U S V P
U.S. VENTURE PARTNERS
30TH ANNIVERSARY
10 FUNDS~400 COMPANIES~100,000 JOBS

Michael P. Maher
Chief Financial Officer

Via e-mail only: director@fasb.org

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Technical Director
FASB
401 Merrit 7
PO Box 5116
Norwalk, CT 06856-5116

Re: **File Reference No. 2011-200**
Proposed Accounting Standards Update
Financial Services – Investment Companies (Topic 946)
Amendments to the Scope, Measurement, and Disclosure Requirements

Introduction and Background

Thank you for the opportunity to submit comments concerning the *Proposed Accounting Standards Update* Financial Services – Investment Companies (Topic 946), Amendments to the Scope, Measurement, and Disclosure Requirements (the "Proposed IC Scope ASU").

U.S. Venture Partners ("USVP")[1] was formed in 1981 and has invested in more than 440 initially private companies in a wide variety of industries across a broad spectrum of the development stages of an enterprise, from start-up to expansion capital; these companies have created more than 100,000 jobs. The USVP funds have in excess of $3.4 billion of committed capital and the investors ("Limited Partners") of these funds include a wide variety of institutional investors including insurance companies, financial institutions, pension plans, fund of funds, university endowments, and large private foundations.

Typical of many venture capital funds, when forming a new fund, USVP typically forms a "main fund" and one or more "parallel funds" (sometimes also referred to within the investment community as side funds); each a "Fund" and collectively a "Fund Family". Over its 30+ year history, USVP has formed 10 separate Fund Families (collectively, the 10 separate Fund Families together with their respective managers are considered to be the "USVP Fund Complex"), and is currently making new investments for its USVP X Fund Family. In our case, a new Fund Family is formed every 3 to 5 years. Our parallel funds have historically been much smaller in size and the combined capital of all parallel funds in a Fund Family would not exceed 10% (and generally is much lower) of the combined committed capital of the Fund Family.

By operation of the respective legal agreements between a Fund and its investors, each Fund in a Fund Family will simultaneously invest in each portfolio company pro rata based upon the available capital of each Fund on the same terms and conditions as the other Funds in a Fund Family.

[1] U.S. Venture Partners and USVP are the names commonly used to refer to a series of venture capital partnerships and their related general partner and management company entities.

2735 Sand Hill Road Menlo Park, CA 94025 650.854.9080 Fax: 650.234.0733 www.usvp.com

Historically, each Fund within a Fund Family has been viewed as an investment company and each such Fund has prepared its financial statements in accordance with the provisions of the AICPA's Audit and Accounting Guide: Investment Companies, now codified as Topic 946.

Both we and the investors in our Funds consider the use of fair value as a critical aspect of our financial reporting to them.

We understand that the vast majority of our investors are required under U.S. GAAP, applicable specifically to them, to report their investment in our Funds at fair value. For the most part, our investors rely on the net asset value ("NAV") which we provide them as fair value in accordance with the "practical expedient" provisions of FASB's ASU 2009-12.

Basis for USVP Comments

Each USVP Fund was formed to operate as a venture capital partnership, and we consider ourselves to be venture capital investors. The USVP entities meet the definition of a "venture capital fund" as recently established by the U.S. Securities and Exchange Commission in their new rule 203(l)-1; as such we meet the definition of an exempt reporting adviser and will file Form ADV accordingly. Furthermore, were it not for the operation of the exemptions set forth in Sections 3(c)(1) or 3(c)(7) of the Investment Companies Act, each USVP Fund would meet the definition of an "investment company" set forth in 3(a)(1)(A); that is, a USVP Fund "is or holds itself out as being engaged primarily, or proposes to engage primarily, in the business of investing, reinvesting, or trading in securities".

As such, we believe that each USVP Fund should prepare its financial statements in accordance with Topic 946.

Summary Comment

Our primary concerns are that (1) the criteria set forth in proposed 946-10-15-2 should be more principles based and less of the bright line test they currently seem to be, and (2) the financial support disclosures set forth as proposed 946-20-50-15 are essentially unworkable for venture capital and certainly do not present decision useful information to our investors.

Response to Question 1: Should an entity be required to meet all six criteria

[Please note that this response also touches on Questions 7, 9, and 11]

In our reading of proposed 946-10-15-2, it seems that the FASB has established a bright line test as any failure would result in disqualification as an investment company.

