

MEMO# 25806

January 19, 2012

ICI Draft Letter on FASB Investment Company Proposal Comments Requested by February 1

[25806]

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TO: ACCOUNTING/TREASURERS COMMITTEE No. 1-12 RE: ICI DRAFT LETTER ON FASB INVESTMENT COMPANY PROPOSAL; COMMENTS REQUESTED BY FEBRUARY1

As you know, the FASB recently issued proposed amendments intended to clarify the criteria for qualification as an investment company under Topic 946. [\[1\]](#) Among other things, the amendments would require an investment company to consolidate controlling financial interests in investment companies and investment property entities. Comments on the proposal are due to the FASB no later than February 15, 2012. The Institute's draft comment letter on the FASB proposal is attached and briefly summarized below.

The draft comment letter opposes mandatory consolidation of controlling financial interests in investment companies and investment property entities. The draft letter supports efforts to ensure that investors in a fund-of-funds have transparency into the underlying investments held by investee funds in lieu of consolidation. In particular, where the investee fund constitutes a significant portion of the fund-of-fund's assets, the draft letter recommends that the fund-of-funds provide disclosures about the investee fund. The draft letter recommends a principles-based model for determining when a fund-of-funds should provide disclosure regarding an investee fund. Where the investee fund is non-public, the fund-of-funds could satisfy the disclosure obligation by attaching the investee fund's financial statements or by disclosing specific information about the investee fund (e.g., returns, fees, top holdings, etc.). In instances where the investee fund is wholly-owned, the draft letter indicates consolidation may be the most effective means of providing information about the investee fund and that consolidation should not be precluded. Where the investee fund is public, the fund-of-funds could satisfy the disclosure obligation by referencing a URL or website where the investee's financial statements may be accessed.

The draft letter strongly supports the proposal's conclusion that any entity regulated under the Investment Company Act of 1940 is an investment company for purposes of applying Topic 946. The draft letter indicates that such conclusion is necessary to ensure such companies are not required to present their results and financial position under two

separate bases of accounting. The draft letter supports requiring an entity to satisfy each of the six criteria named in the proposal, and recommends certain modifications to the express business purpose and fair value management criteria.

The draft letter seeks clarification of the proposal's requirement to disclose any "financial support" provided to investees during the reporting period. The draft letter argues against the proposal's requirement to disclose any restrictions on investees' ability to transfer funds to the investment company in the form of cash dividends or interest.

Please provide any comments on the draft letter to me (smith@ici.org), preferably in writing, by Wednesday, February 1.

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

[Attachment](#)

endnotes

[1] See ICI [Memorandum](#) to Accounting/Treasurers Members No. 27-11 (November 2, 2011) [25609].

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