



CAMBRIDGE ASSOCIATES LLC

4100 North Fairfax Drive, Suite 1300
Arlington, Virginia 22203-1664
tel 703.526.8500 fax 703.526.8501
www.cambridgeassociates.com

July 8, 2009

Technical Director
FASB
401 Merrit 7
PO Box 5116
Norwalk, CT 06856-5116

RE: Proposed FSP FAS 157-g

Dear Board Members:

Thank you for the opportunity to offer our comments on the Proposed FSP FAS 157-g, providing guidance to investor entities (to use the AICPA's terminology), which include our clients, for "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*". We do have some thoughts to share (which follow), but also want to take this opportunity to thank the Board for reconsidering the draft guidance issued in January by the AICPA task force on valuing interests in alternative investment funds. We had previously written to the task force to detail our reservations about requiring investor entities to adjust audited, fund-reported NAVs according to the extensive list of criteria proposed by the task force. However, we do recognize the ongoing issues that gave rise both to the AICPA task force draft and to FSP FAS 157-g.

As we understand the proposed new guidance, investor entities are advised as follows:

- (1) NAVs reported by fund managers will be acceptable so long as the NAVs have been calculated using GAAP and
- (2) Audited financial statements will be accompanied by additional required disclosures:
 - For private equity investments (including long-term lock-up strategies like buyouts, venture capital, private real estate, distressed securities, secondary funds, etc.), an estimate of the remaining life of the fund and the amount and timing of remaining capital commitments.
 - For hedge funds, the terms and conditions under which redemptions can be made and any condition (e.g., lock-ups or gates) that might preclude redemption, including when the preclusion would lapse.

As the proposed guidance relates to private equity investments, the Board should understand that it may be relatively straightforward for an investor entity to disclose its original commitment amount, as well as the value of what has been called to date and what yet remains to be called. However, to disclose the potential *timing* of future capital calls and distributions will be problematic. Such data will be based almost entirely on estimates received by the investor entity from the investment company, and could well be insufficiently accurate to be both misleading and confusing. As we have learned over the past four decades advising clients on private equity commitments, the cash flows associated with these investment vehicles is extraordinarily difficult to predict. Factors such as strategy, geography, currency, market environment,

Technical Director
FASB

July 8, 2009
Page 2

investment team workload, fundraising and many other inputs contribute to the pace at which capital is called from investors. If the potential liability should be disclosed, we suggest that it might be appropriate to list the remaining unfunded commitments only without providing uncertain information as to the potential funding date. Further complicating the matter, fund managers will often offset capital calls with distributions received from existing investments, which would add to the confusion over the specific capital needs of private equity investments if a hypothetical schedule were disclosed in an investor's financial statement.

Likewise, with hedge funds, cash flows have become extremely difficult to predict, especially in the current economic and investing climate. Over the past six months, we have seen many managers impose restrictions on redemption requests (gates) and we and our clients may have no real ability to predict when such gates may be lifted. Additionally, a number of hedge fund managers have moved their illiquid private investments (side pockets) into self-liquidating trusts, providing no clear insight into when and how these investments may mature or be sold and the proceeds distributed. Again, in terms of financial statement disclosures, a simple description of the redemption provisions imposed (without any prediction as to the future liquidity expectations of those provisions) may be the most forthright and least onerous approach.

As to the definition of "best estimate of when the restriction against redemption might lapse," any guidance from the Board to our clients and their auditors as to the level and sophistication of the "best estimate" disclosure would be helpful.

Questions Posed in the Staff Proposal

In terms of the five broad questions posed in the proposal, please allow us to share our thoughts.

Question 1. We have nothing to add to Board deliberations suggested by the questions in Question 1.

Question 2. Yes there may be situations in which an investor entity has an investment with an investment manager which has a readily determinable fair value in one period and not in a subsequent period. One situation that comes quickly to mind (especially based on recent history during the first half of this calendar year) is an investment in a hedge fund in which an investor makes a partial redemption in one quarter only to have a similar redemption precluded in a subsequent quarter due to the suspension of redemptions in the second quarter (i.e., the imposition of a gate). In such cases, we think the application of the proposed FSP should be workable.

Question 3. We do not support a requirement that investors partially redeem from a hedge fund in order to establish fair value, as this could be seen, in effect, as the accounting rules taking precedence over sound investment decision making. We wonder whether investment consulting firms like ours (and other third parties, custodian banks and administrators come to mind) might be in a position to help non-redeeming investors establish fair value since such third parties may be in possession of pricing data reflecting other investors' contemporaneous redemption from the same investment companies and products. Of course, said data must remain anonymous but might still be helpful in establishing the fair value of a given investment at a given point in time.

Question 4. We agree with the Board's decision to "permit" rather than "require" investor entities to utilize the application of the proposed FSP. At this point, we do not foresee any unintended consequences in the decision to permit investor entities to adopt the proposal.

Question 5. With our comments above considered, we think the disclosure requirements of the proposed FSP generally to be operational (ostensibly with some change of habit within our client base). Should the Board decide to require (or better yet, *permit*) disclosure at the broad asset class level (e.g., private equity

Technical Director
FASB

July 8, 2009
Page 3

investments and hedge funds) rather than at the fund, sub-asset class, or strategy level (e.g., US and non-US private equity or absolute return and long-short), it might actually make the disclosures more useful to the user of the audited financial statements. This may be especially true considering our caveats above regarding the reliability of the data to be included in these disclosures. Finally, in the interests of our clients, we urge the Board to adopt the proposed FSP on a prospective basis. To require retrospective application of FAS 157 would be an extraordinarily challenging task, both with respect to collecting the immense amount of information and with respect to reporting it in a manner consistent with the new valuation methodology. Any benefit gained would fall far short of the burden imposed upon investor entities.

Again, thank you for the opportunity to respond to the guidance document. We hope our thoughts are helpful to your deliberations. Please let us know if you have any questions.

Sincerely,

Bret Hewitt, Managing Director
Chair, Auditing Alternative
Investments Committee

Ann Bennett Spence, Managing Director
Member, Auditing Alternative
Investments Committee