

May 15, 2013

VIA Email

Technical Director File Reference No. 2013-221 FASB, 401 Merritt 7 PO Box 5116 Norwalk, CT 06856-5116 Director@FASB.org

RE: Exposure Draft: Overall (Subtopic 825-10) Recognition and Measurement of Financial Assets and Financial Liabilities. REQUEST FOR EXTENSION OF COMMENT PERIOD

Background

The National Venture Capital Association ("NVCA") represents the vast majority of American venture capital under management.¹ Venture capital funds provide start-up and development funding for innovative entrepreneurial businesses. Venture capital funds report under GAAP as investment companies, measuring their assets at fair value.

¹ Venture capitalists are committed to funding America's most innovative entrepreneurs, working closely with them to transform breakthrough ideas into emerging growth companies that drive U.S. job creation and economic growth. According to a 2011 IHS Global Insight study, venture-backed companies accounted for nearly 12 million jobs and \$3.1 trillion in revenues in the United States in 2010. As the voice of the U.S. venture capital community, the National Venture Capital Association (NVCA) empowers its members and the entrepreneurs they fund by advocating for policies that encourage innovation and reward long-term investment. As the venture community's preeminent trade association, NVCA serves as the definitive resource for venture capital data and unites its 400 plus members through a full range of professional services. For more information about the NVCA, please visit www.nvca.org.

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NVCA's CFO Task Force is made up of the Chief Financial Officers and Administrative Partners of more than 100 of our member firms. The CFO Task Force is a key means for the NVCA to learn about the practical impact of GAAP accounting standards on financial reporting in the venture industry. Task Force members also provide NVCA with guidance on the likely impact of proposed standards and information on the actual impact of recently enacted standards.

Basis for Request for Extension of Comment Period

We have been following FASB actions on the Financial Instruments standard over its long development period. Heretofore we have not seen a direct impact on venture capital funds arising from this standard. However, we have only recently become aware of a significant provision in Paragraph 825-10-35-17 of the above-referenced Exposure Draft. (Hereafter "Paragraph 35-17").

Paragraph 35-17 says that a qualified entity "may measure an equity investment without a readily determinable fair value ... at its cost minus impairment, if any, plus or minus changes resulting from observable price changes in orderly transactions for the identical investment or a similar investment of the same issuer." Since the vast majority of equity instruments held by venture capital funds have no "readily determinable fair value," such a standard could provide venture funds a greatly simplified means of fair value measurement. However, the Exposure Draft would negate this possibility since Paragraph 35-17 expressly excludes "an investment company that is subject to the guidance in Topic 946."

Since we have only recently become aware of this part of the Topic 825 proposed standard and the comment period ends today, we are writing to request additional time to consider the implications of an extension of this rule to venture capital funds. We recognize that this is an unusual request for our association to make. However, it stems largely from preparer and user concerns that have arisen during recent audits regarding the application of Topic 820 to investments in private securities of venture capital funds.

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As some FASB members are certainly aware the most recent annual reporting season has been highly frustrating for venture capital firms.² The greatest concerns do not appear to arise from the cost – which is high and is born in significant part by users. Instead the frustration we see arises from the ever-increasing amount of time and expense devoted to the resulting mathematically-derived fair values that are inconsistent with many venture firm CFOs' and some users' views of the values that marketplace participants would assign to venture fund assets.

We recognize that the approach to fair value measurement set out in Paragraph 35-17 has many implications and may not be the right solution for this problem. Nonetheless, we see a growing consensus among many thoughtful members that the way Topic 820 is being applied is an impediment to cost-effective financial reporting to venture capital investors. Therefore, we request additional time to review the implications that Paragraph 35-17 might have for fair value measurement in venture capital funds.

Conclusion

NVCA appreciates the Board's consideration of this request for additional time sufficient to fully review the Exposure Draft and the potential implications of Paragraph 35-17 for the venture industry. We are aware that other organizations have sought an extension until June 30, 2013. Such an extension would provide ample time for our evaluation. Please feel free to contact me or Jennifer Connell Dowling, Senior Vice President, at 703 524 2549.

Sincerely yours,

Mark G. Heesen

President

² See, e.g., Bloomberg BNA, Daily Tax Report, "Fair Value – FASB Parent to Review Fair Value Measurement and Disclosure Standard," (May 1, 2013).