



RBC
Capital
Partners

Letter of Comment No: 1
File Reference: 1082-200
Date Received: 7/23/02

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July 16, 2002

Director of Major Projects and Technical Activities
Financial Accounting Standards Board
401 Merritt 7,
P.O. Box 5116
Norwalk, Connecticut
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Dear Sirs:

FILE REFERENCE 1082-200 - CONSOLIDATION OF CERTAIN SPECIAL PURPOSE ENTITIES

We are pleased to provide our comments with respect to the subject Exposure Draft. Our comments are directed solely to the impact of the Exposure Draft on the venture capital and private equity business carried on by substantive operating enterprises. Other aspects of the Exposure Draft may be subject to comment by other affiliates of our parent company, RBC Financial Group.

Venture Capital and Private Equity

The venture capital and private equity business is typically carried on through limited partnerships. Certain investors commit to provide amounts of capital to limited partnerships over an investment period that typically is three to five years. The partnership invests funds on an "as needed" basis in private companies – typically to fund grow, research and development or acquisition. The typical limited partnership has a single purpose general partner (the "GP") and contracts with a company (the "Manager") to provide management services – including investment selection and monitoring for a fee. The typical fee structures provide for the Manager to receive a fee of 1.5% to 2.5% of committed or invested capital. In addition, the GP is often entitled to a return of 20% of total investment returns (the "Carried Interest"), assuming that the partnership returns capital plus a minimum rate of return (typically 8%) to the limited partners. Generally these limited partnerships are financed entirely with limited partner equity subscriptions although such partnerships can also borrow for short periods of time to bridge the time between capital calls on the limited partners and investments.

A part of this market is made up of companies such as ours. We are a Manager of limited partnerships that is wholly owned by a *substantial operating entity*. The substantial operating entity also wholly-owns a series of general partners that act as GP's for certain partnerships. In addition, the substantial operating entity may – and usually is – a limited partner in the partnership, usually to the extent of 10 to 25% of total committed capital.

No limited partner provides any kind of guarantee or downside protection to the partnership or any other limited partner.

Exposure Draft

As we read the exposure draft and FAS 140 it would appear that such limited partnerships are SPE's. The definition of *variable interests* is key to the determination of whether an SPE should be evaluated for consolidation based upon voting interests or otherwise under Section 9 of the Exposure Draft.

As we read the definition of variable interests in Section 7 we find that it could be possible to interpret the Management Fees and Carried Interest of a *substantial operating entity* as being *variable interests*. If this were to be the case, then an SPE sponsored by a substantial operating entity in the way described above could fail the test in Section 9 (e) in that an equity interest would be held by "...other parties with variable interests in the SPE..."

In addition, the definition of *primary beneficiary* in section 7(c) could be interpreted as including the sponsoring *substantial operating entity* as this entity indirectly acts as GP and Manager and also may hold significant variable interests if one were to aggregate both the Carried Interest and the direct limited partnership capital contribution – despite the fact that the direct limited partnership interest is almost always less than 25% of the total committed capital.

We believe that the intent of the Exposure Draft was intended to principally capture the consolidation of assets and debt of vehicles that received substantial direct and indirect financial support from *substantial operating entities*. It would not appear that the Exposure Draft was intended to capture situations where there was a true pooling of risks of unassociated investors but where one investor had both a base and incentive fee arrangement to encourage the maximization of results for all limited partners. The capturing of these venture capital and private equity funds under the Exposure Draft would have the unintended effect of creating large balance of "minority interests" in the balance sheets and income statements of companies such as our parent – which we do not believe will improve the understanding or comparability of the financial statements of such entities.

Proposed Amendments

In order to avoid what we believe is an unintended consequence of the application of the rules proposed in the Exposure Draft we would respectfully suggest that the definition of variable interests be clarified to ensure that in situations where a substantial operating enterprise has no direct or contingent obligation to provide financial support to the SPE other than its commitment of capital on terms and conditions similar to all other limited partners, it is not considered to be variable interests. If we read section 9 correctly, this should then allow for these SPE's to continue to be consolidated based upon voting interests.

Yours truly,

A handwritten signature in black ink, consisting of a large, stylized 'R' with a vertical line through it, and a horizontal line extending to the right.