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**WILLIAM J. HUPP**  
**PARTNER - CFO**

312.553.7877  
Fax 312.553.7891  
whupp@adamsstreetpartners.com

Technical Director  
FASB  
401 Merritt 7  
PO Box 5116  
Norwalk, CT 06856-5116  
[Director@fasb.org](mailto:Director@fasb.org)

**VIA EMAIL**

**RE: File Reference 1710-100**

**Comment Letter on Proposed Accounting Standards Update, "Fair Value Measurement and Disclosure (Topic 820)," issued August 28, 2009**

Dear Technical Director:

Adams Street Partners appreciates the opportunity to provide our comments on Proposed Accounting Standards Update, "Fair Value Measurement and Disclosure (Topic 820)," issued August 28, 2009. The FASB Board has invited specific comments on the proposed Update as to sensitivity disclosures, the operational nature of additional disclosures as to reconciling items during the period reported, and the effective date. Our comments are based on the impact of the Proposed Accounting Standards Update on Adams Street Partners as both a general partner, an organization who must prepare such disclosures, and also as a limited partner, an organization that would be a primary user of such additional disclosures. (Appendix A provides more information about Adams Street Partners, LLC.)

**Impact of Sensitivity Disclosures on Adams Street Partners as a General Partner**

As a general partner and fund sponsor, Adams Street Partners would be a preparer of the new proposed sensitivity disclosures. We believe that application of the proposed disclosure rules to venture capital and private equity funds would not be operational. Creating these disclosures each quarter would be costly and potentially disruptive to the normal operations of our direct investing team. We also believe that such information would be almost impossible to summarize in a meaningful form for disclosure.

The proposed ASU calls for disclosures as to the effect of "reasonably possible significant alternative inputs for Level 3 fair value measurements" that would increase or decrease the fair value "significantly." "Reasonably possible" alternative inputs are those inputs that are "not remote but less than likely." These concepts would need to be clarified relative to the current

process for valuing the unique portfolio companies we invest in. Private equity and venture capital portfolio companies are primarily companies where the equity investor expects to make specific changes over time to a company or develop a new product in order to make the company more valuable over time. The investment professionals think of the values of the companies as revealed over time as the companies make or fail to make developmental milestones. Valuations are heavily event driven. Often a value of 0 is reasonably possible, as are values at multiples of the previous valuation. The range of value both currently and ultimately can be very large. There are no common elements in these milestones that would appear to offer any way to provide meaningful sensitivity analysis.

The example disclosure in Case D suggests that the increase and decrease in fair value would be calculated from the effect of reasonably possible alternative inputs. Since the investments in a portfolio are by-in-large not homogeneous, it would be virtually impossible to come up with any type of “weighted average of the key significant inputs” much less keep the list of key inputs to a reasonable number to iterate over. If a fund’s portfolio companies were concentrated in a particular geographic area or related to a particular commodity, for example the price of oil, it might be possible to comment on the impact of that factor on the portfolio as a whole. But even in that case it would be difficult to quantify what would be the increase and decrease in fair value from varying such an input over a wide range of reasonably possible inputs. Trying to summarize the results across a portfolio in a table as suggested in the example would be very challenging, time consuming and likely in the end not be meaningful.

The suggested sensitivity analyses may be a helpful disclosure for bond or mortgage portfolios and be similar to internal risk analyses that are done in those businesses; we do no internal analysis that would analogize to what is being suggested in the footnote example. If we do not find such analysis useful in making and managing these investments, it seems unlikely that it would be of value to the investors in our funds. Investments in private equity and venture capital are long term investments. Investment professionals in venture capital and private equity are much more focused on what the potential future value of the investment will be and what the steps are to get to that point, than in the possible variation in value of an investment today. Often this potential exit information is shared in general descriptive qualitative ways with limited partners. This information is in almost all cases proprietary and confidential, and much more meaningful than any derived summary statistical analysis of current value could be. Trying to determine a range of current value by varying factors over a range and documenting that would take investment partners away from their normal work and thus be disruptive to current operations.

The additional time and effort required would likely delay reporting to investors. This would likely be particularly true for the year end audited financial statements, when this disclosure would need to be audited. As discussed below, it seems unlikely that such disclosures would be used by the limited partners. Any delay in receiving the year end financials and audits would also be looked at negatively by limited partners.

