



July 8, 2009

Technical Director
FASB
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VIA EMAIL

Re: Proposed FASB Staff Position No. FAS 157-g: Estimating the Fair Value of Investments in Investment Companies that have Calculated Net Asset Value per Share

The National Venture Capital Association (NVCA) is pleased to comment on the above referenced proposed FSP No. FAS 157-g (“the FSP”). NVCA represents the vast majority of American venture capital under management.¹ NVCA member firms and the funds they manage provide the start-up and development funding for innovative entrepreneurial businesses.

NVCA’s CFO Task Force consists of the CFOs and Administrative Partners of more than 100 of our member firms. The Task Force meets monthly by conference call to review new regulatory and legislative initiatives with the goals of assisting the NVCA in developing policy positions and sharing experiences and perspectives, where appropriate. Task Force members provide NVCA both expertise and a practical perspective on issues related to valuation and reporting by venture capital funds to their limited partner investors.

With the assistance of the CFO Task Force, NVCA submitted a comment letter on the AICPA AcSEC draft Issues Paper, “FASB Statement No. 157 Valuation Considerations for Interests in Alternative Investments.” We appreciate the FASB’s consideration of the comments submitted by NVCA and others to the AcSEC in developing the proposed guidance in the FSP. We support the FASB’s efforts to provide practical guidance to investors in vehicles like venture capital funds (VCFs).

¹ The National Venture Capital Association (NVCA) represents more than 460 venture capital firms – 90% of the venture industry. 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.

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General comment

NVCA believes the general thrust of the guidance in the FSP will be valuable to its limited partner investors. The views of financial statement users described in the FSP's Paragraph 9 are consistent with VC experience as to investors' preferences to use net asset value without further adjustment.

Specific comments regarding the relationship of venture capital fund NAVs to fair value

We are concerned that the language of paragraph 15 of the FSP and proposed paragraph 31D of FAS 157 can be read to imply that NAV is not fair value. The use of the term "practical expedient" -- from FAS 157 Paragraph 31 presumably -- and the placement of the proposed amendment under Paragraph 31, instead of Paragraph 30, suggests that NAV is the equivalent of a "pricing convention."

At least in the venture capital fund context, NAV is the best available measurement of fair value. NAVs of investments in VCFs are determined based on the "framework for measuring fair value" set out in FAS 157. Best practices among venture capital funds involve rigorous evaluation of asset values.

Valuation practices no doubt vary in the broad universe of alternative investment funds. Therefore, it is appropriate that 157-g is permissive rather than mandatory. Since reliance on NAV is optional and conditional, investors will need to determine whether fund NAVs are determined with sufficient rigor to qualify as "calculated in accordance with [the AICPA Audit and Accounting] Guide." Proposed paragraph 31B [emphasis supplied.]

An investor's use of NAVs that are calculated under the AICPA Guide, based on fair values measured using unobservable inputs under FAS 157 should not be characterized as a practical expedient. The language suggested in the July 2 comment letter to the Technical Director from Adam Street Partners to replace language in Paragraph 15 and proposed paragraph 31D is more consistent with the premise of NAVs, calculated using fair values measured under FAB 157.²

Specific comments regarding the use of NAV when VCF and investor measurement dates are not the same

Because of the diversity of reporting schedules among investors in VCFs, investors can have reporting period measurement dates that are out of phase with VCF quarterly reporting schedules. For example, an investor with an August 31 measurement date may have received its most recent VCF quarterly statement as of June 30. Currently, in this situation, the investor

² The July 2 letter from Adams Street Partners recommends that paragraph 15 of the FSP and proposed Paragraph 31D be amended to replace the opening phrase, "[i]n circumstances in which net asset value per share of an investment is not determinative of fair value, a reporting entity is permitted, as a practical expedient, ..." with "[a] reporting entity is permitted, in the absence of observable inputs..." We endorse this language and also note that the Adams Street letter has many helpful and practical recommendations for changes. NVCA hopes that the FASB will favorably consider each of them.

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seeks additional interim information from the VCF and make adjustment the June 30 NAV figure where appropriate. However, the basis for the investor's fair value measurement remains the VCF's June 30 NAV.

We read the final three lines of Paragraph 15 of the FSP 157-g and proposed Paragraph 13D, to require the same measurement dates in order to apply the use of NAV, "without further adjustment." Consequently, investors can comply with FAS 157 measurement requirements by using NAV's based on prior measurement dates so long as the NAVs are adjusted appropriately. A clarification in the final FSP to this effect would help avoid any confusion on this point.

Conclusion

NVCA appreciates the FASB's efforts in this area. We would be pleased to assist in any we can. Please feel free to contact me or John Taylor, Vice President, Research at 703 524 2549 if you have any questions for us.

Very truly yours,



Mark G. Heesen
President