While the six criteria identified would seem to generally be characteristics of an investment company, we are reasonably confident that any number of entities that would consider themselves to be an investment company may not meet one or more of the criteria. In our case, we can envision circumstances where one of our parallel funds would not meet one of the criteria, in particular item (c) which we are interpreting to require that a Fund have (1) more than one investor, and (2) that such investors not be related to a parent which we are interpreting to mean that, in our case, such a Fund must have investors other than individuals who are employees, managers, or members of the USVP Fund Complex.

We are also concerned with the inclusion of the word "only" and the requirement for "multiple" investments in item (a). Of particular concern are the possibilities that for a variety of legal or tax reasons, (1) a Fund could be required to spin off a single investment into another separate legal entity, or (2) a single investor may have to spin out of a Fund and hold its proportionate interests in a stand-alone entity.

Proposed paragraph cc. Fair value management seems to require that an entity demonstrate that it functionally manages it activities on the basis of fair value and that the entity's performance be evaluated on fair value. Ultimately, if capital appreciation, investment income, or both is the substantive activity, we believe that each of these criteria would be critical to the management of a Fund's activities and a basis for the evaluation of performance. Certainly, the use of fair value would be critical to the determination of capital appreciation.

As such, we suggest that proposed 946-10-15-2 be revised to read as follows:

… is an entity that meets all of the following criteria:

a. Express business purpose. The express business purpose of the investment company is investing to provide returns from capital appreciation, investment income (such as dividends or interest), or both.

aa. Nature of investment activities. The investment company's substantive activities are directed toward investing to provide returns from capital appreciation, investment income (such as dividends or interest), or both.

b. Unit ownership. [No changes to proposed language.]

c. Pooling of funds. The funds of the investment company's investor(s) are pooled to avail investor(s) of professional investment management. Such pooling may occur either (i) collectively in a single entity or (ii) singularly or collectively in one or more separate entities that are intended to invest generally simultaneously in the same securities on generally the same terms and conditions, and such entities are effectively managed by the same manager.

cc. Management and performance evaluation. Substantially all of the investment company's investments are measured using fair value, and their performance evaluated on the basis of capital appreciation, investment income, or both.

d. Reporting entity. [No changes to proposed language.]

Response to Question 17: Do you agree with the additional proposed disclosures?

No.

In our experience, most investors believe that the level of currently required disclosures is excessive.

In the absence of a clear definition of "financial support", the most immediate conclusion is that proposed 946-20-50-15 (the "Financial Support Disclosure") would require the disclosure of (i) cash or assets invested in a portfolio company, and (ii) any assistance in the raising of additional capital for the portfolio company.

As a general statement, (i) most venture capital funds already provide their investors with a complete list of the cost and carrying values (estimated fair value) for each of their investments, (ii) most venture capital funds make their investments in the form of direct investments into the portfolio companies (and very few of these investments are previously contractually required), (iii) most venture capital funds assist their portfolio companies in numerous ways including efforts to raise more capital for the enterprise[2], and (iv) as an investment company, a venture capital fund is investing such funds for the purpose of capital appreciation.

A further reading of ¶ BC43 suggests that Financial Support Disclosure would "help users of financial statements understand an investment company's exposure to risk". Unfortunately, it is not clear what "risk" was of concern. More specifically, it would seem to me that most, if not all risk for an investment company falls into two major categories: (1) Loss in value of investments, and (2) Loss from contractually required future investments that would not result in capital appreciation, investment income or both.

In our opinion existing financial reporting and disclosure requirements (e.g. requirements to report cost and fair values of investments, changes in fair values, [Topic 946], the nature of information used in developing fair values [Topic 820], and contractual contingencies [Topic 450 and others]) already provide users of investment company financial statements with substantial information regarding each of these risk categories.

Conclusion

We support the Proposed IC Scope ASU with the exceptions noted, and strongly suggest that the final IC Scope ASU eliminate the additional proposed disclosures, and that the criteria be modified to provide a more principles based, and less of a bright-line definition of an investment company.

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Thank you for the opportunity to submit our comments concerning the *Proposed Accounting Standards Update, Financial Services – Investment Companies (Topic 946), Amendments to the Scope, Measurement, and Disclosure Requirements*. Should you have questions concerning these comments, please contact me at 650.854.9080 or by e-mail at mmaher@usvp.com

Very truly yours,

Michael P. Maher
Chief Financial Officer

[2] See Appendix A of the AICPA's Audit & Accounting Guide: Investment Companies, May 1, 2011 which states in its first paragraph that "In addition to providing funds, whether in the form of loans or equity, the venture capital investment company often provides technical and management assistance to its investees as needed and requested"