

November 30, 2015

VIA EMAIL: RULE-COMMENTS@SEC.GOV

United States Securities and Exchange Commission
100 F Street, NE
Washington, D.C. 20549-1090

RE: KKR Financial Holdings LLC
File No. 001-33437

Request for Public Comment on the Securities and Exchange Commission's
Disclosure Effectiveness Initiative-Recommendations on Regulation S-X and Certain
Financial Disclosure Provisions in Regulation S-K ("Request for Comment")

Dear Ladies and Gentlemen:

KKR Financial Holdings LLC (the "Company," "we" or "our") appreciates the opportunity to respond to the Securities and Exchange Commission's *Request for Comment on the Effectiveness of Financial Disclosures about Entities Other than the Registrant*, specifically on Rule 3-09 of Regulation S-X, *Separate Financial Statements of Subsidiaries Not Consolidated and 50 Percent or Less Owned Persons*.

KKR Financial Holdings LLC together with its subsidiaries is a specialty finance company with expertise in a range of asset classes. Our preferred shares and senior notes trade on the New York Stock Exchange.

The majority of our financial assets consist of corporate loans and high yield debt securities held in collateralized loan obligation transactions that are structured as on-balance sheet securitizations and are used as long term financing for our holdings of corporate debt. Separately, the Company has a 20% to 50% ownership interest in certain entities, which it accounts for under the equity method of accounting ("equity method investments" or "equity method investees"). Our equity method investments comprised approximately 6% of our total assets as of September 30, 2015. All of our financial assets are carried at fair value on our balance sheet, with changes in fair value reported in the statement of operations. We believe that the challenges that we have faced in complying with Rule 3-09 as it relates to our equity method investments are shared by other similarly situated specialty finance companies.

We support the Commission's Disclosure Effectiveness Initiative to provide more relevant and material information to investors under Rule 3-09. As SEC Chair Mary Jo White remarked, "when disclosure gets to be 'too much' or strays from its core purpose, it could lead to what some have called 'information overload' – a phenomenon in which ever-increasing amounts of disclosure make it difficult for an investor to wade through the volume of information she receives to ferret out the information that is most relevant." It is with this forefront in our mind that we address the questions posed in the Request for Comment.

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Criteria to Determining Significance

We believe that on many occasions the current application of Rule 3-09 to companies that elect the fair value option of accounting results in the type of “information overload” to which Chair White refers. Moreover, for those registrants that carry their equity method investments at fair value, significant swings in valuations either derived from market conditions or specific instrument risk can cause meaningful variations in determining which equity method investments are deemed significant under Rule 1-02(w) of Regulation S-X from period to period.

Our equity method investments are carried at fair value with valuation changes reflected on a quarterly basis in the income statement. This information combined with the summarized financial information provides transparency and insight to the financial condition of the equity method investment. We believe that, in situations such as ours, providing incremental information in the form of each significant equity method investment’s full financial statements and footnotes can inundate investors with voluminous and complicated information of questionable importance, particularly as such financial statements are often not reconcilable to the equity method investment of the registrant. In addition, such information is rendered even less useful because it is provided inconsistently. For companies that elect the fair value option, volatile earnings may cause an equity method investment to trigger the significance tests under Rule 1-02(w) in certain periods but not others. The inconsistent provision of information reduces comparability between periods and the relevance of such information overall.

As an example, we have encountered quarters where, based on the income test under Rule 1-02(w), the number of significant equity method investments was greater than ten. In these instances, should such quarterly results have been replicated for a full fiscal year, Rule 3-09 would have required separate audited financial statements for each of these equity method investments, whose businesses range from maritime lending in the United States to commercial real estate in Europe to food manufacturing in Indonesia. The result would have been the preparation, at significant time and cost, of separate audited financial statements for a multitude of highly divergent businesses that both individually and in the aggregate were immaterial to our total assets.

Suggestions for Improvement

Based on our experience with the application of Rule 3-09, we believe certain changes to the tests outlined in Rule 3-09 may result in a more appropriate means of determining whether an equity method investment is significant, in particular for companies that carry equity method investments at fair value.

