

COMMENT LETTER

August 15, 2018

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

August 15, 2018 Ms. Yelena Mishkevich Senior Technical Manager AICPA 1211 6th Avenue New York, NY 10036 Re: Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies Dear Ms. Mishkevich: The Investment Company Institute¹ appreciates the opportunity to comment on the working draft of the valuation and accounting guide, Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies.² The Guide provides nonauthoritative guidance and illustrations for preparers of financial statements, 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. We commend the Private Equity and Venture Capital Task Force for developing the Guide. While the Guide is nonauthoritative, we believe it will help interpret and apply existing fair value measurement concepts consistent with ASC 820. Unit of Account Paragraphs 13.03 through 13.07 of the Guide discuss application of the “P*Q Rule” described in ASC 820-10-35-44. Where an asset is traded in an active market (that is, instruments that can be measured within Level 1 of the fair value hierarchy) the fair value of the asset is the product of the quoted price for the individual asset and the quantity held. The Guide notes that ASC 820, in effect, prescribes the unit of account for assets traded in an active market as the individual instrument. 1 The Investment Company Institute (ICI) is the leading association representing regulated funds globally, including mutual funds, exchange-traded funds (ETFs), closed-end funds, and unit investment trusts (UITs) in the United States, and similar funds offered to investors in jurisdictions worldwide. ICI seeks to encourage adherence to high ethical standards, promote public understanding, and otherwise advance the interests of funds, their shareholders, directors, and advisers. ICI’s members manage total assets of US\$22.0 trillion in the United States, serving more than 100 million US shareholders, and US\$7.6 trillion in assets in other jurisdictions. ICI carries out its international work through ICI Global, with offices in London, Hong Kong, and Washington, DC. 2 Working Draft of the AICPA Accounting and Valuation Guide, Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds (May 15, 2018) (“Guide”) available at <https://www.aicpa.org/interestareas/frc/accountingfinancialreporting/working-draft-of-pe-vc-guide.html>. Footnote two to paragraph 13.04 discusses the unit of account for instruments not traded in an active market and indicates “[t]he fund’s guidelines will determine when the unit of account for the investment would be considered to be the individual instrument (for example a single unit or a single share), or the entire position in that instrument held

by the fund (for example the fund's aggregate holding in each debt instrument and each equity instrument that would be listed separately on the Schedule of Investments, rather than the smallest unit that could be sold)." Funds may invest in debt securities classified as Level 2 of the fair value hierarchy (e.g., corporate debt, municipal debt, etc.). For these securities funds typically obtain from their pricing vendor an evaluated price that represents the amount for which an institutional size lot (e.g., \$10 million) could be sold and apply that price to the fund's entire holding to determine fair value. Accordingly, we recommend that the unit of account discussion as it relates to Level 2 debt securities acknowledge this practice. Underwriter Lockups ASC 820-10-55-54 addressing restrictions on the use of an asset can be read to suggest that where restrictions apply to the holder (rather than the asset) the security may be valued at the price for the freely-traded shares. Paragraphs 13.08 through 13.14 of the Guide discuss 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). Paragraph 13.11 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 for a given period of time and that when evaluating an assumed transfer of the position any buyer would typically be subject to the same restrictions. The paragraph then indicates that in such cases, the task force believes that it is appropriate to consider the restriction to be a characteristic of the asset irrespective of the form of the restriction. We agree with the task force's conclusion and believe it is consistent with industry practice. * *

* * * * We appreciate the opportunity to comment on the working draft of the Guide. If you have any questions regarding our comments or would like additional information, please contact the undersigned at (202) 326-5851 or smith@ici.org. Sincerely, Gregory M. Smith
Senior Director, Accounting and Compliance