



January 7, 2010

VIA Email

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File Reference No. 1750-100: *Proposed Accounting Standards Update: Consolidation (Topic 810), Amendments to Statement 167 for Certain Investment Funds.*

The National Venture Capital Association (NVCA)¹ represents venture capital firms and the funds they manage. NVCA's member firms manage venture capital and private equity funds, usually through wholly-owned management companies. We appreciate the Board's attention to the impact of Statement 167² on investment managers, including venture capital firms.

We write to support the Proposed Accounting Standards Update which would defer the effective date of Statement 167 for investment management entities with interests in entities with the attributes of investment companies, ("the Deferral ASU"). We also support the FASB's

¹ The National Venture Capital Association (NVCA) represents more than 400 venture capital and private equity firms. NVCA's mission is to foster greater understanding of the importance of venture capital to the U.S. economy, and support entrepreneurial activity and innovation. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provide reliable industry data, sponsor professional development, and facilitate interaction among its members. For more information about the NVCA, please visit www.nvca.org.

² *Amendments to FASB Interpretation 46(R)*, issued June 12, 2009, codified through ASU No. 2009-17, *Consolidation (Topic 810), Improvements to Financial Reporting for Enterprises Involved with Variable Interest Entities (December 2009)*.

*National Venture Capital Association
File Ref. No. 1750-100: Amendments to Statement 167 for Certain Investment Funds
January 7, 2010*

efforts to amend FIN 46(R) to provide greater transparency into the risk exposure inherent in special purpose entities and complex securities. However, as we have noted during the Board's consideration of other changes to consolidation rules, consolidation in venture capital reporting tends to obscure key information regarding venture capital investment managers, the general partner entities and venture capital funds.

In addition, we urge the Board to consider deferral of the disclosure requirements for at least certain private entities. As currently written, it appears that Statement 167 may establish disclosure requirements that would be at odds with the deferral of the consolidation requirements. In attempting to understand how the disclosure requirements would apply to venture capital, we have encountered significant confusion regarding the extent of such disclosures. We also doubt that extensive new disclosures would be useful to the equity owners of either the venture capital management firms or to the limited partners of venture capital funds. These disclosures do not seem to contemplate the type of single asset class investing inherent to venture capital. Moreover, there is little, if any, appetite among users of venture capital firm financial statements for this type of information. Therefore we question whether any of the Statement 167 disclosures would be decision-useful to users of venture capital firm financial statements. In light of the substantial new compliance cost that would be involved, we strongly recommend that private entities be granted a deferral of the new disclosure requirements as well as the new consolidation requirements.

In response to the Exposure Draft's request that comments "elaborate as to why you believe the deferral is appropriate or not," we feel it is necessary to offer the venture capital perspective on the larger, but timely issue of consolidation and investment company accounting.

The Foundation Of Financial Reporting In Venture Capital Is Investment Company Accounting.

We acknowledge that the proposed Deferral ASU will not affect current venture capital fund ("VCF") accounting. However the Deferral ASU clearly relates to the convergence work of the FASB and the IASB on consolidation and the differences between IFRS and US GAAP on investment companies. We are very concerned that the upcoming joint project with the IASB on

*National Venture Capital Association
File Ref. No. 1750-100: Amendments to Statement 167 for Certain Investment Funds
January 7, 2010*

consolidation puts investment company accounting in play. With this in mind, we urge the FASB to make retention of investment company accounting for venture capital fund financial statements a priority as it opens the discussion with the IASB on consolidation.

As far as we are aware, venture capital fund investors see IFRS-based consolidated reports as obscuring the most important information -- the investor's proportional share, reported at fair value. Therefore, whenever possible, investors opt for financial statements that are consistent with US GAAP investment company accounting and do not consolidate the fund's investee entities. Were a converged FASB-IASB standard to reflect the IFRS approach, the likely result would be an expensive, circular trip back to the practical and proven presentation that investment company accounting provides.

The key piece of information for an investor in a venture capital fund is the fair value of its equity investment. Consolidation of portfolio companies' income and expenses into the financial statements of the VCF would render them useless to an LP of an investment fund.

The Deferral of the Application of Statement 167 to Venture Capital Firms Serves the Users of their Financial Statements and Avoids Wasted Effort.