## **Impact of Sensitivity Disclosures on Adams Street Partners as a Limited Partner**

Adams Street Partners, as a fund of funds sponsor, is a limited partner who actively uses every quarter the fund financial statements provided to us by the general partners. We would have to be part of any target audience for the sensitivity disclosures being proposed.

As limited partners, we are already aware through our investment due diligence and ongoing monitoring of the expertise of the general partner, their investment plans for that fund, and their candid views on the prospects for the investments they have made. We participate on valuation and limited partner advisory committees for more than 100 of the funds we invest in. A sensitivity analysis, particularly summarized at the portfolio level, is not something currently provided by the general partners we are invested in, nor have we ever asked for this type of analysis from our general partners. It is unclear to us as limited partners how these new disclosures would be used and we believe they would likely not be used.

Adams Street Partners is an active secondary buyer of private equity and venture capital fund interests. While our secondary team might find sensitivity information of some limited use, they would still do their own valuation analysis at the portfolio company level if they had the opportunity to purchase a secondary interest. They would also be much more inclined to think like the other investment professionals, not in terms of current value, but in terms of longer term exit values. This makes sense since these are illiquid assets that cannot be easily exited from and if exited from prematurely would likely not bring the value that the investment professional is investing for.

Finally, considering that we will value the investments in the partnerships we have invested in at fair value NAV in accordance with ASU 2009-12, we would not use the disclosures in our own financial statement reporting process.

Thus, as investors there does not appear to be any benefit to the proposed sensitivity disclosures for the additional costs incurred. We would expect that these costs would ultimately be to be passed on to us as investors in the form of expenses or lowered returns.

## **Reconciliation Details and Effective Date Issues**

As to the reconciliation details and effective date issues, we question whether it is effective disclosure. Much of that information is available at some level of detail already as part of a fund financial statement prepared in accordance with Investment Company GAAP. Providing more detailed reconciliations would not be without cost to gather and report. As limited partners in over 550 venture capital and private equity funds, if they were provided we would not use reconciliation details for Level 3 assets. We believe the additional costs for this level of detail are not supported by the needs of the limited partners and we would recommend exempting funds that report as investment companies from these specific disclosure requirements.

## Conclusion

Private equity and venture capital funds already make significantly detailed disclosures in the fund financial statements provided to investors. It is standard disclosure language to caution readers as to the subjectivity of the valuations used and to warn them that if a ready market existed the differences would likely be materially different. Most limited partners, often through limited partnership agreements, have access to additional information from the general partners about the underlying portfolio company investments which provides them with a more direct understanding of the risks and possible outcomes than any mathematically derived range could.

Thus, the operational difficulties of these proposed disclosures as noted above combined with the additional cost and the lack of demand by investors for this information, suggests that it would make sense for the FASB to not require these disclosures for private equity and venture capital funds. A way to do that consistent with ASU 2009-12 would be to exempt entities that currently report under the Investment Company GAAP set out in Topic 946.

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We appreciate the opportunity to comment on this Proposed ASU. If I can offer any further clarification please feel free to call me at 312-553-7877.

Very truly yours,

/s/ William J. Hupp

William J. Hupp  
*Chief Financial Officer and Treasurer*

## Appendix A

### Adams Street Partners, LLC

Adams Street Partners is a registered investment advisor, providing investment advisory services to clients who wish to pool their investment assets with those of other investors. We have provided discretionary investment advice for our clients on a separate account basis and through a variety of investment vehicles, including collective trusts, offshore trusts and limited partnerships. We currently manage over \$20 billion in assets under management. From our beginning as a part of First National Bank of Chicago in 1972 through our current status as an independent registered investment advisor, we have operated as a fiduciary for our clients. In general, our clients are institutional entities, often operating under ERISA or similar regulations in their countries. Adams Street Partners, the operating management company, is both investment advisor and general partner for the current investment vehicles we advise.

As one of the original providers of access to first venture capital and then more broadly private equity investing through a fund of funds structure, we are intimately aware of the issues and complexities of such structures. We have also been an active participant in secondary interest transactions going back to the 1980s. In all of these endeavors we have followed standards of fair value and transparency in reporting.