



Institutional Limited Partners Association's Response to the Financial Accounting Standards Board regarding: Financial Accounting Standards Board Staff Position FAS 157-g

**Financial Accounting Standards Board
Address etc**

July 8th, 2009

Re: ILPA Response to Financial Accounting Standards Board (FASB) Staff Position 157-g

Thank you for the opportunity to respond to FASB in regard to FASB Staff Position 157-g. The Institutional Limited Partners Association (ILPA) is a global organization of institutional investors of private equity that have approximately \$1 trillion of private equity assets under management. The mandate of the ILPA is to support its members on issues relating to education and research and to communicate matters that may affect business processes. To that end, the ILPA surveyed its members to elicit feedback on the FASB Staff Position 157-g. The ILPA is pleased to provide the following summary of our members' response to FASB Staff Position 157-g.

RESPONDENTS DESCRIBED

- i) Organizations represented:
 - 39% Public Pension
 - 12% Corporate Pension
 - 15 % Insurance Companies
 - 20% Endowments, Family Offices and Foundations
 - 12% Investment Companies
 - 2% Other
- ii) Respondents primarily were senior investment professionals (81%), with executives (12%) and administrative/operations personnel (7%) also responding.
- iii) Of those organizations that responded 70% indicated a requirement to record investments at fair value as described by FASB Statement No. 157. The remaining 30% either were not held to that requirement or were not sure of the requirements.
- iv) 72% of respondents indicated that organizationally, they did not respond to the American Institute of Certified Public Accountants' (AICPA) draft issues paper; *FASB Statement No. 157 Valuation Considerations for Interests in Alternative Investments* (February 2009).
- v) Further, 83% of respondents stated that they did not intend to provide comments directly to FASB in regard to FSP 157-g.

SURVEY QUESTIONS

1. The FSP FAS 157-g states that "As a practical expedient, the Board decided that a reporting entity should be permitted to estimate the fair value of an investment within the scope of this FSP using net asset value per share (or its equivalent, for example, partners' capital per share for an investment in a partnership) without further adjustment, if the net asset value per share of the investment is determined in accordance with the investment companies Guide as of the reporting entity's measurement date" [Paragraph 10]. A number of questions in regard to this statement were asked of the respondents. These questions and their responses are provided below.

	Strongly Disagree	Disagree	Neutral/No Opinion	Somewhat Agree	Strongly Agree	N/A
It is usually easy to determine if a limited partner's capital account has been calculated in accordance with the investment companies Guide by a partnership's general partner	0%	15%	22%	41%	19%	4%
Changes will need to be made to our organization's processes to determine if each limited partner's capital account has been calculated in accordance with the investment companies Guide	7%	19%	7%	41%	15%	11%
These changes, if any will be possible without undue cost and effort	4%	26%	22%	22%	11%	15%
I feel confident that FAS 157 gives clear valuation guidance to limited partners of private equity partnerships that do not follow the investment companies Guide	11%	48%	15%	19%	4%	4%
FASB should provide guidance to limited partners in regard to valuation of non-USA private equity interests for those limited partners that are required to follow FAS 157	0%	15%	19%	22%	41%	4%
Additional clarification is required in regard to the FSP FAS 157-g's Paragraph 13	0%	4%	41%	37%	15%	4%

2. Respondents were asked how meaningful each of the disclosures required by the FSP FAS 157-g Paragraph 16 were with respect to private equity specifically (as opposed to other alternative assets to which the FSP FAS 157-g). A summary of the responses in regard to each of the disclosures is provided below.

	Not Meaningful	Somewhat Meaningful	Very Meaningful	Neutral/No opinion
The fair value noting if the limited partner has chosen to adopt the NAV as reported by the manager/general partner and a description of the significant investment strategies of the investments/partnerships	12%	38%	42%	8%
The limited partner's best estimate of the remaining life of a finite lived investment	38%	27%	19%	15%
The amount of the limited partner's unfunded commitments related to its investment	8%	35%	50%	8%
The terms and conditions upon which the limited partner may redeem its investment (for example, quarterly redemption with 60 days' notice)	31%	31%	31%	8%
The circumstances in which an otherwise redeemable investment (or a portion thereof) might not be redeemable (for example, due to a lockup or the imposition of a gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the limited partner's measurement date, the limited partner shall disclose its best estimate of when the restriction against redemption might lapse	31%	35%	27%	8%
Any other significant restriction on the ability to redeem or sell the investment at the measurement date	19%	42%	31%	8%

3. Again, specifically for private equity, respondents were asked to rate how meaningful the FSP FAS 157-g Paragraph 16 disclosures were on a “major category” basis. A summary of the responses in regard to each of the disclosures is provided below.

