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**Comment Letter on FASB Staff Position FAS 157-g
Estimating the Fair Value of Investments in Investment Companies That Have Calculated
Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide,
*Investment Companies***

Dear Technical Director:

Adams Street Partners appreciates the opportunity to provide our comments on FASB Staff Position (FSP) FAS 157-g Estimating the Fair Value of Investments in Investment Companies That Have Calculated Net Asset Value per Share in Accordance with the AICPA Audit and Accounting Guide, *Investment Companies*. Our comments are based on the impact of the exposure draft on what has been long standing accounting practices in the private equity and venture capital business. (Appendix A provides more information about Adams Street Partners, LLC.)

Impact of FSP on Our Investors

For over 30 years Adams Street Partners has used and provided our investors with fair value net asset values (NAVs) in valuing their interests and in tracking performance for funds we are invested in. We believe this has provided our investors with consistent and reliable performance and fair value information. Therefore, we support the basic exposure draft as it is currently drafted, as it provides for the continued practice of using fair value NAVs as the best estimates of fair value. Specific comments on the draft FSP follow below.

Net Asset Value is often the best estimate of Fair Value

In an industry with no publicly available information, timely quarterly communication from general partners to their limited partners is a key component for building trust with investors. Financial reporting has been consistently based on fair value standards as outlined in the Investment Companies Audit Guide. Industry practice has been to value interests in private equity investments at the current Net Asset Value (NAV or capital account balance) reported by the investee fund manager. Expected cash flows are at the heart of all fair value estimates for an investment fund interest. At any point in time, fair value has to be equivalent to the estimated value of underlying investments as if liquidated on the measurement date. In a closed-end fund structure, which is the predominant structure for the private equity and venture capital industry, participants only realize cash returns on their investment when realization

events occur in the underlying portfolio companies. Proceeds from those events flow through to the investor in an amount equal to NAV.

At Adams Street Partners, we do a significant amount of due diligence work to feel comfortable relying on the NAVs provided to us by our general partners. We require in our legal agreements that the general partners give us fair value NAVs when we make a commitment to a fund. To the extent that fair value is dependent on the judgments made by the general partners we have ongoing monitoring processes which involve review of their investment process and close analysis of the financial information reported to us. We are on over 100 limited partner advisory and valuation boards. These boards review the valuations of that fund's portfolio companies in detail before the financials of that fund are completed. This provides limited partner oversight and buy-in to the valuation process. Annual meetings provide additional information on how the portfolio companies are performing. The combination of financial information and qualitative information shared with us often provides greater transparency than what is available for public companies

Specific Comments on the FSP

We would suggest the following changes to the FSP to provide clarity, avoid confusion and improve consistency of implementation.

First, use of the term "net asset value per share" is problematic for all investment funds that do not use unitized accounting for their capital accounts. Private equity and venture capital investment limited partnerships do not use unitization, all capital account balances being reflected in dollar terms only. This reflects the closed-end nature of such entities and the rarity of any changes to the partners in these investment partnerships. We recommend the "per share" phrase be removed to make the FSP more generally applicable to all types of investment funds and to avoid confusion as to the FSP possibly only applying to unitized funds.

Second, sections 15 and 31D begin with the phrase, "In circumstances in which net asset value per share of an investment is not determinative of fair value..." This language is confusing and unclear. We would suggest that the phrase be dropped, or be replaced with a phrase such as, "In circumstances in which there is no observable input to value an investment."

Third, the scope requirement that the net asset value per share of the investment be determined in accordance with the Investment Companies Audit Guide should be expanded to include global investment funds that report under other national and international standards that are equivalent to the Investment Companies Audit Guide or that can be brought in line through adjustment with the Investment Companies Audit Guide.

Disclosures

The disclosures added in the FSP should be operational as long as the disclosures are at the fund or partnership entity level. These disclosures would not be operational if the required disclosures were for each of the investments made by the fund making the disclosure (i.e., portfolio companies for direct investment funds and partnerships for fund of funds.)

The confusion appears to come from the use of the singular "investment" in section 16b and 16c. The second sentence of section 16 says "for each major category of investment" and that

would seem to indicate the listed disclosures are for the major categories of the portfolio, not individual investments.

We have drafted an example FAS 157-g disclosure paragraph below at this aggregated level in line with the requirements of the FSP for a typical fund of funds. We believe that this disclosure would be useful to readers of the financial statements and supplement fair value NAVs .

The Fund makes initial investments in private equity and venture capital funds over the first 4 years of the Fund’s life by making commitments to these underlying funds. We would expect approximately 60% of the committed value of the Fund (\$100,000,000 fund size) to be called ratably through December 31, 201X to meet capital calls from the underlying funds and make purchases of secondary interests in funds. The remaining 40% of committed capital would be used ratably over years 5 to 8 of the Fund’s life to finance follow-on rounds from the underlying funds. We would expect distributions to begin in year 3 of the Fund’s life and continue through the end of the life of the Fund. While we cannot project the ultimate return of the Fund nor the exact timing of distributions, we are currently projecting a 1.5x return for the fund and would expect distributions to be ratably from years 5 through 10 of the Fund’s life.