Fair Value Option

As indicated above, the Company has elected the fair value option for all of its equity method investments. Since our equity method investments are marked-to-market every quarter, the carrying amounts of such investments do not equate to our underlying proportion of the equity or income reflected in the equity method investment’s financial statements. Accordingly, financial information of the equity method investment is not reconcilable to the amounts reflected in the Company’s financial statements. We believe that the provision of separate audited financial statements for equity method investments under Rule 3-09 results in excessive and detailed disclosure, much of which is not relevant to understanding the changes in fair value of the investment. We would encourage the Staff to consider allowing registrants who elect the fair value option for their equity method investments to be exempt from the requirements of Rule 3-09.

“And” vs. “Or”

Alternatively, the Staff may consider permitting registrants that have elected the fair value option for their equity method investments to use an “and” versus “or” approach to the quantitative tests. That is, a registrant that has elected the fair value option for its equity method investments would be required to file separate financial statements of the equity method investment only if both the investment test and the income test have been met. As currently drafted, Rule 3-09 requires that separate financial statements of an equity method investee be included with the registrant’s Form 10-K if either of the tests under Rule 1-02(w) exceed 20%. This can result in the inclusion of an equity method investment’s financial statements when a registrant’s earnings are volatile regardless of the actual materiality of the equity method investment to the registrant’s results of operations. This is amplified in circumstances where the majority of investments are held at fair value, as there tends to be significantly more volatility in net income of the registrant in those circumstances. Volatility also impacts the investment test as an equity method investment held at fair value may exceed the thresholds of the test in certain periods due primarily to mark-to-market volatility. Establishing a two-prong approach would define significance with respect to both a registrant’s assets and income thus mitigating circumstances where mark-to-market volatility or volatility in a registrant’s earnings, rather than the significance of the equity method investment itself, causes one or more equity method investments to exceed thresholds. Accordingly, we would encourage the Staff to consider allowing those registrants who elect the fair value option for their equity method investments to file equity method investee financial statements only when both of the tests in Rule 1-02(w) are met as opposed to any single test.

Particular Challenges For Equity Method Investments Held At Fair Value

Based on our experience, companies that carry equity method investments at fair value have particular challenges in meeting the Rule 3-09 disclosure requirements. As the measurement date for the application of Rule 1-02(w) occurs at the end of a registrant’s fiscal year, it is impossible to identify the equity method investments that are deemed significant under the rule until consolidated financial results of the fiscal year for both the registrant and the equity method investee are known. As a result, in many instances equity method investees are accelerating their close, preparation, review and sign-off of financial statements in order to meet a registrant’s filing deadline. In certain circumstances, equity method investees that would not otherwise be required to prepare audited financial statements are required to do so solely for the purposes of satisfying Rule 3-09, resulting in the imposition of additional costs and resource burdens that the equity method investee may not be prepared to bear. Moreover, large accelerated filers have only 60 days following the end of a fiscal year to file their Form 10-Ks, a period that is often not sufficient for equity method investees to prepare and complete an audit.

A further challenge results from the fact that registrants holding equity method investments own minority interests and do not exercise control over the equity method investee’s financial reporting, meaning that an equity method investee could simply refuse to provide the timely and complete periodic reports necessary for the registrant to meet the Rule 3-09 requirements. As a registrant is not permitted to file its Form 10-K until the required financial statements of all equity method investees are complete, the risk of a late filing is not insubstantial. A failure to file periodic reports in a timely manner renders a registrant ineligible to use Form S-3 and may also constitute a default under reporting covenants of a registrant’s debt agreements. We believe such an extreme outcome for the provision of detailed information on equity method investments, which is not within the registrant’s control, is not in the interests of investors.

In summary, we appreciate the Commission's objective to review existing disclosure requirements and improve upon them. For the reasons described above, including the volatility of the results and the potential immateriality of the equity method investment that are deemed significant based on Rule 1-02(w), we do not believe the income test should be the defining factor as to whether Rule 3-09 should apply, in particular when the fair value option has been elected.

Again, we thank the Commission for the opportunity to comment on the above matter. In the event you have any additional questions, please do not hesitate to contact me at [REDACTED].

Sincerely,

/s/ Thomas N. Murphy

Thomas N. Murphy
Chief Financial Officer