

MEMO# 24053

December 29, 2009

Draft Comment Letter on FASB Proposal to Defer Adviser Consolidation of Funds Advised

[24053]

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TO: ACCOUNTING/TREASURERS COMMITTEE No. 24-09
MONEY MARKET FUNDS ADVISORY COMMITTEE No. 61-09 RE: DRAFT COMMENT LETTER
ON FASB PROPOSAL TO DEFER ADVISER CONSOLIDATION OF FUNDS ADVISED

As you know, the FASB recently released an exposure draft of a proposed accounting standards update (ASU) that would defer the effective date of FAS 167 for certain investment funds. [\[1\]](#) FAS 167 may require an investment adviser to consolidate funds advised for financial reporting purposes under certain circumstances. The ASU would be effective for periods beginning after November 15, 2009 and for interim periods within that first annual reporting period.

The ASU would defer application of FAS 167 to an investment adviser's interest in a fund that has the attributes of an investment company as specified in the accounting standards codification or for which it is industry practice to apply financial reporting principles applicable to investment companies. The ASU would not apply in situations in which the adviser or its related parties has an explicit or implicit obligation to fund actual losses of the fund that could potentially be significant to the fund. Examples of funds that may meet the conditions for deferral include mutual funds, hedge funds, private equity funds, mortgage real estate investment funds, and venture capital funds.

The ASU also provides a deferral of FAS 167 to an investment adviser's interest in a fund

that is required to comply with, or operates in accordance with, requirements that are similar to those included in Rule 2a-7 of the Investment Company Act of 1940. The separate deferral for money market funds is not conditioned on the absence of any explicit or implicit obligation of the adviser to provide credit support to the money market fund.

The Institute strongly supports the proposed deferral of FAS 167 in the attached draft comment letter. The draft letter indicates that consolidation is unwarranted and would diminish the usefulness of the investment adviser's financial reporting.

The draft comment letter notes that the IASB is currently developing consolidation guidance and urges the FASB to work with the IASB to converge their standards. The draft letter recommends that the FASB consider the principal and agent model under development by the IASB. The draft letter also expresses the view that removal rights need not be held by one party in order to be deemed substantive.

The draft letter notes that some have concluded that a money market fund manager's fees represent a variable interest in the money market fund as a result of implicit or explicit guarantees to fund credit losses of the fund in situations where the net asset value declines to a value less than \$1.00. Further, that any historical funding of losses by the investment adviser creates an implicit guarantee, even in situations where the investment adviser has no statutory or contractual obligation to provide future funding. Under this view, the implicit guarantee may cause the investment adviser to consolidate the money market funds it manages.

The draft letter indicates that an investment adviser to a money market fund provides no explicit or implicit guarantee of the money market fund's share price. The letter then describes money market funds obligation to provide prospectus disclosure describing the risk of loss. The draft letter then describes recently proposed rule amendments designed to make money market funds more resilient to certain short-term market risks, and to provide greater protections for investors in a money market fund that is unable to maintain a stable net asset value.

Comments on the proposed ASU are due to the FASB by January 6. If you have comments on the Institute's draft letter, please contact the undersigned by January 5 at 202/326-5851 or smith@ici.org.

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

[Attachment](#)

endnotes

[1] See [Memorandum](#) to Accounting/Treasurers Members No. 49-09, Money Market Funds Advisory Committee No. 50-09, dated December 7, 2009 [23998].

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