In addition, disclosing the percentage of investments valued using unadjusted fair value NAVs under FAS 157-g would be useful. A disclosure along those lines might appear as follows in a table format:

Investments valued using NAVs supplied by GPs without adjustment	95%
Investments valued using adjusted NAVs and other methods	<u>5%</u>
	<u>100%</u>

We believe as per other concurrent efforts related to FAS 157 disclosures, final disclosure rules should only be set based on field tests and input from financial statement users. Much of the current confusion over implementation of FAS 157 is directly related to a lack of well thought out and field tested disclosures. We have included in Appendix B an example footnote that describes historic use of NAVs and ties it back to FAS 157.

FAS 157 and Level III Valuation

We would also like to raise a point of clarification about the use of the term “practical expedient.” This term is use in FAS 157 in paragraph 31 in regards to the use of mid-market pricing or other pricing conventions. It specifically refers to these being fair value measures “as a practical expedient for fair value measurement within a bid-ask spread.” It would appear to be a rather narrow concept.

Per FAS 157’s summary “The notion of unobservable inputs is intended to allow for situations in which there is little, if any, market activity for the asset or liability at the measurement date.” The processes that determine a fair value NAV are more much extensive than simply using a mid-market price as a convention. Referring to fair value NAVs as a practical expedient in the context of bid-ask price conventions, would appear to communicate less information than describing the values as determined using unobservable inputs in line with the definition of Level III assets. We believe this type of language better communicates that this fair value is an estimate made without the assistance of objective external data, so be careful how you interpret it. This is more consistent with the historic disclosure guidance about these types of assets as per the Investment Companies Audit Guide.

Therefore, we would propose changing the first sentence in paragraph 15 and the amendments to FAS 157 31D to read, "A reporting entity is permitted, in the absence of observable inputs, to estimate the fair value of an investment within the scope of paragraph 31B using the net asset value per share of the investment without further adjustment, if the net asset value of the investment is determined in accordance with the investment companies Guide as of the reporting entity's measurement date."

Comments on specific questions raised by the FSP

In Appendix C we have addressed the specific questions raised by the FSP. The only point we would like to emphasize is that we agree that permitting rather than requiring the application of this proposed FSP for entities within its scope is the right approach. Requiring unadjusted NAVs could encourage an overly mechanical use of such NAVs or lead to other unintended consequences.

We appreciate the opportunity to comment on this issues paper. If I can offer any further clarification please feel free to call me at 312-553-7877.

Very truly yours,

/s/ William J. Hupp

William J. Hupp
Chief Financial Officer and Treasurer

Appendix A

Adams Street Partners, LLC

Adams Street Partners is a registered investment advisor, providing investment advisory services to clients who wish to pool their investment assets with those of other investors. We have provided discretionary investment advice for our clients on a separate account basis and through a variety of investment vehicles, including collective trusts, offshore trusts and limited partnerships. We currently manage over \$20 billion in assets under management. From our beginning as a part of First National Bank of Chicago in 1972 through our current status as an independent registered investment advisor, we have operated as a fiduciary for our clients. In general, our clients are institutional entities, often operating under ERISA or similar regulations in their countries. Adams Street Partners, the operating management company, is both investment advisor and general partner for the current investment vehicles we advise.

As one of the original providers of access to first venture capital and then more broadly private equity investing through a fund of funds structure, we are intimately aware of the issues and complexities of such structures. We have also been an active participant in secondary interest transactions going back to the 1980s. In all of these endeavors we have followed standards of fair value and transparency in reporting.

Appendix B

Example Financial Statement Disclosure for Fund of Funds and LPs invested in Private Equity Limited Partnerships

Investments valued using NAVs supplied by the general partners of the underlying funds without adjustment amount to 95% of the value of the fund's portfolio. The remaining investments were valued primarily by adjusting NAVs for issues identified in our monitoring process.

The capital account balance or NAV of the interest in the private equity investment represent the general partner's best estimate of fair value using discounted expected future cash flows and market approaches. In accordance with paragraph A25 of SFAS 157, in the absence of observable marketplace inputs, an investor entity should use "inputs that reflect the reporting entity's own assumptions about the assumptions market participants would use in pricing the asset or liability (including assumptions about risk) developed based on the best information available in the circumstances." Private equity investments lend themselves to valuation techniques consistent with the income or market approaches. Expected future cash flows from interests in limited partnerships that invest in private equity portfolio companies are substantially identical to the sum of the expected future cash flows from the underlying private equity portfolio company investments.

This approach is consistent with the recently issued guidance from the AICPA in TIS Section 6910.29 Investment Companies. Fair value for an interest in an investment fund interest is equivalent to the estimated value of the underlying investments at hypothetical liquidation value as if liquidated on the measurement date. Equity balances of each partner at the balance sheet date are reported as if the investment company had realized all assets and settled all liabilities at the fair values reported in the financial statements consistent with the provisions of the partnership's governing documents. These proceeds would flow through to the investor in an amount equal to NAV, appropriately determined.

