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Technical Director
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Financial Accounting Standard Board
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BY EMAIL

RE: National Venture Capital Association Response to FASB Invitation to Comment -- Agenda Consultation

Introduction

As the voice of the venture capital industry, the National Venture Capital Association (NVCA) [1] appreciates the opportunity to respond to the Financial Accounting Standard Board's (FASB) Agenda Consultation and provide the perspective of venture capital funds (VCFs), which invest across the spectrum of company development stages, typically from an early-stage startup through IPO or acquisition.

Our comments on all financial reporting matters are informed by the active involvement of NVCA's CFO Task Force, a working group comprised of member firms' Chief Financial Officers, Chief Operating Officers, and Administrative Partners who are collectively responsible for the financial reporting within the venture industry. CFOs of venture funds are key users of the financial statements of thousands of portfolio companies ("PCs").

Most CFO Task Force members are CPAs, and many have practiced accounting with leading national firms and have had significant operating experience as CFOs of both private and public companies. They provide insights into the value of information in portfolio company

[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. 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 members through a full range of professional services. For more information about the NVCA, please visit www.nvca.org.

financial statements and are frequently involved in accounting decisions of private portfolio companies. These members also advise VCF "deal partners" who often serve on PC boards of directors and have the primary responsibility to oversee a fund's investment in a PC investee.

Our comments are in response solely to the ITC questions that are most relevant to venture capital.

Questions for Respondents

Question 1: Please describe what type of stakeholder you (or your organization) are from the list below, including a discussion of your background and what your point of view is when responding to this ITC:

NVCA is a not-for-profit association of investment firms that manage venture capital funds. While these funds prepare financial reports as investment companies, our comments on this ITC come from our members' perspective as users of investee company financial statements.

Question 4: Are there any financial reporting topics beyond those in this ITC that should be a top priority for the Board to address? Please describe:

The FASB agenda should include a project on reducing the complexity of financial reporting for start-up/early-stage companies. We believe a project focused on practical expedients for early-stage companies would fit the criteria for inclusion in the FASB agenda.

There is a clear and important distinction in the minds of financial statement users like venture capital fund investors between what is useful in the financial reports of early-stage portfolio companies and late-stage companies.

- Early-stage companies are largely pre-revenue, and their cash/capital positions are the primary concern of their investors.
- Late-stage private companies' financial reporting must prepare them for an exit event; therefore, "full" GAAP financials are useful for investors and for the preparer company.

Recent FASB action on the Private Company Council's Practical Expedient to Measuring Grant-Date Fair Value of Equity-Classified Share-Based Awards is a good example of the ways that the FASB can reduce the cost and complexity of preparing financial statements without reducing decision-useful information to investors. Other areas are ripe for similar gains.

Disclosure regarding compensation and share-based awards is an area where additional simplification is possible for early-stage companies and their investors. Certain specific disclosure requirements are unduly complex and provide no useful information to the users of early-stage company financial statements. These disclosures affect thousands of companies and the resources devoted to these disclosures could be better deployed to the operational success of those companies. Simple disclosure about fully diluted percentage ownership for issued grants and aggregate proceeds receivable upon exercise could provide users with more useful information than the current extensive disclosure requirements.

Similarly, the key facts users need in tax disclosures of most early-stage, pre-profit companies are the aggregate amount of federal and state tax loss carryforwards. Much of the additional required disclosures is not decision-useful. Elaborate tax disclosure of items like deferred tax assets, and related valuation allowances provide limited meaningful information. Simplification in these areas would improve financial reporting of early-stage companies for users and preparers.

Financial KPIs and Non-GAAP Metrics

Question 14: Are there common financial KPIs or metrics—either widely applicable to all companies or industry specific—that would provide decision- useful information if they were defined by the FASB? Please explain.

EBITDA and Free Cash Flow (FCF) are important and commonly used metrics in venture capital. While the FASB should not discourage the use of non-GAAP KPIs for illustrating the specific ways in which each company's management measures its financial performance, a definition of these two terms would reduce complexity in financial reporting for venture capital fund investors.

Question 15: If the FASB were to define certain financial KPIs or metrics, should all companies be required to provide those metrics or should providing those metrics be optional?

Companies that report non-GAAP measure of earnings or cash should be required to provide a GAAP-compliant base number. The main benefit to be obtained from a FASB definition of commonly used KPIs would be a reduction in complexity. Currently, users like venture fund investors must first determine how the preparer defines the KPI before the numbers are meaningful. For example, since EBITDA's various components are themselves made up of other financial statement entries an EBITDA number is only the beginning of understanding its significance to a company's earnings or cash position.

If the various components of EBITDA—interest, taxes, depreciation, and amortization—were standardized, preparers could more clearly state the way any "adjusted EBITDA" number differs from the standard definition. The same is true for Free Cash Flow. This would certainly save user time and effort and probably also help conserve preparers' resources.

Digital Assets

Question 12: If the Board were to pursue a project on digital assets, which improvements are most important, what types of digital assets should be included within the scope, and should this guidance apply to other nonfinancial assets?

Digital assets are a growing area of investment in venture capital. As the ITC notes, digital assets are held for a variety of purposes and their use is growing. Clarifying guidance on the appropriate accounting treatment for digital assets in varying use cases would be helpful to venture capital funds and to companies holding digital assets.

Conclusion

Thank you for the opportunity to submit comments on the FASB's Agenda Consultation and for your consideration of our views. The areas outlined above would have a meaningful impact on reducing the cost and complexity for venture-backed portfolio companies committed to spurring economic growth through innovative and emerging technologies. On behalf of the venture capital industry, NVCA looks forward to working with the FASB on these and future initiatives to help simplify financial reporting for portfolio companies.

Sincerely,

Bobby Franklin

Bobby Franklin
President and CEO