

October 9, 2009

VIA E-MAIL AND FIRST CLASS MAIL

Mr. Russell Gordon Technical Director Financial Accounting Standards Board 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116

File Reference No. 1710-100

Re: Proposed Accounting Standards Update – Improving Disclosures about Fair Value Measurements

Dear Mr. Gordon:

We are pleased to respond to the request for comments from the Financial Accounting Standards Board (the "FASB" or the "Board") on its Proposed Accounting Standards Update on Fair Value Measurements and Disclosures (Topic 820), *Improving Disclosures about Fair Value Measurements* (the "ASU").

We do believe the Board's efforts to enhance transparency in financial reporting are important. We appreciate the opportunity to provide comments on the FASB's ASU. Appendix A includes our responses to the specific questions on which the board has requested feedback, and Appendix B includes other suggestions for the Board's consideration.

If you have any questions concerning our comments, please feel free to contact Adam Weinstein at (212) 220-4247.

Yours truly,

Adam J. Collins

Chief Financial Officer

New Mountain Capital, LLC

Adam Weinstein

Vice President and Controller

New Mountain Capital, LLC

Appendix A New Mountain Capital, LLC

Responses to Questions for Respondents

- Issue 1: With respect to the disclosure of the effect of changes in reasonably possible, significant, alternative inputs for Level 3 fair value measurements for each class of assets and liabilities (sometimes also referred to as sensitivity disclosures) the Board is seeking input from:
 - 1- Financial statement preparers about their operationality and costs.

In assessing the operationality of, and costs to be incurred, due to the amendments proposed in the ASU, we disagree with the Board's view that users will benefit from the proposed new and amended disclosures. We do not believe that expanding the range of values through the consideration of sets of reasonably possible alternatives enhances our financial statement users' understanding of the fair value of an investment and that the benefit from the improved disclosures will outweigh the costs of complying with the new requirements.

We do not believe that the Board has adequately considered the complexity and number of assumptions used to value private equity securities. The valuation of privately-held equity securities is subjective and utilizes a significant number of assumptions and professional judgment resulting in a point estimate within a range of values. The range of values take into consideration a number of different alternatives based on a number of different variables. The ASU does not provide clear guidance on how reasonably possible alternative inputs are determined which would require a preparer to consider a wide range of permutations of values as inputs are changed. In addition, we do not believe the example disclosures in the ASU provide enough guidance to help preparers provide consistent disclosure of directlyheld private equity investments. In the example provided in Case D, the Board does not require disclosure of reasonably possible alternative inputs for the private equity and venture capital funds held because such values are presented at fair value. If the ASU does not require this additional disclosure for such fund investments, we question whether this disclosure is needed by our investors (who are accredited investors and who present their investments at fair value). Our mix of investors are mainly some of the country's largest state pension fund systems.

Private equity and venture capital funds invest primarily in securities issued by private entities. It is not uncommon for a private equity fund to hold 10 to 15 company investments in their portfolio at any one time (for venture capital funds, the number of investments held may be significantly higher), which may consist of common and preferred equity securities, warrants, options, and debt and other securities issued by each company. The investment portfolio is managed on a company-by-company basis, rather than by "class" of security held.

In estimating the fair value of each company investment, the market approach and income approaches are generally weighted. Each approach incorporates a significant number of assumptions (for which readily available market inputs do not exist) and the exercise of careful consideration and professional judgment by the sponsor. Assumptions used for each

company are made in accordance with strategic and tactical operating plans with further consideration given to industry forecasts and macro-economic outlooks, including GDP growth, industry growth, inflation and capital needs. The selection of any one assumption versus another can result in a substantial change in the estimated fair value of the subject investment.

