

**MEMO# 31923**

August 28, 2019

# AICPA Issues Accounting and Valuation Guide

[31923]

August 28, 2019 TO: ICI Members SUBJECTS: Fund Accounting & Financial Reporting  
Valuation RE: AICPA Issues Accounting and Valuation Guide

The AICPA recently released guidance to investment companies and their advisers regarding the valuation of, and the accounting related to, their investments in equity and debt securities issued by privately held enterprises. The accounting and valuation guide *Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies* (Guide) is intended to provide investment companies investing in privately held enterprises with a) an overview and understanding of valuation processes, and b) best practice recommendations for complying with FASB ASC Topic 946, *Financial Services—Investment Companies*, and Topic 820, *Fair Value Measurement*.

The Guide was developed by the AICPA Private Equity and Venture Capital Task Force and was approved by the AICPA's Financial Reporting Executive Committee. The Guide is nonauthoritative and does not change generally accepted accounting principles. Instead, it is intended to help preparers, auditors and valuation specialists interpret and apply Topics 946 and 820. The Guide focuses on valuation of investments in private enterprises held by venture capital and private equity funds, including early stage companies with no products or revenues, and more mature companies where management seeks to restructure the business and improve profitability in anticipation of a resale or public offering.

The Guide starts with an overview of the private equity and venture capital industries and their investment strategies. It then summarizes fair value measurement concepts described in Topic 820. It also has chapters on fair value concepts including market participant assumptions, unit of account, and an overview of valuation approaches (*i.e.*, the market approach, the income approach and the asset approach).

The Guide also has chapters addressing calibration, back-testing, and factors to consider at or near a transaction date. The Guide also has a chapter on special topics that addresses the P x Q Rule (*i.e.*, ASC 820-10-35-44), underwriter lock-ups and SEC rule 144A, and identifying distressed transactions. The Guide also addresses frequently asked questions and includes appendices addressing documentation considerations and case studies.

Gregory M. Smith  
Senior Director, Fund Accounting and Compliance

---

Copyright © by the Investment Company Institute. All rights reserved. Information may be abridged and therefore incomplete. Communications from the Institute do not constitute, and should not be considered a substitute for, legal advice.