



February 15, 2012

Technical Director
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, Connecticut 06856-5116

Re: File Reference No. 2011-200 and 2011-210

Dear Technical Director:

On behalf of the National Association of College and University Business Officers (NACUBO), we submit the following comments on the combined impact to colleges, universities and other not-for-profit organizations (NFPs) of the Proposed Accounting Standards Update, “Financial Services - Investment Companies (Topic 946)” and Proposed Accounting Standards Update, “Real Estate – Investment Property Entities (Topic 973),” (together the ASUs). NACUBO’s comments on the proposals were developed with input from our member institutions and our Accounting Principles Council (APC). The APC consists of experienced business officers from various types of institutions who, collectively, possess a thorough knowledge of higher education accounting and reporting issues and practices.

NACUBO is a nonprofit professional organization representing chief financial and administrative officers at more than 2,100 colleges and universities. In its capacity as a professional association, NACUBO issues accounting and reporting guidance for the higher education industry and educates over 2,000 higher education professionals annually on accounting and reporting issues and practices.

Overall Observations of the ASUs

While the ASUs do not directly affect NFPs, some of the proposed changes would, nonetheless, impact them. Under the proposed standards, there will be entities that currently use measurement standards within the scope of Topic 946 that would no longer meet the definition of an investment company. Some of those entities invest in real estate properties and will meet the definition of an investment property entity under the Investment Property Entities ASU, while others will not meet either definition.

Many colleges and universities invest in alternative investments as a means of diversification. Those institutions frequently use the practical expedient as provided under FASB ASC 820-10-35-59 to measure the fair value of their alternative investments. For funds that, under the proposed ASUs, no longer meet the definition of an investment company or an investment property entity, NFPs will be required to undertake additional work to substantiate those fair values as the use of the practical expedient will no longer be available. This, despite the fact that neither the nature of the

investment nor the way in which the value is measured and reported by the fund manager will have changed. Because there will have been no changes to the way in which the fund manager measures and reports the NAV, that amount will still be the best estimate of fair value and, likely, what the investor will record. The additional work involved to further substantiate that value will add nothing more than additional cost and administrative burden.

An example of an investment that would fall under this scenario would be a fund with a single investor. It is not uncommon for a higher education institution with a large endowment to have investments in funds for which it is the only investor. Under the proposed ASU for Investment Companies, investors in these funds would no longer be able to use the practical expedient to measure the fair value of their investment as the fund would not meet the pooling-of-funds criteria in FASB ASC 946-10-15-2. If, however, the fund qualified as an investment property entity under the proposed revisions to Topic 973, there would be an exemption to the pooling-of-funds criteria as described in FASB ASC 973-10-15-3 and the practical expedient would be available. No such exemption exists in the proposed ASU for Investment Companies.

Specific to this issue are the following:

FASB ASC 820-10-35-59 states (emphasis added):

A reporting entity is permitted, as a practical expedient, to estimate the fair value of an investment within the scope of **paragraphs 820-10-15-4** through 15-5 using the net asset value per share (or its equivalent, such as member units or an ownership interest in partners' capital to which a proportionate share of net assets is attributed) of the investment, if the net asset value per share of the investment (or its equivalent) is calculated in a manner consistent with the measurement principles of Topic 946 as of the reporting entity's measurement date.

FASB ASC 820-10-15-4 states (emphasis added):

The guidance in paragraphs 820-10-35-59 through 35-62 and 820-10-50-6A shall only apply to an investment that meets both of the following criteria as of the reporting entity's measurement date:

- a. The investment does not have a readily determinable fair value
- b. The investment is in an entity that has all of the attributes specified in paragraph 946-10-15-2 or, **if one or more of the attributes specified in paragraph 946-10-15-2 are not present, is in an entity for which it is industry practice to issue financial statements using guidance that is consistent with the measurement principles in Topic 946 (for example, certain investments in real estate funds that measure investment assets at fair value on a recurring basis).**

That paragraph (ASC 820-10-15-4) will be modified as follows under the proposed ASU for Investment Property Entities (emphasis added):

Paragraphs 820-10-35-59 through 35-62 and 820-10-50-6A shall apply only to an investment that meets both of the following criteria as of the reporting entity's measurement date:

- a. The investment does not have a readily determinable fair value

- b. **The investment is in either of the following entities:**
- 1. An investment company as defined in Topic 946**
 - 2. An investment property entity as defined in Topic 973 and in which the reporting entity (the investor) would transact at net asset value per share.**

We do not believe that the Board intended for the proposed changes to FASB ASC 820-10-15-4 to restrict the ability to apply the practical expedient set forth in FASB ASC 820-10-35-59. We note that, with regard to these paragraphs, the “Summary of Proposed Amendments to the Accounting Standards Codification” on page 11 of the Investment Property Entities ASU indicates that “The substance of the guidance in this Topic would not be changed by the proposed amendments.” We request that the Board address this issue by continuing to include the language **“is in an entity for which it is industry practice to issue financial statements using guidance that is consistent with the measurement principles in Topic 946 and Topic 973.”**

Additionally, we request that the Board include, in Topic 946, the following paragraph, consistent with the proposed changes to Topic 973:

“Notwithstanding the criteria noted in the preceding paragraph, a subsidiary entity that does not meet the criteria in paragraph 946-10-15-2(b) through (c) may still be within the scope of this Topic provided the subsidiary entity has a parent entity that is required to account for its investments at fair value in accordance with this Topic or another Topic or has a parent entity that is a **not-for-profit entity** under Topic 958 that measures its investments at fair value.”

Alternatively, the Board may wish to consider removing the linkage between the practical expedient in FASB ASC 820-10-35-59 and Topics 946 and 973. This could be achieved by providing the ability to use a practical expedient for investments that are required to be reported at fair value. The reported value of an investment that is currently measured at fair value and reported at NAV should not suddenly change because the definition of the company managing the investment changes. The practical expedient should be based on the measurement of the investment itself, not on the characteristics of the investment company or the investors in the fund.

In closing, we wish to express our appreciation for the opportunity to comment. We hope that the Board will address our concerns. We look forward to answering any questions the Board or the staff may have about our response. Please direct your questions to Sue Menditto at 202-861-2542 or sue.menditto@nacubo.org.

Sincerely,

Susan M. Menditto
Director, Accounting Policy