In applying the market approach to estimate the fair value of any one company investment, the following represent assumptions which we believe are generally significant to the use of such approach:

- 1. The public company or public companies that are considered most comparable to the subject company (both industry and size, but also other metrics such as similar margins etc.);
- 2. How the subject company compares to the public company or public companies selected (since public companies are typically significantly larger than the subject company, and since they do not typically have operations or segments that are exactly comparable to the subject company), which will impact whether a discount or premium to the multiple of the public company should be considered in deriving the appropriate multiple to apply to the subject company;
- 3. Once we put together the multiples of the selected comparable public company or public companies, what multiple is best applied to the subject company to estimate the fair value of such (e.g., the multiple of one particular public company, the mean of the multiples, the median of the multiples, another multiple within the range of observed multiples, etc.);
- 4. The recent transactions that have occurred in the market that involve targets that are considered most comparable to the subject company (both industry and size, but also other metrics);
- 5. How the market has changed since the population of identified recent transactions occurred and what impact such changes would have on the indicated multiple;
- 6. Capital structure;
- 7. Control premiums and marketability discounts; and
- 8. How the calculated enterprise value should be allocated to the various securities existing within the capital structure of the subject company.

In applying the income approach to estimate the fair value of any one company investment, the following represent assumptions which we believe are generally significant to the use of such approach:

- 1. Company-specific projections of cash flows and earnings of the subject company, generally over a five year period;
- 2. Projected working capital needs of the subject company;
- 3. Capital expenditures;
- 4. The terminal multiple to apply to the subject company's projected EBITDA (or revenue, sales, or other applicable performance metric);
- 5. The discount rate to apply to the projected cash flow stream of the subject company (inherent in the selection of the discount rate are assumptions for business risk, market risk, and value of future cash flows);

- 6. Capital structure; and
- 7. Control premiums and marketability discounts.

Based on the above, we believe that the ASU's proposed new disclosures are not operational for private equity investments since the entire process to estimate the fair value of Level 3 equity investments is comprised of a large number of significant assumptions (the selection of any one of which can result in a significant change in fair value). The number of permutations of value that can result by reflecting the effect that changing each of the inputs to "reasonably possible alternative inputs" would result in financial statement disclosures that could be confusing to the users of such financial statements by effectively presenting a range of fair values that could be very significant.

Further, the ASU provides that the above disclosures shall be separately presented for each "class of assets and liabilities." In paragraph 820-10-50-2A, the ASU states that "for equity and debt securities, *class* shall be the same as major security type as described in paragraph 320-10-50-1B¹ and, if applicable, in paragraph 942-320-50-2² even if the equity securities or debt securities are not within the scope of those paragraphs." As private equity and venture capital funds manage their investment portfolio on a portfolio company-by-portfolio company basis, rather than by "class" of security held (as defined above), this further supports our concern that the proposed new and amended disclosure requirements will not be beneficial to the users of such funds' financial statements.

In addition to disagreeing with the Board's view that users will benefit from the proposed new and amended disclosures, we also disagree with the Board's view that the benefit from such disclosures will outweigh the costs of complying with the new requirements. Specifically, we believe that the ASU will require significant additional costs to be incurred by private equity and venture capital funds since such funds generally only hold investments that are categorized as Level 3 and the tracking of Level 3 inputs is typically a manual process. Further, we expect that the audit costs incurred by such funds would rise significantly as a result of the expanded disclosure requirements due to the reasons cited above. Such increase in costs would directly impact the investors in such funds (as their overall returns would be diminished), and with very limited benefit to them.

2- IFRS financial statement preparers about the approach they plan to use to comply with a similar disclosure requirement in IFRS

¹ Paragraph 320-10-50-1B states that "major security types shall be based on the nature and risks of the security. In determining whether disclosure for a particular security type is necessary and whether it is necessary to further separate a particular security type into greater detail, an entity shall consider all of the following: (a) (shared) activity or business sector; (b) vintage; (c) geographic concentration; (d) credit quality; and (e) economic characteristic."

² Paragraph 942-320-50-2 states that "in complying with these requirements, financial institutions shall include in their disclosure all of the following major security types, though additional types also may be included as appropriate: (a) equity securities; (b) debt securities issued by the U.S. Treasury and other U.S. government corporations and agencies; (c) debt securities issued by states of the United States and political subdivisions of the states; (d) debt securities issued by foreign governments; (e) corporate debt securities; (f) mortgage-backed securities; and (g) other debt securities."

