October 31, 2012

VIA Email

Technical Director
File Reference No. 2012-XXX
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RE: Request for Comments: *Private Company Decision-Making Framework -- A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies*

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. NVCA's member firms and

[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.

nearly all venture-backed companies are private entities. Venture capital funds report under GAAP as investment companies and are nearly all private entities.

NVCA and its members' representatives have participated in numerous panels, committees, working groups and roundtables regarding the application of FASB rules and its rulemaking process to private entities.[2] We remain intensely interested in the adaptation of GAAP to fit the needs of private company investors and financial statement users. We appreciate the opportunity to comment upon this latest stage of this process, the Discussion Paper on the *Private Company Decision-Making Framework, A Framework for Evaluating Financial Accounting and Reporting Guidance for Private Companies* ("the draft Framework" or "the Draft"). Our comments are directed toward the portion of the Draft labeled "Preliminary Staff Recommendations." We hope that the draft Framework's approach to private entities that report under industry- specific standards reflects very preliminary thinking.

PRIVATE INVESTMENT COMPANIES AND INDUSTRY SPECIFIC STANDARDS

The typical venture capital fund is a private investment company that report under Topic 946. Our main concern regarding the draft Framework is that it can be read to create either a strong presumption or a *de facto* prohibition against affording private investment companies like venture capital funds relief from full application of the GAAP standards that apply to publicly traded investment companies.

According to the language in many paragraphs of the Draft, as well as statements made by FASB staff in the related FASB webinar, there should be a "general presumption" against modification of any aspect -- recognition, measurement, display or disclosure – of standards for

[2] Leaders from NVCA member firms participated or continue to participate in the FAF/AICPA/NASBA Blue-Ribbon Panel on Standard Setting for Private Companies, the Private Company Financial Reporting Committee and the FASB Small Business Advisory Committee. NVCA also filed extensive comments on the FAF"s *Plan to Establish the Private Company Standards Improvement Council* based on guidance from our CFO Task Force.

private companies that report under Topic 946.[3] In a most optimistic scenario, the Draft would prompt the PCC to push investment company accounting matters far down its priority list. At worst, the general presumption would erase any prospect for private investment companies receiving relief.

A presumption that the PCC should treat private investment companies differently from other private entities is a significant departure from the expectation created by the FAF as it developed the PCC. The notion of separate treatment for entities that report under industry-specific standards like Topic 946 was never raised in the lengthy public process that has led to the creation of the PCC. As such, any proposal for such a departure should be fully explained and fully justified. The Draft does neither. While the draft Framework discusses the presumption and its implication in a number of places the overall justification and its possible implications are confusing at best.

As we read the Draft the justification for the "industry-specific presumption" is scant and seems to be based on assumptions that do not hold true – at least, not in our industry. Decision charts such as paragraph 2.10 are perhaps the clearest statement regarding the impact of the proposed "industry-specific presumption." The flow chart's apparent bright line presumption is difficult to fathom. If there is some overarching logic supporting the notion that the mere existence of industry-specific standards justifies a presumption that private companies should be treated the same as public companies in that industry it is missing from the Draft.

The industry-specific presumption runs contrary to long-standing practice in investment company accounting and to recent FASB decisions to exempt private companies from certain fair value disclosures. Moreover, the ways in which private venture capital funds and public investment companies differ align well with the "Significant Differential Factors" set out in

[3] *See e.g.*, Paragraphs 1.11, 1.12, 2.2, 2.6, 3.2 and IN FOCUS: The FASB Private Company Decision-Making Framework Project," available at http://event.on24.com/eventRegistration/EventLobbyServlet?target=lobby.jsp&eventid=516808&sessionid=1&key=DE3A7889BD0F218903634034EC33D287&eventuserid=71234177.
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paragraph DF1. They also align with a clear majority of the eight considerations regarding disclosure set out in paragraph 2.3 of the Draft. The need to calibrate all standards based on these distinctions is well-established; however, the language in the Draft would seriously undermine this consensus.

The foundation of the PCC is a broad consensus about the very real differences in the needs of users of financial statements issued by private companies as compared to the financial statements issued by public companies, regardless of industry. The PCC should operate under the presumption that all standards should be reviewed on an equal footing and that all types of reporting entities should be evaluated in the same way. In our view, it seems clearly inconsistent with the spirit of the creation of the PCC to impose a presumption that private companies reporting under specific accounting guidance are "generally" not eligible for PCC consideration.

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 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.

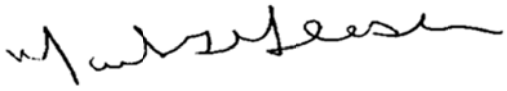
We expect that the PCC appreciates the tremendous diversity among private companies and among users of private company financial statements. We recognize that investment companies are just one type of private entity and that venture capital is but a small part of the enormous investment fund industry. We strongly encourage the PCC and its staff to make full use of the expertise available to it through organizations like the NVCA's CFO Task Force and its individual members in order to fully appreciate the important distinctions that exist between the users of public and private investment company financial statements.

CONCLUSION

As noted, we recognize that the language in the Draft reflects preliminary thinking, and, we hope, merely in-artful drafting. However, we see cause for significant concern. For the reasons stated above we firmly believe that the draft Framework needs to be revised with regard to its treatment of private investment companies so that they are clearly placed on an equal footing with other private entities.

NVCA 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,



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