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VIA EMAIL

File Reference: No. 2011-200 and No. 2011-220
RE: Comment Letter on the FASB's Proposed Accounting Standards Updates—Financial Services-Investment Companies and Consolidation

Adams Street Partners appreciates and welcomes the opportunity to respond to the Board's Proposed Accounting Standards Updates for Financial Services—Investment Companies (Topic 946) and Consolidations (Topic 810) ("the Proposals"). Our responses to the Proposals are presented with the objective of providing the Board with practical input on the impact of the proposed changes on our firm as a member of the global private equity industry.

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 \$22 billion in assets under management in more than 200 investment entities all of which are accounted for as investment companies at fair value. 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. In all of these endeavors we have followed standards of fair value and transparency in reporting.

Overall Response

We find much in the Proposals that is positive. However, in attempting to apply the proposals to the fund-of-funds structures we have in place, we are extremely concerned that we will be forced to change our use of investment company accounting and fair value or be forced to make extensive changes in our legal structures to meet the requirements of the Proposals. Based on the work we have done to date, we believe that such changes will be expensive and the resulting reporting changes will be unwelcomed by our investors. As an investor in over 600 partnerships, we are also concerned that the flow of information and fair valued capital accounts from the underlying partnerships we invest in will be disrupted by inflexible application of the criteria in the Proposals.

Our institutional investors need us to report their investment in our funds at fair value. That requires all intermediate entities through to the underlying portfolio companies report their investments at fair value. To the extent that the Proposals change this, we will be required to create costly new systems and processes which will provide less meaningful financial reporting. We will still have to maintain our current reporting process and systems since this provides our investors with the reporting that they need under generally accepted accounting principles (GAAP).

While the examples presented in the Consolidation Proposal are very helpful in understanding how to make the required assessment of principal or agent, we recommend that there be additional examples developed that cover the common structures used in private equity investing, including parallel funds, co-investment funds, and AIV's (alternative investment vehicles). The issue of control as it relates to related parties should also be directly addressed. We believe the differences between fund-of-funds and master-feeder structures needs to be further explored as well as the preferred way to report on those structures. The most common reporting we see is separate financial statements for each entity in a tiered structure. The benefit of this reporting is that it maintains the integrity of the unit of account of each legal entity.

As global investors we would also strongly urge that the differences between IFRS and US GAAP be minimized. To the extent that there are differences, we will be forced in our processes at Adams Street Partners to adjust IFRS based financial statements we receive to US GAAP.

We are aware that others are responding to the questions in the Proposals in a comprehensive way. We have commented below on the questions to the extent that the Proposals impact us.

Responses to Specific Questions on Investment Companies

Question 1: The proposed amendments would require an entity to meet all six of the criteria in paragraph 946-10-15-2 to qualify as an investment company. Should an entity be required to meet all six criteria, and do the criteria appropriately identify those entities that should be within the scope of Topic 946 for investment companies? If not, what changes or additional criteria would you propose and why?

Response to Question 1:

We recommend that FASB focus on principles and allow for an entity to be determined as an investment company by the preponderance of the evidence. We recommend that an investment company be defined as an entity that substantially meets the majority of the six criteria.

We also recommend changing the criteria to allow for single investment entities and single investor funds. The use of single investment alternative investment vehicles (AIV's) has been a major feature of investing in private equity for the last 6 years. Single investor funds are a commonly used structural alternative to a separate account. These are investor driven structures that meet investor tax, reporting and legal requirements.

Investors of all types need fair value for their own financial reporting under GAAP. An additional characteristic that could be considered would be that the entity has an investor or investors who must report their investment in the investment entity at fair value. As an investor who needs fair value for our investors, we have, since the 1970s, required the funds we invest in report to us using fair value. In areas of the world where fair value has not previously been the norm, we have required through side letters supplemental fair value reporting.

Question 4: The proposed amendments would require an entity to reassess whether it is as an investment company if there is a change in the purpose and design of the entity. Is this proposed requirement appropriate and operational? If not, why?

Response to Question 4:

The closed-end funds in our industry need to ramp up in their early years and be unwound at the end of the fund's life. Beginning and end of life assessments for investment funds that did not take this into account would not be meaningful and would be difficult to operationalize. It could also potentially be burdensome for investors where the form of the reporting would change.

Question 7: To be an investment company, the proposed amendments would require an entity to have investors that are not related to the entity's parent (if there is a parent) and those investors, in aggregate, must hold a significant ownership interest in the entity. Is this criterion appropriate? If not, why?

Response to Question 7:

As noted above, we do not think that this needs to be a determinative requirement.

We would also raise a question as to how the very common use of co-investment entities would be treated under the Proposals. Co-investment funds are frequently used by related parties and unrelated parties alike to facilitate accounting, tax and administrative work. It is unclear how the concepts of controlling interests would be applied to these entities. Co-investing itself is a basic risk management tool. It would seem an odd result if the Proposals increased risks for investors and made administrative costs higher.