We support the Board's efforts to enhance the disclosures about assets and liabilities that are measured at fair value and to converge the disclosure requirements with International Financial Reporting Standard No. 7 Financial Instruments: Disclosures (IFRS 7), issued by the International Accounting Standards Board (IASB). We believe that the Board should reach out to IFRS preparers in order to obtain their input about the approach they plan to use in order to comply with a similar disclosure requirement in IFRS. However, we note that the proposed ASU, if finalized as currently drafted, would create a difference with IFRS 7 that does not require entities to consider the correlation among changes in significant inputs, in determining reasonably possible alternative inputs. We have a concern that a process of determining the correlation among many inputs is not operational.

3- Financial Statement users about their usefulness—more specifically a discussion of how they would benefit from, and use such disclosures.

We believe that financial statements users have sufficient useful disclosure about the valuations under the current guidance. In accordance with guidance contained in the AICPA Professional Standards, AU Section 9332, Interpretation No. 1, Auditing Investments in Securities Where a Readily Determinable Fair Value Does Not Exist, investors in private equity and venture capital funds are responsible for making the fair value measurements and disclosures included in their financial statements. As part of fulfilling their responsibility, such investors need to establish an accounting and financial reporting process for determining the fair value measurements and disclosures, select appropriate valuation methods, identify and adequately support any significant assumptions used, prepare the valuation, and ensure that the presentation and disclosure of the fair value measurements are in accordance with U.S. GAAP. As noted in the AICPA Technical Practice Aid, Alternative Investments - Audit Considerations, this responsibility cannot, under any circumstances, be outsourced or assigned to a party outside of the investor entity's management. Although the investor may look to the management of the private equity or venture capital fund in which it invests for the mechanics of the valuation, the investor must have sufficient information to evaluate and independently challenge the private equity or venture capital fund's valuation. We believe that our investors understand the risks of investing in private equity and debt securities and the number of highly-subjective inputs that we consider in formulating our investment fair value analysis. A sensitivity disclosure would include additional subjective assumptions that do not represent what we believe are the best indicators of fair value. As such, we believe that qualitative disclosure would be more appropriate and more cost effective for financial statement users in the private equity and venture capital industry.

Issue 2: With respect to the reconciliation (sometimes referred to as a roll forward) of fair values using significant unobservable inputs (Level 3), the amendments in this proposed Update would require separate disclosure of purchase, sales, issuances, and settlements during the reporting period. Is this proposal operational? If not, why?

We agree with the Board's view that presenting separate disclosure (rather than one net number) of purchase, sales, issuances, and settlements during the reporting period would be more beneficial to users of the financial statements. However, as most private equity and venture capital fund investments are categorized as Level 3, the information presented in the

reconciliation repeats information already provided in the basic financial statements of such funds. In these instances, the Board should consider whether such repetitive disclosure should be required.

Issue 3: Is the proposed effective date operational? In particular:

1- Will entities be able to provide information about the effect of reasonably possible alternative inputs for Level 3 fair value measurements for interim reporting periods ending after March 15, 2010?

We feel that the proposed new and amended disclosure requirements discussed in Issue 1 of the ASU are not operational or reasonable.

The ASU does not provide sufficient guidance to help preparers of financial statements consistently provide a reasonable set of possible alternatives. For private equity investments, the range of reasonably possible scenarios could be very wide. Without additional guidance, it would be difficult for preparers to develop such information (as the tracking of Level 3 inputs is typically a manual process), for auditors to complete their audits in a timely manner, and for users of the financial statements to understand how such range was created. Further, our firm (like most private equity and venture capital firms) does not have a formal risk management process in place to adequately consider the range of reasonably possible alternatives that may exist and would need to create significantly more complex and robust valuation models (or engage third party valuation firms) to properly contemplate and generate such information to meet the requirements of the ASU.

