INVESTMENT
COMPANY
INSTITUTE

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July 5, 2016

Technical Director
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

Re: *Technical Corrections and Improvements*
File Reference No. 2016-220

Dear Ms. Cosper:

The Investment Company Institute[1] appreciates the opportunity to comment on the proposed accounting standards update, *Technical Corrections and Improvements*. The proposal would make technical changes and improvements to various topics in the accounting standards codification, including Topic 946, *Financial Services—Investment Companies* and Topic 820, *Fair Value Measurement*.

Paragraph 119

ASC 946-210-50-4 through 946-210-50-10 currently require investment companies to disclose investments held by investee funds where the investor fund's proportional share of the investment exceeds five percent of the investor fund's net assets. The investor fund is required to disclose such "indirect investments" in either its schedule of investments (as components of the investment in the investee fund) or in a note to that schedule. The proposal explains that before the accounting standards codification, the guidance for investments in other investment companies applied only to nonregulated investment companies. Once codified, however, the wording was changed to apply to all investment

[1] The Investment Company Institute (ICI) is a leading global association of regulated funds, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI's U.S. fund members manage total assets of $17.9 trillion and serve more than 90 million U.S. shareholders.

companies. The proposal would clarify that the requirement to disclose indirect investments held by investee funds that exceed five percent of the investor fund's net assets does not apply to regulated investment companies. Specifically, the proposal would amend ASC 946-210-50-7 to indicate that the disclosure requirement applies to investment companies that are exempt from registration under the Investment Company Act of 1940 ("1940 Act").

The Institute strongly supports the proposed clarification to ASC 946-210-50-7. In December 2014 the Board issued a proposed accounting standards update that would have required investment companies regulated under the 1940 Act to disclose indirect investments held by investee funds that exceed five percent of the investor fund's net assets.[2] As we explained in our comment letter on the 2014 proposal,[3] there is little benefit associated with investor fund disclosure of investee fund holdings where the investee fund is a public fund because the investee fund must disclose all of its holdings on a quarterly basis. Such holdings information is readily available on the SEC's website and typically can also be accessed on the fund sponsor's website. Shareholders in the investor fund who are interested in the investee fund's portfolio holdings can easily access a plethora of information about the investee fund including portfolio holdings, investment objectives and policies, fees and expenses, total returns, portfolio turnover, and more.

Paragraph 71

We generally agree with the proposed changes that clarify the relationship between valuation approaches and valuation techniques. We are concerned, however, that the change to the disclosure requirement at 820-10-50-2 may result in a change in practice.

We understand valuation approaches to be broad concepts such as the market approach, the income approach and the cost approach. Further, we understand valuation techniques to be more specific application of a valuation approach as described at 820-10-55-3A through 55-3G. For example, valuation techniques consistent with the market approach may include application of an earnings multiple or cash flow multiple.

Currently 820-10-50-2-bbb requires disclosure of a change in a valuation technique and cites, as an example, changing from a market approach to an income approach. The proposed change to this paragraph would require disclosure of a change in either or both a valuation approach and a valuation technique. We believe changes in valuation techniques may occur more frequently than changes in valuation approaches and as a result the proposed change may increase the level of disclosure for some companies. We recommend that the disclosure requirement, which also includes the reasons for the changes, be based on a change in valuation approach, and not a change in valuation technique.

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[2] *See* FASB Exposure Draft, *Disclosures about Investments in Other Investment Companies,* File Reference No. 2014-270 (December 4, 2014).

[3] *See* letter from Gregory M. Smith, Investment Company Institute to Technical Director, FASB regarding *Disclosures about Investments in Other Investment Companies*, File Reference No. 2014-270, dated February 17, 2015.

We appreciate the opportunity to comment on the proposal and would be pleased to provide any additional information you may require. If you have any questions on our comments or recommendations please contact the undersigned at 202/326-5851 or smith@ici.org.

Sincerely,

Gregory M. Smith
Senior Director