Question 9: Certain entities may meet all of the other criteria to be an investment company but have only a single investor (for example, a pension plan). The amendments in FASB's proposed Update on investment property entities provides that if the parent of an entity is required to measure its investments at fair value under U.S. GAAP or the parent entity is a not-for-profit entity under Topic 958 that measures its investments at fair value, the entity would not need to meet the unit-ownership and pooling-of-funds criteria to be an investment property entity. Considering the Board's concerns identified in paragraph BC24, should the criteria in this proposed Update be amended to address situations in which the entity has a single investor?

Response to Question 9:

As described above, a single investor should not disqualify an entity from being an investment company.

Question 10: The unit-ownership and pooling-of-funds criteria in the proposed amendments do not consider the nature of the entity's investors for evaluating if an entity is an investment company. That is, the criteria do not differentiate between passive investors and other types of investors. Do you agree that the nature of the investors should not be considered in evaluating the unit-ownership and pooling-of-funds criteria?

Response to Question 10:

We believe that the needs of the investor should clearly be taken into account. Investor needs have driven the use of investment company accounting and fair value reporting.

Question 12: The proposed amendments would retain the requirement that an investment company should not consolidate or apply the equity method for an interest in an operating company unless the operating entity provides services to the investment company. However, the proposed amendments would require an investment company to consolidate controlling financial interests in another investment company in a fund-of-funds structure. An investment company would not consolidate controlling financial interests in a master-feeder structure. Do you agree with this proposed requirement for fund-of-funds structures? If not, what method of accounting should be applied and why? Should a feeder fund also consolidate a controlling financial interest in a master fund? Please explain.

Response to Question 12:

We strongly disagree with the requirement that an investment company needs to consolidate controlling financial interests in another investment company in a fund-of-funds structure. All investments of an investment company should be reported at fair value. We do not believe any

purpose is served or any useful information is provided by requiring an investment company to consolidate underlying investments. As noted above, investors need fair value information and any change would trigger significant new costs with no benefits to investors.

As also noted above, we recommend examples covering common structures and related party issues be added to support consistency in practice and avoid doubt in applying the new guidance.

Question 14: The proposed amendments would prohibit an investment company from applying the equity method of accounting in Topic 323 to interests in other investment companies and investment property entities. Rather, such interests would be measured at fair value. Do you agree with this proposal? If not, why?

Response to Question 14:

Yes, we agree.

Question 17: Do you agree with the additional proposed disclosures for an investment company? If not, which disclosures do you disagree with, and why? Would you require any additional disclosures and why?

Response to Question 17:

Current required disclosures, beyond the information in the schedule of investments, needs to be reviewed and reconsidered. As investors we are not using the new disclosures.

Question 18: The proposed amendments would retain the current requirement in U.S. GAAP that a noninvestment company parent should retain the specialized accounting of an investment company subsidiary in consolidation. Do you agree that this requirement should be retained? If not, why?

Response to Question 18:

Yes, we agree that fair value accounting should be retained.

Question 20: How much time would be necessary to implement the proposed amendments?

Response to Question 20:

Implementation time could be significant if the requirement to change the treatment of fund-of-funds as detailed in the Proposals is retained in the final document.

Question 21: The proposed amendments would prohibit early adoption. Should early adoption be permitted? If yes, why?

Response to Question 21:

Yes, early adoption would make sense.

Question 22: The proposed amendments would apply to both public and nonpublic entities. Should the proposed amendments apply to nonpublic entities? If not, how should the proposed amendments differ for nonpublic entities and why?

Response to Question 22:

Yes, since most investment companies are nonpublic entities.

Responses to Specific Questions on Consolidation – Principal and Agent Analysis

Question 11: For purposes of applying the proposed principal versus agent guidance, the proposed amendments would require a reporting entity to include the decision maker's direct and indirect interests held in an entity through its related parties. Do you agree with the requirement that a decision maker should include its proportionate indirect interest held through its related parties for purposes of applying the principal versus agent analysis? Why or why not?

Response to Question 11:

Private equity firms often create parallel related party investment vehicles which create additional common interests with the other LP investors. This is seen as additional 'skin in the game' by other investors in choosing which private equity fund to invest in. We would recommend a subjective determination of whether to include such related party interests in this determination to avoid having accounting rules impact behavior that investors desire in their managers.

Question 12: The amendments in this proposed Update would require a general partner to evaluate its relationship with a limited partnership (or similar entity) by applying the same principal versus agent analysis required for evaluating variable interest entities to determine whether it controls the limited partnership. Do you agree that the evaluation of whether a general partner should consolidate a partnership should be based on whether the general partner is using its decision-making authority as a principal or an agent?

Response to Question 12:

We think there will be problems, as mentioned above, for fund-of-funds and other complex structures with a simple principal-agent analysis that does not include taking into account the needs of financial statement users. We recommend that there be additional examples developed that cover the common structures used in private equity investing, including parallel funds, co-investment funds, and AIV's. We also would recommend that control as it relates to related parties should also be directly addressed.

We also believe the principal-agent analysis may not be that helpful when faced with multi-tiered investment structures. The differences between fund-of-funds and master-feeder structures needs to be further examined. The most common reporting we see is separate financial statements for each entity in a tiered structure. This reporting is easy to understand as it maintains the integrity of the unit of account of each legal entity.

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