

# NYSSCPA agrees with FASB on investment company proposal

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*Trusted Professional Staff*

The NYSSCPA has given its support to a Financial Accounting Standards Board (FASB) proposal that would require master-feeder funds to provide financial statements, saying the move would codify what had long been standard industry practice and would boost transparency.

The Society expressed its views in a comment letter written by members of its Financial Accounting Standards Committee and published on Feb. 15. The FASB proposal, Proposed Accounting Standards Update—Financial Services—Investment Companies (Topic 946): Disclosures About Investments in Other Investment Companies, was released for comment in December.

Master feeder funds are an investment structure in which assets can be pooled—investors flow capital into a feeder fund that, in turn, invests in a master fund that invests directly in the market. This type of arrangement might be considered beneficial, for example, when maintaining multiple portfolios or attempting to reduce trading costs or obtain greater financing benefits.

While there had been a requirement under U.S. generally accepted accounting principles (GAAP) for entities with feeder funds to provide financial statements for them, there hadn't been a similar requirement for master-feeder funds.

Despite this lack of necessity, **Christina K. Catalina**, a member of the Financial Accounting Standards Committee and one

of the comment letter's authors, said that providing such statements had been standard industry practice, as investors find it helpful to see information on what risks and issues may come with the funds in which they invest.

The proposal would apply to all investment companies that use a master-feeder arrangement, whether or not they are regulated under the Investment Company Act of 1940. The Securities and Exchange Commission (SEC) currently requires financial statements for master feeder funds only if a company is regulated under the aforementioned act. According to **Sean D. Matthews**, also a Financial Accounting Standards Committee member and another of the comment letter's authors, this would bring all investment companies, both registered and nonregistered, under the same umbrella.

By and large, Matthews felt that the proposal is relatively uncontroversial, as it accomplishes what the FASB set out to do—provide more transparency for investors—without making drastic changes to how investment companies actually report to their investors.

"It's not going to substantially change financial statement presentation, especially from a hedge fund perspective," he said.

Catalina said that it was, however, a small matter of concern that the FASB did not, in its exposure draft, actually define what it means by feeder fund, and hoped that it would do so when it releases the final standard.

The comment period closed Feb. 17.

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