Before placing reliance on the reported NAV provided by the general partner of the private equity limited partnership, the General Partner obtains evidence that the reported NAV is suitable for use as an input to fair value measurement of our investment interest. The General Partner then concludes on each reported NAV as to whether it is a reasonable estimate of fair value, or requires adjustment. In those circumstances where no adjustment is made, it is either because no conditions exist to suggest an adjustment is necessary or because there are multiple factors which suggest that a range of value exists. To the extent that the reported NAV is in that range of value, the General Partner does not adjust the reported NAV.

While the General Partner believes its valuation methods are appropriate and consistent with those used by other market participants, the use of different methodologies or assumptions to determine the fair value of certain financial instruments could result in a different estimate of fair value at the reporting date. Those estimated values, including those carried at net asset value, may differ significantly from the values that would have been used had a readily available market for such investments existed, or had such investments been liquidated or sold to non-affiliated investors, and these differences could be material to the financial statements.

Appendix C

Comments on Specific Questions on FSP FAS 157-g

1. a. Do you believe there are other investments that should be within the scope of this proposed FSP?

Investors should be able to use fair value NAVs from other investment company like investment funds, primarily those that follow other national and international accounting standards. Under current practice for investments in Non-US investment partnerships these fair value NAVs are used in the same way as those that follow the Investment Companies Audit Guide, although they may need to be adjusted to bring them in line with GAAP.

b. If so, what principle should be used to determine which investments are within the scope of the proposed FSP?

Only those investment funds that follow the Investment Companies Audit Guide closely enough and have sufficient disclosures to allow adjustment to bring fair value NAVs in line with US GAAP.

c. Do you agree that the Board should not permit the FSP FAS 157-g Proposed FSP on Statement 157 (FSP FAS 157-g) application of the proposed FSP to investments in entities that have readily determinable fair values as defined in paragraph 3 of Statement 115?

Yes.

d. Are there other investments that the Board should exclude from the scope of this proposed FSP?

No.

2. Are there circumstances in which an investment might initially have a readily determinable fair value and in a subsequent period not have a readily determinable fair value (and thus arguably become eligible for the practical expedient)? If so, please describe those circumstances. In those circumstances, should the investment be eligible for the practical expedient even though the investor may not be able to transact with the investee (fund) at net asset value per share?

A secondary purchase of a private equity fund has a readily determinable fair value at the date of the acquisition, since there is an actual trade. But as outlined in our comment letter on the original AICPA NAV issues paper, it is the exception where this information would then be able to be used to value that interest at a subsequent date. Due to the evolving nature of such investments, the purchase price would soon become stale, most often leading to the fair value NAV becoming the best estimate of fair value.

For closed end funds, the investor is not able to transact with the fund, so the second sentence has no meaning for the private equity and venture capital industries.

3. Do you believe the Board should pursue one of the alternative approaches instead of the approach taken in this proposed FSP?

No, we agree with the Board's approach.

4. The Board recognizes that permitting rather than requiring the application of this proposed FSP for entities within its scope potentially reduces comparability. The Board decided to permit rather than require that reporting entities apply this proposed FSP to investments within its scope, in part, to avoid potential conflicts with the "good faith" requirements of the Investment Company Act of 1940 and Accounting Series Releases No. 113, Statement Regarding "Restricted Securities," and No. 118, Accounting for Investment Securities by Registered Investment Companies.

Do you agree with the FSP FAS 157-g Proposed FSP on Statement 157 (FSP FAS 157-g) Board's decision to permit rather than require the application of this proposed FSP?

Yes, permitting rather than requiring use of fair value NAVs is a better approach. Requiring use could lead to the mechanical use of NAVs without properly understanding how those NAVs were determined. Auditors and management of investor entities should continue to follow the guidance set forth AICPA Interpretation No. 1 of AU Section 332: *Auditing Investments in Securities Where a Readily Determined Fair Value Does Not Exist* or the non-authoritative Alternative Investments Practice Aid.

Are there any other unintended consequences of requiring the application of this proposed FSP to investments within its scope?

No. Use of fair value NAVs has been a long 30-year established practice and with proper disclosures cannot be said to have had any unintended consequences during that time.

5. a. Are the disclosure requirements of this proposed FSP operational?

Yes, at an aggregated portfolio level. See our comments and disclosure examples in the letter.

b. Should the Board require all of the disclosure by major category (or should it permit some of them on a more aggregated basis)?

Disclosure should be allowed to be at the most meaningful level. For funds which have only a very narrow investment purpose, the fund itself as a whole may be the only meaningful disclosure level. This is easy to establish for investors and auditors based on how the fund is marketed and how investment results are described and disclosed in marketing materials.

c. If the final FSP is effective upon issuance (for example, assume issuance is July 31, 2009), can the disclosures be provided for prior periods for which financial statements have not been issued?

Due to the lack of comparative financial statements under the Investment Companies Audit Guide, disclosures for prior periods would not be particularly meaningful. While not impossible to produce for prior periods, we believe such disclosures would be better on a going forward basis and not worth the cost to provide for prior periods.

d. Are there other disclosures that the Board should consider requiring?

No.