

Michael P. Maher Chief Financial Officer

Via e-mail to director@fasb.org

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Technical Director File Reference No. 2013-220 FASB 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

Re: Proposed Accounting Standards Update on Financial Instruments – Overall

Ladies and Gentlemen:

I apologize for the delay in submitting a response.

My comments relate specifically to proposed guidance at 825-10-35-17 dealing with equity investments without readily determinable fair values.

I recommend that you eliminate the exclusion of an investment company that is subject to the guidance in Topic 946. I strongly believe that venture capital funds, which typically meet the criteria set forth in Topic 946 and are, therefore, investment companies, have numerous investments (in many cases all of their investments that do not qualify for Level 1 or Level 2 valuation under the guidance in Topic 820) which meet the criteria – without a readily determinable fair value – and are not readily valued using the traditional financial models.

I believe that Mr. Stephen Holmes addressed the Board on this topic recently; I agree with his comments and incorporate them, with permission, herein by reference.

As a general comment, it seems to me that over the past few years the Board and the FASB staff have expended a great deal of effort to codify GAAP and to eliminate previous problems with defintions scattered through out GAAP. It strikes me that effectively modifying the definition of fair value in Topic 825 begins to replicate the

A Proposed Revision to Topic 820

I strongly recommend that the Board consider amending Topic 820 to incorporate the guidance suggested at 825-10-35-17. More specifically, I suggest the Board consider amending Topic 820 to include a Level 4 in the fair value hierarchy. Level 4 would be for any "financial instrument without a readily determinable fair value" and would use the valuation approach currently proposed for 825-10-35-17.

I would envision the process conceptually working as follows:

• Any financial instrument (I would include both equity and debt securities) that does not qualify for fair value measurement utilizing either Level 1 or Level 2 input automatically qualifies to use Level 4 fair value measurement. The Level 4 fair value measurement would be the financial

instrument's cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical investment or a similar investment of the same issuer. [Essentially the same language as proposed in 825-10-35-17.]

- At the time of acquisition of a financial instrument that would otherwise utilize Level 4 fair value measurement, the acquirer shall assess whether the instrument can be readily valued using valuation techniques (e.g., models) and whether such valuation techniques are likely available for substantially the full term of the investment instrument. (This is similar in concept to the original criteria set forth in Paragraph 28 of the original FAS 157 pronouncement; I believe this was to address situations where Level 2 input was available from time to time, but not routinely throughout the life.) If the financial instrument is likely valued using valuation techniques (e.g. models) throughout its life, then it would qualify as Level 3. [The purpose for this approach is to minimize or eliminate movement from Level 3 to Level 4 and back. In my simplistic approach, once a financial instrument utilizes a Level 4 approach, there would be no change until the instrument qualified for Level 1 or Level 2 input, as in the case when a small start-up investment is converted to a public security via its IPO].
- The principle difference between the use of Level 4 or Level 3 approaches would be that those instruments capable of utilizing Level 3 would report an increase in value without requiring a specific triggering event (i.e., without an orderly transaction for the identical investment or a similar investment of the same issuer). In theory impairment would be identified and recognized at the same point.

By incorporating a Level 4 into the hierarchy, GAAP would continue to preserve the practical expedient [820-10-35-59] allowed by investors in certain investment companies as the underlying NAV developed by the investment company would be calculated using GAAP.

Further, the use of Level 4 would most likely improve the comparability of financial reporting, eliminating a wide variety of approaches / modeling techniques that are used solely to satisfy auditors where the approaches / modeling techniques do not match the methods used by the actual market participants.

Thank you for the opportunity to briefly outline my thoughts concerning valuation approaches for financial instruments without a readily determinable value.

Very truly yours,

Michael P. Maher Chief Financial Officer