

MEMO# 31334

August 15, 2018

ICI Submits Comment Letter on AICPA Working Draft of Accounting and Valuation Guide

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August 15, 2018 TO: ICI Members SUBJECTS: Fund Accounting & Financial Reporting Valuation RE: ICI Submits Comment Letter on AICPA Working Draft of Accounting and Valuation Guide

The Institute recently filed the attached comment letter on a working draft of an AICPA Accounting and Valuation Guide, *Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies*.[\[1\]](#) The Guide is intended to provide guidance to financial statement preparers, independent auditors, and valuation specialists regarding the accounting for and valuation of portfolio company investments held by investment companies within the scope of ASC 946. The Guide was prepared by the AICPA Private Equity and Venture Capital Task Force and focuses primarily on equity and debt securities issued by privately-held enterprises. The Guide is nonauthoritative and is not meant to change any existing accounting guidance. Instead, it is intended to help interpret and apply existing fair value measurement concepts consistent with ASC 820.

The Institute's comment letter focuses on two issues discussed in the Guide: unit of account and underwriter lockups. First, the comment letter notes that investment companies holding debt securities classified as Level 2 within the fair value hierarchy typically obtain from their pricing vendor an evaluated price that represents the amount for which an institutional size lot could be sold and apply that price to the fund's entire holding to determine fair value. The comment letter recommends that the Guide address this practice as part of the unit of account discussion.

Second, the comment letter notes that the Guide discusses restrictions that are specific to the asset (e.g., a restricted security) and restrictions that are specific to the holder (e.g., an underwriter lockup). The Guide indicates that irrespective of whether the restriction is a legal restriction on the sale of shares or a contractual restriction on the fund through an underwriter agreement, the fund is prohibited from selling shares through the public markets and that the task force believes it is appropriate to consider the restriction to be a characteristic of the asset irrespective of the form of the restriction. The draft comment letter expresses support for the task force's conclusion.

Gregory M. Smith
Senior Director, Fund Accounting and Compliance

[Attachment](#)

endnotes

[1] Working Draft of AICPA Accounting and Valuation Guide, *Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies* (May 15, 2018). The working draft is available at <https://www.aicpa.org/interestareas/frc/accountingfinancialreporting/working-draft-of-pe-vc-guide.html>.

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