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September 7, 2010

Via Email

Technical Director
File reference 1830-100
Financial Accounting Standards Board
401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116

Re: Exposure Draft – Fair Value Measurements and Disclosures (Topic 820)

Thank you for the opportunity to comment on the Financial Accounting Standards Board's Proposed Accounting Standards Update on ASC Topic 820, Fair Value Measurements and Disclosures ("ASC Topic 820") – Amendments for Common Fair Value Measurements and Disclosure Requirements in U.S. GAAP and IFRS (the "Proposed Update"), issued June 29, 2010. American Capital, Ltd. ("American Capital") is a non-diversified, closed-end investment management company, which has elected to be regulated as a business development company ("BDC") under the Investment Company Act of 1940, as amended (the "Act"). We generally invest in senior debt, mezzanine debt and equity of privately-held middle market companies, alternative asset funds and to a lesser extent structured finance investments (i.e. CMBS, CLO, CDO). As an investment company, American Capital is required to record all of its investments at fair value under ASC Topic 820.

Question 2: The Board has decided to specify that the concepts of highest and best use and valuation premise are only to be applied when measuring the fair value of nonfinancial assets. Are there situations in which those concepts could be applied to financial assets or liabilities? If so, please describe those situations.

We believe there are situations when an entity invests or purchases a combination (or aggregation) of financial assets in the same borrower or investee and ultimately exits (or sells) those same combination of financial assets; the purchase and sale both occur in the same principal market. In this situation, it seems reasonable to permit valuing the combination of financial assets in the same borrower or investee since the assets are 1) purchased in combination of one another, 2) exited in the same or similar combination as they were purchased, and 3) exited and purchased in the same principal market.

If other accounting guidance specifies that the unit of account is each individual financial interest in a borrower or investee, the Proposed Update may require the financial assets

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to be decoupled to the unit of account level for valuation purposes which may result in 1) a different value for the unit of account level of assets than the combination and exit value, 2) a different principal market may apply to each unit of account level of asset, and 3) the exit market available to an asset at the unit of account level may be different than the market in which the reporting entity would normally enter into a transaction to sell an asset or transfer a liability, which is presumed to be the principal market.

Therefore, we believe there are instances in which elimination of the highest and best use concept and the valuation premise for financial assets would result in a conflict with other concepts within ASC Topic 820. Specifically, it may result in valuing financial assets in an exit market that is not their principal market and at a value which may not be reflective of the ultimate exit value. This conflicts with the requirement under ASC Topic 820 and the Proposed Update to value the financial assets using its principal market.

For example, based on guidance included in ASC Topic 820, many BDCs and private equity firms have applied the in-use valuation concept for valuing investments in a controlled portfolio company in which they hold both debt and equity investments through aggregation of these securities; the controlling shareholder (equity investment) has the right to sell the entire portfolio company and therefore has access to the M&A market. In valuing these investments in aggregate, the entire capital structure equals the enterprise value or fair value of the portfolio company in the M&A market. The fair value of the total enterprise is determined and is allocated to each debt and equity security based upon their priority within the capital structure. This methodology is consistent with how control portfolio companies are purchased and sold in the M&A market, which is also the market in which BDCs and private equity firms normally transact.

Elimination of the in-use concept for financial assets could result in two securities within the same control portfolio company being valued in different principal markets. If the unit of account is each individual financial interest in a controlled portfolio company, the principal market of the debt securities would be the "secondary market" and the principal market of the equity securities would be the "M&A market". Using different principal markets for the debt securities would likely result in a different fair value. Not only is this treatment inconsistent with how the investment will actually be exited, it also does not represent the principal market that is available to the owner of the debt security in a controlled portfolio company. In order to maximize value, the controlling shareholder would sell the entity in the M&A market, not the individual debt and equity securities in two different markets.

Therefore, we believe clarification should be added that elimination of the valuation premise and highest and best use should not result in a change in the principal market of an asset and that a combination of financial assets in the same borrower or investee is permitted in situations in which that combination is consistent in the way the assets are purchased and exited.

Question 7. The Board has decided to require a reporting entity to disclose a measurement uncertainty analysis that takes into account the effect of correlation between unobservable inputs for recurring fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such a disclosure is not required for a particular asset or liability (for example, the Board has decided in its project on the accounting for financial instruments that a measurement uncertainty analysis disclosure would not be required for investments in unquoted equity instruments). Do you think that proposal is appropriate? If no, why not?

The Proposed Update requires disclosure of a measurement uncertainty analysis for fair value measurements categorized within Level 3 of the fair value hierarchy unless another Topic specifies that such disclosure is not required. FASB has also issued another proposed accounting standards update to ASC Topic 825, Financial Instruments, and ASC Topic 815, Derivatives and Hedging. Under this proposed quidance, for all financial instruments measured at fair value and classified as Level 3 in the fair value hierarchy, except investments in unquoted equity instruments, an entity shall comply with the measurement uncertainty disclosures in Topic 820. It is apparent that it is the FASB's intention to not require this disclosure requirement for a BDC or private equity firm's investment in unquoted equity instruments. However, the proposed accounting update to ASC Topic 820 could be issued and become effective for reporting periods prior to the effective dates for the proposed accounting update to ASC Topic 825 and ASC Topic 815. This would seem to result in the possibility that an entity would have to provide this disclosure requirement for unquoted equity instruments during an intervening period between the effective dates of these two accounting standard updates. This appears to be an unintended consequence; we believe that the intended guidance that the measurement uncertainty analysis for fair value measurements of unquoted equity instruments categorized within Level 3 is not required be included in the proposed accounting guidance to ASC Topic 820 instead of providing this guidance in ASC Topic 825 or ASC Topic 815.

We appreciate the opportunity to share our comments with Board. Please do not hesitate to contact us if you have any questions.

Sincerely,

John Erickson

Chief Financial Officer American Capital, Ltd.