	Not Meaningful	Somewhat Meaningful	Very Meaningful	Neutral/No opinion	"Major Category" Not Defined Adequately	N/A
The fair value noting if the limited partner has chosen to adopt the NAV as reported by the manager/general partner and a description of the significant investment strategies of the investments/partnerships	8%	35%	31%	4%	19%	4%
The limited partner's best estimate of the remaining life of a finite lived investment	35%	27%	12%	4%	19%	4%
The amount of the limited partner's unfunded commitments related to its investment	4%	27%	38%	8%	19%	4%
The terms and conditions upon which the limited partner may redeem its investment (for example, quarterly redemption with 60 days' notice)	19%	35%	23%	4%	12%	8%
The circumstances in which an otherwise redeemable investment (or a portion thereof) might not be redeemable (for example, due to a lockup or the imposition of a gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the limited partner's measurement date, the limited partner shall disclose its best estimate of when the restriction against redemption might lapse.	23%	31%	15%	4%	19%	8%
Any other significant restriction on the ability to redeem or sell the investment at the measurement date	19%	35%	19%	4%	15%	8%

4. For each of the disclosures required by the FSP FAS 157-g [Paragraph 16], respondents were asked to indicate to what extent providing this information will be possible without undue cost and effort. A summary of the responses in regard to each of the disclosures is provided below.

	Negligible	Increased but possible	Burdensome but possible	Burdensome/not possible
The fair value noting if the limited partner has chosen to adopt the NAV as reported by the manager/general partner and a description of the significant investment strategies of the investments/partnerships	25%	38%	38%	0%
The limited partner's best estimate of the remaining life of a finite lived investment	21%	33%	38%	8%
The amount of the limited partner's unfunded commitments related to its investment	67%	25%	8%	0%
The terms and conditions upon which the limited partner may redeem its investment (for example, quarterly redemption with 60 days' notice)	35%	39%	22%	4%
The circumstances in which an otherwise redeemable investment (or a portion thereof) might not be redeemable (for example, due to a lockup or the imposition of a gate). Also, for those otherwise redeemable investments that are restricted from redemption as of the limited partner's measurement date, the limited partner shall disclose its best estimate of when the restriction against redemption might lapse.	22%	43%	26%	9%
Any other significant restriction on the ability to redeem or sell the investment at the measurement date	32%	36%	23%	9%

5. As a percentage of their organization's private equity portfolio value (based on NAV), respondents were asked to identify which accounting/valuation standards were used in the reports of their private equity managers. A summary of the responses in regard to each of the accounting/valuation standards is provided below.

	USA GAAP	USA Income Tax Basis	International Accounting Standards	International Private Equity and Venture Capital Valuation Guidelines	Private Equity Industry Guidelines Group	Other
< 5%	0%	75%	42%	8%	0%	0%
>5%, but < 15%	13%	13%	38%	25%	0%	13%
> 15%, but < 25%	0%	20%	60%	40%	20%	0%
> 25%, but < 50%	67%	0%	67%	50%	33%	17%
> 50%	100%	0%	10%	15%	15%	0%
I do not know	8%	42%	33%	75%	83%	67%

6. Provided with a number of industry standards and guidelines respondents were asked if their auditor had provided an opinion to state that limited partner capital account valuations (NAV) made in accordance with those standards and guidelines were in compliance with the investment companies Guide. A summary of the responses in regard to each of the accounting/valuation standards is provided below.

	Yes	No	I do not know
USA Income Tax Basis	8%	33%	58%
International Accounting Standards	21%	29%	50%
International Private Equity and Venture Capital Valuation Guidelines	8%	29%	63%
Private Equity Industry Guidelines Group	8%	33%	58%
Other	14%	18%	68%

FASB REQUESTED RESPONSES

FSP FAS 157-g included 5 questions to which FASB asked for responses. Those questions were provided on the ILPA survey to allow members to respond. Of those that responded to this section, we provide the following summary¹.

- 1. This proposed FSP would apply to an investment in an entity that meets the definition of an investment company in the investment companies Guide for which its net asset value per share (or its equivalent, for example, partners' capital per share for an investment in a partnership) has been calculated in accordance with that Guide. However, this proposed FSP would not apply if the fair value of the investment is readily determinable as defined in paragraph 3 of FASB Statement No. 115, Accounting for Certain Investments in Debt and Equity Securities (with one exception described in paragraph 13 of this proposed FSP). Do you believe there are other investments that should be within the scope of this proposed FSP? If so, what principle should be used to determine which investments are within the scope of the proposed FSP? Do you agree that the Board should not permit the application of the proposed FSP to investments in entities that have readily determinable fair values as defined in paragraph 3 of Statement 115? Are there other investments that the Board should exclude from the scope of this proposed FSP?**

The majority of respondents agree with the proposed FSP to apply an entity that meets the definition of an investment company in the investment companies Guide for which its net asset value per share to an investment. However, one respondent notes that "FSP should include level 3 investments not covered by the Investment Company Guide."

