


Anchin Alert

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Client Alert: FASB Proposes Amendments to Investment Company Guidance

On October 21, 2011, the Financial Accounting Standards Board (“FASB”) issued a proposed Accounting Standards Update (“ASU”) which would amend the guidance in Topic 946 for determining whether an entity is treated as an investment company. The proposed ASU would also require an investment company to consolidate other investment companies and investment property entities (e.g. real estate holding companies) in which it has a controlling interest (e.g. fund-of-funds structure) and would require additional disclosures.

Definition of an Investment Company

The proposed ASU revises the definition of an investment company and states that an entity qualifies as an investment company if it is regulated under the Investment Company Act of 1940 or if it meets all of the following criteria:

1. **Nature of the investment activities.** The investment company’s only substantive activities are investing in multiple investments for returns from capital appreciation, investment income (such as dividends or interest), or both.
2. **Express business purpose.** The express business purpose of the investment company is investing to provide returns from capital appreciation, investment income (such as dividends or interest), or both.
3. **Unit ownership.** Ownership in the investment company is represented by units of investments, in the form of equity or partnership interests, to which a portion of the net assets are attributed.
4. **Pooling of funds.** The funds of the investment company’s investors are pooled to avail investors of professional investment management. The entity has investors that are not related to the parent (if there is a parent) and those investors, in aggregate, hold a significant ownership interest in the entity.
5. **Fair value management.** Substantially all of the investment company’s investments are managed, and their performance evaluated, on a fair value basis.
6. **Reporting entity.** The investment company provides financial results about its investment activities to its investors. The entity can be, but does not need to be, a legal entity.

Measurement

The initial determination of whether an entity is an investment company within the scope of this Topic will be made

upon formation of the entity. The entity shall reassess whether it meets the criteria of an investment company only if there is a change in the purpose and design of the entity.

Consolidation of Investments

The proposed guidance would require an investment company to consolidate investment property entities and entities in which it holds a controlling interest, including those in a fund-of-funds structure.

Disclosure

1. An entity with a change of status is required to disclose the reason for the change.
2. If an investment company consolidates another investment company or an investment property entity, the financial highlights would be calculated using consolidated amounts excluding amounts attributable to non-controlling interests.

The FASB has not established an effective date for the proposal and will consider feedback on the proposed amendments before setting one. The proposed ASU states that it would become effective for interim and annual periods in fiscal years after the effective date and early application would be prohibited.

Should you have any questions, please don't hesitate to contact your Anchin relationship partner.