We also continue to be concerned about any changes that would require the consolidation of the VCFs a venture capital firm manages into the firm's financial statements. We believe that such consolidation of VCFs with the financial statements of the venture capital firms will only obscure important financial information regarding both VCFs and venture capital firms and require extensive supplemental disclosure equal in scope to the current financial statements. More specifically, consolidation would eliminate management fees from the face of the income statement while creating consolidated asset and minority interest totals on the balance sheet that would dwarf the assets actually available to satisfy the obligations of venture capital firms.³

³ See comment letters to File Reference EITF 04-05 from U.S. Venture Partners, dated February 21, 2005 (sample balance sheets attached) and Adams Street Partners, dated February 18, 2005.

*National Venture Capital Association
File Ref. No. 1750-100: Amendments to Statement 167 for Certain Investment Funds
January 7, 2010*

NVCA member firms' experiences under EITF 04-05 should amplify the message from users of investment manager financial statements cited in the Deferral ASU.⁴ The users of venture capital firm financial statements – banks, landlords, owners – have uniformly rejected the consolidated statements and requested unconsolidated statements even though this is not GAAP. If Statement 167's tighter rules on kick-out rights were applied more widely, even more firms would likely go the non-GAAP/additional disclosure route in order to provide users the information they need.

Given the structure and legal relationships of venture capital firms to the funds they manage and the investors in those funds, consolidated firm financial reports are simply not relevant. The nature of these structures and relationships is set out in some detail in NVCA's letter in the EITF 04-05 rulemaking comment file.⁵

Further Change in Consolidation Rules Should Reflect the Unique Reporting Requirements of Investment Companies.

We certainly appreciate the importance of consolidation where it is appropriate. However, investment company accounting has a long history of providing a useful reporting framework for both public and private investment vehicles. Investors prefer it and, to our knowledge, entities within its proper scope are not a source of accounting abuse. Over the past seven years, each new rule on consolidation has resulted in the need for exceptions, supplemental reporting or, as in this case, deferral. Therefore, it seems that recent experience argues strongly

⁴ “[S]everal users of financial statements of investment managers continued to express concerns about the usefulness of those statements if the investment fund managers were required to consolidate the investment funds they manage.” Deferral ASU Exposure Draft, p. 1.

⁵ See NVCA comment letter in the EITF 04-05 file, dated February 19, 2005. (Generally, the Fund GP “stands in both a management and an advisory relationship to the fund with the fund agreement specifying the GP’s investment discretion and overall authority. The GP’s capital commitment is very small relative to that of the LPs as a whole and small in comparison to that of the majority of LPs individually. None of the key aspects of the venture structure suggest that the GP should include the fund on its financial statements. Indeed, consolidation is inconsistent with the reality of each of these relationships and the relative financial interests of the investors in the fund. LPs certainly do not view the GP as having a controlling financial interest or a dominant ownership in the fund. They view them as managers of the fund and advisers to the fund.”) *id.*, p.4. *The NVCA EITF 04-05 comment letter has additional detail regarding fund structures and legal relationship.*

*National Venture Capital Association
File Ref. No. 1750-100: Amendments to Statement 167 for Certain Investment Funds
January 7, 2010*

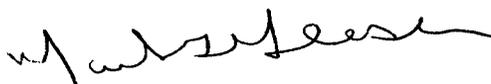
for separate investment company accounting rules being specifically defined within any new consolidation rules.

Conclusion

We support the proposed deferral of the consolidation requirements of Statement 167. Additionally, we strongly encourage the FASB to ensure that convergence with IFRS does not undermine the ability of venture capital firms and funds to use investment company accounting as the basis of their financial reporting. We also believe there needs to be significant clarification to the Statement 167 disclosure rules and how the deferral and the disclosure requirements are intended to work. In this context we urge the Board to confer with the users of venture capital firm financial statements to determine what types of additional disclosure they might find decision-useful. Moreover, we see the possibility of unintended consequences that should be fully explored across all investment funds before any changes are made effective.

Again, we appreciate the Board's attention to the issues raised in the Deferral ASU as it continues its work on consolidation standards. We would be pleased to provide any added assistance that we can make available.

Sincerely yours,



Mark G. Heesen
President