Based on the processes that will need to be developed and their complexity, we do not believe that the resulting information will be that useful to our investors as we do not believe that the comparison of our best estimate of fair value to a range of reasonably possible alternatives will improve their understanding of our valuation process and its risks. Further, we do not believe that the costs incurred by our firm (and other private equity and venture capital firms) in terms of time, personnel, or model development or additional third party costs which are charged back to our investors as additional fund expenses will outweigh the benefit of the proposed disclosures in the ASU.

2- Are there any reasons why the Board should provide a different effective date for nonpublic entities?

As discussed above, our firm (and other private equity and venture capital firms) would need to either add significant additional resources or incur significant additional third-party costs in order to comply with the proposed new and amended disclosures of the ASU. Our firm has a small accounting staff that is focused on issuing annual audited financial statements, supplemental information to our investors, and tax returns/K-1s within a very short time frame from our year-end in accordance with our agreements with investors. We do not have the internal resources to develop the new complex and robust models and draft the new disclosures (which are significant, if presented) for each investment. As such, if the Board decides to proceed with the proposed ASU, we believe adoption should be required for annual periods ending after March 15, 2010 for private entities.

Appendix B New Mountain Capital, LLC

Other suggestions for the Board's consideration

Item 1: Who would be affected by the Amendments in this Proposed Update?

The ASU suggests that the parties that would be affected by these amendments would be all entities that are required to make disclosures about recurring and nonrecurring fair value measurements. We believe that our firm (and all other private equity and venture capital firms) would be disproportionately impacted by higher internal costs, and costs charged by third party valuation firms and auditors, whose scope will need to increase to appropriately prepare or audit (as applicable) the additional information required. Further, based on the example in Case D, it appears that our typical investors (which include pension funds and endowments) will not be required to include in their financial statement disclosures reasonably possible alternative inputs relating to their investments in our private equity funds because we report to them a net asset value (or its equivalent) that has been calculated in a manner consistent with U.S. GAAP for investment companies, and they record their investments at fair value. Based on this provision, we question if the complexity of the disclosure requirements and related costs will outweigh the perceived benefit that such additional disclosures will provide.

- Item 2: The proposed Update provides amendments to Subtopic 820-10 that would clarify existing disclosures as follows:
 - a. Level of disaggregation. An entity is required to provide fair value measurements for each class of assets and liabilities. A class is often a subset of assets or liabilities within a line item in the statement of financial position. An entity would need to apply judgment in determining the appropriate classes of assets and liabilities.

For a typical private equity or venture capital fund, a higher level of aggregation of investments will not improve the investors' ability to understand the fair values that could result from a range of reasonably possible alternative inputs for Level 3 fair value measurements due to the number of individual assumptions used to determine each investment's fair value. The reporting of the significant assumptions used to develop the reasonably possible range of alternative inputs for Level 3 fair value measurements would also be lengthy and would not provide investors with sufficient information to replicate the valuation models. As such, if the disclosures of investments are aggregated, we do not believe the resulting disclosure will be meaningful to our investors.

b. Disclosures about inputs and valuation techniques. An entity is required to provide disclosures about the valuation technique and inputs used to measure fair value for both recurring and nonrecurring fair value measurements. Those disclosures are required for fair value measurements that fall in either Level 2 or Level 3.

We (and other private equity and venture capital firms) currently provide a description of the valuation techniques (and a listing of the major assumptions) used to estimate the fair value of investments held. Since the development of an estimate of fair value is investment-specific, we believe that providing a listing of all significant assumptions used will significantly add to the cost of preparing and auditing the financial statements. More importantly, our investments are made in private companies. Requiring us to provide significant financial information (such as growth rates and margins) for each investment may require us to disclose confidential private company information. We believe that our investors could be harmed by such disclosure. As such, the Board should consider the confidentiality provisions of our partnership agreements and other investor agreements. Disclosure of company-specific information is restricted in cases where investors are required to comply with the Freedom of Information Act ("FOIA"). We currently provide information to our investors outside of the audited financial statements, which we consider to be a more appropriate means of communicating such information, while protecting the confidentiality of our investments.