



Accounting & Auditing Standards

Overview

Like the regulatory landscape, accounting and auditing standards, as well as accounting rule interpretation and audit practices are constantly evolving. As such, NVCA continuously monitors developments that impact the industry. Accounting standards promulgated by the Financial Accounting Standards Board (FASB) and the International Accounting Standards Board establish the basis for the financial statement presentation under with Generally Accepted Accounting Principles or “GAAP” (or IFRS, where applicable). The funds’ limited partner agreements (LPAs) generally establish the content, and sometimes the form of funds’ quarterly and fund financial reports.

Audit standards established by the Public Company Accounting Oversight Board (PCAOB) and the American Institute of Certified Public Accountants (AICPA) set out the rules and practices that the fund’s independent auditors must follow in certifying each funds’ compliance with GAAP. NVCA has been active in representing the industry to educate policymakers and standard setters to ensure that financial reporting is relevant to the limited partners and that reporting can be timely and cost effective.

In addition, private organizations such as the Institutional Limited Partner Association (ILPA), the International Private Equity and Venture Capital Valuation Group (IPEV) and the Private Equity Investors Guidelines Group have issued papers and commentary to help harmonize reporting by private funds, including venture capital funds. NVCA has sought to provide proactive and constructive support to these efforts where appropriate.

Position

NVCA and its members believe that transparency and effective financial reporting are key to the relationship between venture capital funds and their limited partner investors. NVCA engages with its members regularly through its CFO Task Force, which comprises almost 100 CFOs and financial professionals of our member firms.

More than ten years ago, we convened our CFO Task Force for the purpose of drawing on the collective insights and extensive experiences of those responsible for financial reporting in NVCA member firms. This group plays a critical role within their firms by making sure that

limited partners have relevant and useful information concerning the performance of the funds they manage and the portfolio companies that make them up.

We work with the various accounting bodies and standard setters in order to avoid new requirements that undermine our members' ability to deliver the most decision-useful information to LPs in a cost-effective manner. With the advice and assistance of Task Force members, we monitor developments in financial reporting and respond when and where it is appropriate to educate decision makers on the unique circumstances of venture funds in financial reporting.

In our communications we emphasize the long-term nature of venture investing and the challenges of effective reporting amid rapid change and "binary" outcomes inherent to the high-risk/high-reward entrepreneurial ecosystem and the challenges that innovation presents. This perspective is often quite welcome and appreciated by standards setters and policymakers who might otherwise be exclusively influenced by current circumstances, while many of our member firms and their portfolio companies are focused on solutions to a constantly evolving future.