

MEMO# 24162

March 2, 2010

FASB Defers Adviser Consolidation of Funds Advised

[24162]

March 2, 2010

TO: ACCOUNTING/TREASURERS MEMBERS No. 11-10
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 7-10 RE: FASB DEFERS ADVISER
CONSOLIDATION OF FUNDS ADVISED

The Financial Accounting Standards Board recently released an accounting standards update (ASU) that defers application of FAS 167 for certain investment funds. [\[1\]](#) FAS 167, as originally adopted, may require an investment adviser to consolidate funds advised for financial reporting purposes under certain circumstances. The ASU is effective as of the beginning of a reporting entity's first annual period that begins after November 15, 2009, and for interim periods within that first annual reporting period.

The ASU defers application of FAS 167 for an adviser's interest in an entity (1) that has all the attributes of an investment company [\[2\]](#) or (2) for which it is industry practice to apply measurement principles for financial reporting purposes that are consistent with those followed by investment companies. The deferral, however, does not apply in situations in which the adviser has an explicit or implicit obligation to cover losses of a fund that could potentially be significant to the fund.

The ASU also defers application of FAS 167 to an adviser's interest in a money market fund that complies with Rule 2a-7, or operates in accordance with requirements that are similar to those in Rule 2a-7. The separate deferral for money market funds is not conditioned on the absence of any explicit or implicit obligation of the adviser to cover losses or provide credit support to the money market fund.

Entities that may meet the conditions of the deferral include mutual funds, closed-end funds, hedge funds, mortgage real estate investment funds, private equity funds, and venture capital funds. The deferral does not apply to securitization entities, asset-backed financing entities, or entities that were formerly considered qualifying special purpose entities. The ASU indicates that entities with multiple levels of subordinated investors, such as CDOs or CLOs, for which the primary purpose of the capital structure of the entity is to provide credit enhancement to senior interest holders, do not qualify for the deferral.

The ASU does not defer the disclosure requirements in the FAS 167 amendments to the consolidations guidance in the accounting standards codification.

Next Steps

The FASB and the IASB recently affirmed their decision to jointly develop guidance for consolidation of all entities, including entities currently considered variable interest entities. The IASB issued an exposure draft on consolidations in December, 2008. [3] The FASB and the IASB will continue to deliberate issues on consolidation guidance for all entities at monthly joint meetings with the goal that the FASB would publish an Exposure Draft that is consistent with the consolidation standard issued by the IASB in the second quarter of 2010.

Gregory M. Smith
Director - Operations/Compliance & Fund Accounting

endnotes

[1] ASU No. 2010-10, Amendments for Certain Investment Funds (February 2010) is [available](#) on the FASB website.

[2] Accounting standards codification paragraph 946-10-15-2 describes the attributes of an investment company as: a) investment activity; b) unit ownership; c) pooling of funds; and d) the fund is the primary reporting entity.

[3] See [Memorandum](#) to Accounting/Treasurers Members No. 14-09, dated March 23, 2009 [23343].