

Our responses to the Board's questions for respondents are included in the Appendix.

* * * * *

We would be pleased to discuss our comments with the FASB or its staff at your convenience.

Very truly yours,

Responses to the questions for respondents raised in the proposed Accounting Standards Update, *Financial Services – Investment Companies (Topic 946): Disclosures about Investments in Other Investment Companies* (proposed ASU)

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 the Act) should provide the financial statements of their master fund along with their own financial statements? Why or why not?

Yes, we agree that requiring all feeder funds in a master-feeder arrangement to provide the financial statements of their master fund along with their own financial statements would improve financial reporting. Because the Securities and Exchange Commission (SEC) guidance requires a feeder fund that is regulated by the Investment Company Act of 1940 (the Act) to provide the financial statements of its master fund, requiring the same presentation for a feeder fund that is not regulated by the Act would result in more consistent financial reporting by feeder funds and would increase transparency into investee funds.

However, we suggest that the Board consider clarifying how the feeder fund would provide the master fund's financial statements (e.g., included as supplementary information similar to the requirements of Accounting Standard Codification (ASC) 932-235-50-2 with respect to oil and gas producing activities). The auditor's responsibility for the master's financial statements would vary depending on how they are provided.

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 the 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 all investment companies should be required to disclose information about investments held by investee funds that exceed 5% of the reporting investment company's net assets. In our view, investors would benefit from having consistent financial information, regardless of whether they invest in funds regulated by the Act. In addition, we see no reason why a fund regulated by the Act should disclose less information than a fund not regulated by the Act.

However, when legal or regulatory restrictions prevent an investee fund from providing nonpublic information to only certain shareholders (e.g., the investment company), we believe that the investment company should be able to apply a practicability exception.

ASC 946-210-50-9 requires an investment company to disclose information about an investment exceeding the 5% threshold only when that investment is owned by an individual investee fund. However, we observe that the approach used to calculate the investment company's exposure to the underlying investment may vary. Some funds base their calculations on a literal interpretation of the guidance (that is, when an investment held by an individual fund exceeds the 5% threshold), while other funds use an aggregation principle (that is, the investment company sums the amounts of the investments owned by all of its investee funds together and determines whether the aggregate amount exceeds 5% of its net assets). The Board should consider clarifying ASC 946-210-50-9 to improve consistency in financial reporting.

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

We note the Board's conclusion in paragraph BC7 of the proposed ASU to not define a master-feeder arrangement, but there may be diversity in practice regarding what constitutes a master-feeder arrangement. For example, a nonregulated fund that invests substantially all of its assets in another fund (e.g., a fund of one), but does not hold itself out to be a feeder fund in a master-feeder arrangement would not apply the provisions of ASC 946-225-45 paragraphs 11 and 12 and ASC 946-205-50-28, and as a result that fund would not consider itself to be in the scope of this proposed ASU.

Many feeder funds that are not regulated by the Act already provide the financial statements of their master fund along with their own financial statements. The proposed ASU would improve US GAAP by aligning it with existing practice. However, in some circumstances, it may not be possible for a nonregulated feeder fund to provide its master fund's financial statements. For example, when a nonregulated feeder fund and its master fund are not affiliated, the feeder fund may be unable to provide its master fund's financial statements to its investors due to legal or confidentiality restrictions. As a result, we believe that the Board should provide a practicability exception when the master fund's financial statements are not available. This exception would apply until the feeder fund is able to provide the master's financial statements (similar to the requirements of ASC 810-10-15-17).

Pursuant to SEC's Annual Industry Comment Letter ¹, when a regulated feeder fund and its master fund have different financial reporting periods, the feeder fund is allowed to provide with its financial statements (1) the master fund's latest audited financial statements and (2) the master fund's unaudited balance sheet and the master fund's schedule of investments as of the date of the feeder fund's financial statements. The Board should consider providing a similar alternative for nonregulated feeder funds.

Finally, when a feeder fund consolidates a master fund, the feeder fund should not be required to provide the master fund's financial statements. This point should be clarified in the final ASU.

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 do not believe the time needed to adopt the amendments will differ between public and non-public business entities. Therefore, we do not believe there is a need to delay the effective date for investment companies other than public entities, as long as the effective date provides sufficient time to implement the proposed ASU.

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 that the proposed disclosure requirements should be applied prospectively and that early adoption should be permitted.

¹ SEC's Annual Industry Comment Letter from the Division of Investment Management dated 30 December 1998.