

July 7, 2009

Mr. Russell Golden  
Technical Director  
Financial Accounting Standards Board  
401 Merritt 7  
Norwalk, CT 06856-5116

File Reference: Proposed FSP FAS 157-g

Dear Mr. Golden:

The Accounting Standards Executive Committee (AcSEC) of the American Institute of Certified Public Accountants is pleased to offer comments on proposed FASB Staff Position (FSP) FAS 157-g, “Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide, *Investment Companies*.” AcSEC supports providing the practical expedient that would permit a reporting entity to estimate the fair value of an investment within the scope of this FSP using net asset value per share (NAV) without further adjustment. Given the subjectivity and effort that would be required to determine the fair value of alternative investments in accordance with FASB Statement No. 157, *Fair Value Measurements*, we believe this approach is more operational and will result in providing users of financial statements with more relevant information.

The remainder of this letter discusses AcSEC’s specific comments.

## **Paragraph 12 - Scope**

***Applicability to investments in entities that do not follow U.S. GAAP.*** According to paragraph 12 of the proposed FSP, this “FSP applies to investments in entities that meet the definition of an *investment company* in paragraph 1.06 of the Investment Companies Guide for which the entity’s net asset value per share (or its equivalent, for example, partners’ capital per share for an investment in a partnership) has been calculated in accordance with that Guide.” This statement seems to imply that investments in entities that do not follow U.S. GAAP (that is, they do not apply the Guide) would be excluded from the scope of this FSP. For example, many offshore funds, which are specifically cited in paragraph 4 of the proposed FSP as one type of alternative investment, do not follow US GAAP and, therefore, under the current proposal would be

excluded from the scope of this FSP. We believe that investments in entities that meet the definition of an investment company in the Guide and determine their NAV under recognized accounting principles substantially consistent with the Guide (that is, based on fair value) should be included in the scope of this FSP. Therefore, we recommend that “in accordance” be replaced with “consistent” in the phrase “has been calculated *in accordance* with that Guide.” This change would make this FSP applicable to investments in entities that follow IFRS, country specific GAAP, or other generally recognized accounting principles requiring investments to be fair valued.

We also recommend paragraph 15 be conformed for any changes made to paragraph 12.

***Applicability to investments within the scope of FSP AAG INV-1 and SOP 94-4-1.*** The AICPA Investment Companies Guide requires all investments held by an investment company to be reported at fair value. However, FSP AAG INV-1 and SOP 94-4-1, *Reporting of Fully Benefit-Responsive Investment Contracts Held by Certain Investment Companies Subject to the AICPA Investment Company Guide and Defined-Contribution Health and Welfare and Pension Plans*, requires that an investment company that was established under a trust whereby the trust itself is adopted as part of one or more qualified employer-sponsored defined-contribution plans reflect investments often referred to as a stable value fund (as defined in that FSP) at contract value as opposed to fair value. Contract value is considered to be the relevant measurement attribute for such funds because that is the amount participants in the fund would receive if they were to initiate permitted transactions (for example, benefit-responsive withdrawals). We recommend clarifying that FSP FAS 157-g is not intended to modify the accounting guidance provided to employee benefit plans in FSP AAG INV-1 and SOP 94-4-1 for investments in stable value funds which meet that FSP's requirements for contract value accounting.

***Applicability to investments with readily determinable fair value.*** According to paragraph 12 of the proposed FSP, “this FSP does not apply if the fair value of the investment is readily determinable as defined in paragraph 3 of FASB Statement No. 115, *Accounting for Certain Investments in Debt and Equity Securities*. For example, this FSP does not apply to an investment in a registered, closed-end investment company whose fair value can be estimated using sales prices that are currently available on a securities exchange registered with the Securities and Exchange Commission or in an over-the-counter market, provided that those prices or quotations for the over-the-counter market are publicly reported by the National Association of Securities Dealers Automated Quotation System or by Pink Sheets LLC.”

We believe that the intent of this scope limitation is to exclude investments which are traded on recognized exchanges and over-the-counter markets (subsequently referred to as “recognized exchange”). However, we are concerned that paragraph 12 may be misinterpreted to mean that investments that are not actively traded on a recognized exchange (and thus have prices which are not “readily determinable”) may be inadvertently scoped into this FSP. For example, a

closed-end fund which is inactively traded at a discount to NAV could apply this FSP as drafted and potentially record a significant write-up in its value. We recommend providing guidance to avoid such inadvertent application of this FSP. For example, the FSP could note that one should look to the offering document to clarify any ambiguity as to whether an investment interest is supposed to be traded on a recognized exchange and, therefore, excluded from the scope of this FSP.

