November 30, 2012

VIA Email

Technical Director
File Reference No. 2012-220
FASB, 401 Merritt 7
PO Box 5116
Norwalk, CT 06856-5116
Director@FASB.org

RE: Request for Comments: *Disclosure Framework*

Background and General Comments

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 and are nearly all private entities.

[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.

NVCA's CFO Task Force is made up of the Chief Financial Officers and Administrative Partners of more than 100 of our member firms. With guidance from the CFO Task Force, NVCA has worked with the FASB throughout the development of numerous standards. New disclosure requirements have been a recurring concern for us and we have addressed these concerns in comment letters on numerous FASB proposals. We are encouraged that the FASB is considering addressing disclosure in a comprehensive way in the hope that we can avoid the need to repeatedly deal with the same issues. We laud the goals of the Disclosure Framework project. Standards that produce more effective disclosure focused on the actual needs of users are a worthy objective. We are hopeful that this project can reverse the trend toward more and more disclosure that is often of no real value to financial statement users in venture capital financial statements. Allowing preparers greater latitude to determine what information to provide in consultation with investors should certainly advance the stated goals of the project.

In general, we see potentially significant new problems that could arise should the FASB proceed to address global disclosure issues based on the draft Framework. We recognize the preliminary nature of the draft Framework and appreciate that the FASB is seeking public comment at this early stage of its deliberations.

NVCA's perspective is that of both users and preparers of financial statements. As such, NVCA has often commented critically on specific new disclosure requirements based on limited relevance, cost-benefit imbalance and the sheer volume of marginally useful information. We have found the question of whether information is "decision-useful" as a meaningful basis for evaluating disclosure requirements since it incorporates a distinction between whether information would help an investors make an investment decision as opposed to merely being of marginal interest to a particular type of investor, investment analyst or another type of user.

Having said that greater flexibility is appropriate it seems to us that the draft Framework fails to provides enough guidance on materiality, decision-usefulness or on cost-benefit analysis to have a positive impact on the volume of disclosure. Furthermore, the language of the draft Framework reveals an excessive concern with "under-disclosure" when "over-disclosure"

currently hampers the ability of a typical reader to effectively use the footnotes to financial statements.

As a second general comment, we find it difficult to assess the potential impact that the draft Framework will have on disclosure (and decisions about what to disclose) absent some concrete examples of its application. Therefore, we recommend field work with both users and preparers that might generate examples for the next iteration of the Framework. Such examples should allow for more fully informed comments from organizations such as ours.

The basic shortcomings of the draft Framework seem to be identified in a November 7, 2012 letter submitted by the Institute of Management Accountants (IMA).[2] The IMA letter presents an extensive and critical review of the draft Framework. While the IMA letter discusses many issues that are relevant primarily to public entities, many of its comments are applicable to private entities users and preparers as well. In particular, we concur with the suggestion that "the FASB subject disclosure requirements to robust user relevance, as well as cost and complexity criteria."[3] Rather than restate the relevant concerns that the IMA letter identifies we will merely thank them for their work and commend it to the FASB staff.

Application to Private Companies

As to the differences between the disclosure requirements of private company users as opposed to public company users, our recent comment on the FASB's Discussion Paper on the Private Company Decision Making Framework is equally apt here.

> NVCA has been pleased to support every effort of the FAF and the FASB to address the significant challenges of applying increasingly complex standards to private companies in a cost-effective way. Our abiding perspective is that

[2] Available at http://www.fasb.org/cs/BlobServer?blobkey=id&blobwhere=1175824976737&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs.
[3] *Id.* p. 5.

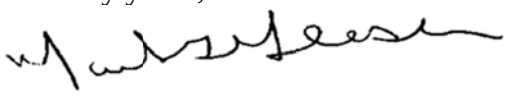
investors in venture funds ultimately pay for financial reports they receive. We can state unequivocally that the users of venture fund financial statements are investors, not sell-side analysts or analysts for mutual fund families. They are aware of the dead-weight cost of unnecessary and outdated information in audited GAAP financials. Therefore, we are confident that we speak for users as well as preparers in saying that there are fundamental differences in the cost-benefit impact of information in financial statements of public and private investment companies, especially in disclosure.[4]

Investors in private venture capital funds are sophisticated and have significant access to management as well as influence over the information they are provided. Similarly venture funds general partners know their investee companies well and are privy to substantial amounts of information about these companies long before they receive audited financial statements. Therefore, we are certain that the Disclosure Framework should take the very real differences between public company and private company financial statements into account.

Conclusion

NVCA appreciates the opportunity to comment on the draft Disclosure Framework. We would be pleased to work with the FASB on these important matters. Please feel free to contact me or Jennifer Connell Dowling, Senior Vice President, at 703 524 2549.

Sincerely yours,



Mark G. Heesen
President

[4] Letter from Mark G. Heesen, National Venture Capital Association, October 31, 2012, P. 4. *Emphasis supplied.* Available at http://www.fasb.org/cs/BlobServer?blobkey=id&blobwhere=1175824906221&blobheader=application%2Fpdf&blobcol=urldata&blobtable=MungoBlobs.