

December 11, 2006

VIA Email

Director TA&I—FSP Financial Accounting Standards Board 401 Merritt 7 P.O. Box 5116 Norwalk, Connecticut 06856-5116 director@fasb.org



Re: Proposed FASB Staff Position FIN 46(R)-d: Application of FASB Interpretation No. 46(R) to Investment Companies

The National Venture Capital Association (NVCA)¹ is pleased to comment in support of the proposed FASB Staff Position No. FIN 46(R)-d ("the proposed FSP"). The Board's decision to exclude all investments accounted for at fair value in accordance with the specialized accounting guidance in the AICPA Audit and Accounting Guide, *Investment Companies*, ("the Guide") is sound and consistent with the rationale and apparent intent of its earlier decision to exclude SEC-registered investment companies from the scope of FASB Interpretation No. 46(R): *Consolidation of Variable Interest Entities* ("FIN 46R"). We believe that the proposed FSP will exclude the vast majority of venture capital funds from the scope of FIN 46R. This is most appropriate.

Most venture capital funds are so-called "unregistered investment companies" which fall within the scope of the Guide and, accordingly, report their investments at fair value as provided in the Guide. Approximately 80% of venture capital active in the U.S. is managed by traditional

¹The National Venture Capital Association (NVCA) represents more than 450 venture capital and private equity firms. NVCA's mission is to foster greater understanding of the importance of venture capital to the U.S. economy and support entrepreneurial activity and innovation. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provides reliable industry data, sponsors professional development, and facilitates interaction among its members. For more information about the NVCA, please visit www.nvca.org.

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private independent partnerships, few of which are required to register with the SEC.

Application of FIN 46R would be inconsistent with the practical purpose of investment company accounting for venture capital funds. Because venture capital funds hold securities of their portfolio companies for capital appreciation with a view toward returning realized gains to investors over a long horizon, it is not appropriate to view these investments on a consolidated basis with the activities of the fund or other portfolio companies.

Virtually all venture capital funds are required to report to their investors (usually limited partners) using GAAP accounting as specified in their partnership agreements. Their investors -- typically endowments, pension plans, foundations, financial and insurance funds, and individuals -- depend upon fair value reporting on fund portfolios to communicate reliably and comparably with their respective stakeholders. If venture funds were required to consolidate portfolio companies under FIN 46R, it would create significant difficulties for their investors and erode the relevance and comparability of GAAP reporting.

Moreover, even if no consolidations resulted from application of FIN 46R to venture funds, the difficulties of attempting to apply it would be extraordinary and very wasteful.

We appreciate the FASB's work in developing this proposed FSP and that of the AICPA in developing the Statement of Position on the Scope of Investment Company Accounting to which the FSP refers. We are prepared to discuss these matters at your convenience.

Sincerely yours,

Mark G. Heesen

President