**Measurement Date.** The proposed FSP emphasizes the reporting entity's measurement date. It provides that NAV can be used as a practical expedient "if the net asset value per share of the investment is determined in accordance with the Investment Companies Guide as of the reporting entity's measurement date." We believe that without further clarification this provision may lead to the unintended consequence of excluding from the scope of this FSP alternative investments for which the last reported NAV is not precisely "as of the reporting entity's measurement date." For example, an entity which reports on the basis of a 52/53 week year may have a period-end of January 3, but the NAV of a fund in which it invests may be determined as of December 31; an entity may have the same year-end as an investee fund, but has a regulatory deadline for issuance of its financial statements, which is before the release of the fund's NAV for the same period-end; or an investee fund may regularly update its NAV each calendar quarter but the reporting entity has a period-end that does not fall on a calendar quarter-end. Therefore, we recommend that the proposed FSP be revised to indicate that if the latest NAV measurement date does not coincide with the investor entity's reporting date, the investor may make appropriate estimates to adjust the last reported NAV to bring it in phase with the entity's reporting date.

### **Paragraph 15 - Measurement**

Paragraph 9 of the proposed FSP states that "net asset value per share is the most relevant estimate of fair value available" and paragraph 10 provides that "a reporting entity should be permitted to estimate the fair value of an investment within the scope of this FSP using net asset value per share." However, paragraph 15 begins with the phrase "In circumstances in which net asset value per share of an investment is not determinative of fair value." We believe that the opening phrase of paragraph 15 is not needed and contradicts the statements in paragraphs 9 and 10. Therefore, we recommend deleting this phrase and beginning paragraph 15 with "A reporting entity is permitted ..."

### **Paragraph 16 - Disclosures**

We are concerned that disclosure requirements outlined in paragraph 16 of the proposed FSP will lead to confusion and wide diversity in practice. In particular, the phrasing of several of the disclosure requirements (particularly the use of the singular "investment" in the beginning of paragraph 16, and in 16b through 16f) appears to imply that disclosures should be provided for

each investment subject to the proposed FSP's scope. Because some entities own dozens, and potentially hundreds, of individual investments, disclosures on the basis of individual investments would be too overwhelming to be useful. In addition, such disclosure for each investment would be inconsistent with the portfolio investment disclosure requirements for alternative investments provided in the Investment Companies Guide, which requires that only investments with an issuer concentration greater than 5% of net assets be presented. Further, many entities invest in alternative investments as only one element of an overall portfolio strategy (often not exceeding 5% to 10% of the overall portfolio) and we are concerned that the extent of the resulting disclosures may exceed their overall importance to the entity's financial position and results of operations. Accordingly, we believe that paragraph 16 should permit summarized disclosures when numerous investment interests within the scope of the proposed FSP are held.

We also recommend including an example in the final FSP to demonstrate desired disclosures. We believe that examples provided in FSP FAS 157-4, *Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly*, and FSP FAS 132(R)-1, *Employers' Disclosures about Postretirement Benefit Plan Assets*, can be used as a starting point for such an example and supplemented with relevant disclosure requirements from this FSP (items b through f in paragraph 16.) We also recommend being more explicit regarding what is meant by "major category" and cross referencing to FSP FAS 157-4 and FSP FAS 132(R)-1 which provide detailed guidance on how to identify "major category."

### **Paragraph 17 - Effective Date**

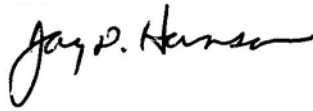
While we believe that implementation of the measurement provisions of this FSP will not be problematic for most entities, implementation of the disclosure requirements may be operationally challenging for a number of entities, particularly if the final FSP is issued in late July or early August. In particular, a calendar year-end registrant filing its second quarter Form 10-Q may not have the requisite time to implement the disclosure requirements prior to the filing of the 10-Q in early August. In addition, employee benefit plans with calendar year-ends are required to file their Forms 5500, along with audited financial statements, by July 31.

Therefore, we recommend that the FASB consider those challenges in determining the effective date of the final FSP and/or the timing of its issuance.

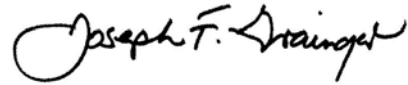
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We appreciate the opportunity to comment on the proposed FSP. We are available to discuss our comments with Board members or staff at their convenience.

Sincerely,

A handwritten signature in black ink that reads "Jay D. Hanson". The signature is written in a cursive style.

Jay D. Hanson  
Chairman  
Accounting Standards Executive Committee

A handwritten signature in black ink that reads "Joseph F. Grainger". The signature is written in a cursive style.

Joseph F. Grainger  
Chairman  
Alternative Investments Task Force