

MEMO# 31321

August 7, 2018

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

[31321]

August 7, 2018 TO: Accounting/Treasurers Committee
Security Valuation Operations Committee RE: ICI Draft Comment Letter on AICPA Working Draft of Accounting and Valuation Guide

In May the AICPA released for public comment a working draft of an 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 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 has prepared the attached draft comment letter on the working draft. **Please provide any comments on the draft letter to Greg Smith at smith@ici.org by close of business on Monday, August 13.**

The draft comment letter focuses on two issues discussed in the Guide: unit of account and underwriter lockups. First, the draft 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 draft recommends that the Guide address this practice as part of the unit of account discussion.

Second, the draft 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 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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