October 12, 2009

Technical Director
File Reference No. 1710-100
Financial Accounting Standards Board
401 Merritt 7
P.O. Box 5116
Norwalk, CT 06856-5116

RE: Proposed Accounting Standards Update, Fair Value Measurements and Disclosures (Topic 820) – Improving Disclosures about Fair Value Measurements

Dear Technical Director:

American Capital, Ltd. ("American Capital") welcomes the opportunity to comment on the proposed Accounting Standards Update ("ASU") to amend Subtopic 820-10, *Fair Value Measurements and Disclosures*. American Capital is a publicly traded private equity firm and global asset manager structured as a non-diversified closed end investment company that has elected to be regulated as a business development company under the Investment Company Act of 1940, as amended. American Capital invests in senior debt, mezzanine debt and equity in the buyouts of private companies sponsored by American Capital, the buyouts of private companies sponsored by other private equity firms and provides capital directly to early stage and mature private and small public companies. American Capital also invests in structured finance investments including commercial mortgage backed securities and commercial loan obligations. American Capital currently has approximately $11 billion in capital resources under management. Substantially all of American Capital’s investments are Level 3 investments.

American Capital supports the Financial Accounting Standards Board’s (the "Board") goal of continuing to improve the framework for measuring fair value and to enhance disclosures about fair value measurements for financial statement users. However, we do not support certain aspects of the Board’s proposed ASU. The following are American Capital’s comments to the Board’s specific questions to respondents on the proposed ASU.
Financial Accounting Standards Board
October 12, 2009
Page 2 of 4

**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 financial statement preparers about their operationality and costs and from financial statement users about their usefulness.

American Capital does not believe that providing quantitative sensitivity disclosures on the significant alternative inputs for Level 3 measurements as outlined in the proposed ASU is useful to readers of the financial statements and cannot be accomplished by preparers in a cost effective manner.

The determination of fair value of private equity investments in non-public companies requires a substantial amount of professional judgment. American Capital uses traditional income, market and cost approach valuation methodologies, including among others, discounted cash flow analyses, valuation of comparable public companies, recent sales of private and public comparable companies, estimated liquidation or collateral value and offers from prospective buyers to the company. American Capital weights each valuation methodology using its professional judgment. American Capital generally weights several valuation methodologies and the weighting is a significant assumption with reasonably possible alternatives to the weightings that could have a significant impact on the determination of fair value.

Each of these valuation methodologies requires a substantial amount of significant unobservable inputs that could have reasonably possible alternatives that could increase or decrease the fair value significantly. The unobservable inputs into each of these private equity investments are determined on a portfolio company specific basis instead of on a global basis on a homogenous set of assets such as residential-mortgaged backed securities, which is the example disclosure provided in the proposed ASU. American Capital believes the number of individual unobservable inputs that could have reasonably possible alternative inputs which are determined on an investment by investment basis are so great that attempting to quantify both the alternative inputs and their impact on fair value is not operationally reasonable for a company such as American Capital with several hundred private equity investments. Furthermore, the inputs into these valuation methodologies are often interrelated so that changing one input will likely require changing one or more other inputs. The resulting number of permutations in the valuation models could unintentionally lead to the inability to prepare financial statements in a timely manner and also lead to extensive disclosure that will not be useful to a reader. Without understanding the underlying rational in determining each input and the interrelationship each input may have on one another, providing a range in value based upon these various permutations could be misleading to the reader of financial statements. Finally, while the range of reasonable values may be great for any single investment, our experience has shown that in the aggregate, we have exited approximately $12 billion of committed investment capital over eleven years within less than 1% of the previous quarter's valuation.
For example, in preparing a discounted cash flow analysis, estimating the future cash flows of an individual operating company requires substantial professional judgment and analysis to develop the assumptions for which there could be multiple reasonably possible alternative assumptions about the company specific and macroeconomic factors. These alternative assumptions could significantly impact the estimated cash flows and therefore the fair value. Developing a discount rate to apply to those cash flows also involves a substantial amount of judgment including developing a company specific risk premium or discount to the discount rate which is in part based on the assumptions utilized in estimating the cash flows. These are just two of the many inputs utilized in a discounted cash flow valuation analysis which in itself is just one of many valuation methodologies used to determine the point estimate of fair value of one out of several hundred private equity investments. Attempting to quantify multiple reasonable alternative inputs after management has already completed the process of determining the most likely outcome and/or reasonable assumptions will result in a significant burden and result in disclosure that has no value.

American Capital employs a tremendous amount of resources to its valuation process which currently requires about eight weeks per quarter of time in order to arrive at a point estimate of fair value to meet its regulatory reporting requirements. Requiring companies, such as American Capital that have significant investments in private companies, to apply additional resources to its valuation process to arrive at multiple ranges of fair value is cost prohibitive and not operationally reasonable.

**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 purchases, sales, issuances, and settlements during the reporting period. Is this proposed requirement operational? If not, why?

American Capital supports providing separate disclosure of the nature of the changes in fair value of Level 3 assets. However, American Capital believes this can be achieved by disclosing the gross additions and gross subtractions to Level 3 assets during the reporting period in the roll forward instead of disclosing each of the purchases, sales, issuances and settlements during the reporting period. With respect to its private equity investments, American Capital often will sell a portfolio company in an M&A transaction in which it has both a debt and equity investment. As part of the transaction, American Capital’s debt investment will be repaid or settled and its equity investment will be sold. Requiring separate disclosure of its debt investment that was settled and its equity investment that was sold as part of the same M&A transaction does not provide meaningful information. Alternatively, the objective of the Board can be accomplished by disclosing the gross additions and gross subtractions instead of the components of each.
Financial Accounting Standards Board
October, 12, 2009
Page 4 of 4

**Issue 3:** Is the proposed effective date operational? In particular, 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 and are there any reasons why the Board should provide a different effective date for nonpublic entities?

American Capital does not believe that the effective date of the proposed ASU as currently written is operationally possible for many private equity firms. In particular, the ability of private equity firms to provide quantitative disclosures of the reasonably possible alternative inputs and their impact on Level 3 fair value measurements is not feasibly operational as of the proposed effect date.

In addition, American Capital does not believe the Board should consider a different effective date for nonpublic entities. Overall, it is American Capital’s opinion that the Board should not promulgate different accounting guidance for public and nonpublic companies. The Board’s self proclaimed purpose is to “establish standards of financial accounting and reporting for private sector entities, including businesses and not-for-profit organizations”. Providing separate accounting guidance for public and nonpublic companies is outside of the authority of the Board. Any additional accounting and reporting standards for public companies should be promulgated by the Securities and Exchange Commission and not the Board.

We appreciate your consideration of these comments and welcome the opportunity to discuss them with you.

Sincerely,

Richard Konzmann
Senior Vice President, Accounting