¹ Responses of a similar nature have been combined

2. **Are there circumstances in which an investment might initially have a readily determinable fair value and in a subsequent period not have a readily determinable fair value (and thus arguably become eligible for the practical expedient)? If so, please describe those circumstances. In those circumstances, should the investment be eligible for the practical expedient even though the investor may not be able to transact with the investee (fund) at net asset value per share? Note: As a practical expedient, the Board decided that a reporting entity should be permitted to estimate the fair value of an investment within the scope of this FSP using net asset value per share (or its equivalent, for example, partners' capital per share for an investment in a partnership) without further adjustment, if the net asset value per share of the investment is determined in accordance with the investment companies Guide as of the reporting entity's measurement date" [Paragraph 10].**
- a. Not aware of any
 - b. In the case of private equity, it is a long lived, passive investment so the current market and ability to trade in the near term is not the best estimate of the value of the company as there may not be willing buyers and sellers.
 - c. Given the nature of private equity, a readily determinable fair value of an investment, if available, is highly subjective. As such, there may be times, such as the current environment, where a 'fair value' is harder to determine than in previous periods. Nonetheless, in such circumstances, it should be the responsibility of the general partner to determine an estimate of the fair value of the investee company and give reasons to support this value. Expediency should not be an issue during these times, as private equity groups are often inactive in such environments, and valuation from an LP standpoint is very important.
 - d. Perhaps if an investee owned an interest in a traded security/company that was subsequently taken private / de-listed and they continued to own an interest?
 - e. While this may be self evident, a new investment has a readily determinable fair value (purchase price paid with the assumption that it cleared the market) at closing and for some period following the closing. After 12 months, the performance of the company may be sufficiently impacted by extraneous market factors to render a valuation difficult if not impossible. While market comps help one arrive at FMV, public values may be irrelevant for a smaller business with less reliant on the capital markets for growth.

- f. All the PE/VC transactions are in such situation. Fair Value is meaningful only if there is a relative active market to trade of interest. We'd rather spending money elsewhere than getting an "accurate" valuation.
3. **The Board also considered alternative approaches to the scope of this proposed FSP. One approach would have indicated that a condition to using the practical expedient is that the primary means to enter and exit the investment is transactions (for example, redemptions or distributions) between the investor and the investee (that is, the fund) at net asset value per share. Another approach would have indicated that a condition to using the practical expedient is that the principal or most advantageous market for the investment is transactions (for example, redemptions or distributions) between the investor and the fund at net asset value per share. Do you believe the Board should pursue one of the alternative approaches instead of the approach taken in this proposed FSP? If so, why?**
- a. No, agree with FSP except for requirement to report LP interest as of fiscal year end (8/31). We need the flexibility to report as of the latest calendar quarter or our report date.
 - b. This is not applicable to the private equity class.
 - c. I think the current scope (as I understand it ... the estimation of the fair value of investments in investment companies that have calculated net asset value per share in accordance with the AICPA Audit and Accounting Guide, Investment Companies), is probably best (AICPA guide compliance gives some comfort in regard to the valuations used by the underlying managers). However, I think LPs will need greater guidance in regard to other standards of reporting (is standard similar enough to AICPA guide? if not, what then? etc.).
 - d. Each distribution and redemption has its own story. Let's not try to mix apple and orange.

4. **The Board recognizes that permitting rather than requiring the application of this proposed FSP for entities within its scope potentially reduces comparability. The Board decided to permit rather than require that reporting entities apply this proposed FSP to investments within its scope, in part, to avoid potential conflicts with the “good faith” requirements of the Investment Company Act of 1940 and Accounting Series Releases No. 113, Statement Regarding “Restricted Securities,” and No. 118, Accounting for Investment Securities by Registered Investment Companies. Do you agree with the Board’s decision to permit rather than require the application of this proposed FSP? Are there any other unintended consequences of requiring the application of this proposed FSP to investments within its scope?**
- a. Yes.
 - b. Permitting is better than requiring. Not sure on the unintended consequences
 - c. Permitting is good, but I think the implications/tie to the "good faith" issues need to be built into the guidance (i.e. if there is a conflict, then what?)
5. **Are the disclosure requirements of this proposed FSP operational? Should the Board require all of the disclosure by major category (or should it permit some of them on a more aggregated basis)? If the final FSP is effective upon issuance (for example, assume issuance is July 31, 2009), can the disclosures be provided for prior periods for which financial statements have not been issued? Are there other disclosures that the Board should consider requiring?**
- a. Yes.
 - b. FSP disclosure requirements operational if reporting disclosures in the aggregate by asset class. Not if reporting individually because of the number of LP investments.
 - c. Should not be provided for prior periods. They are not operational at this point and it should be on an aggregated basis for private equity
 - d. I need guidance on "major category"
 - e. Depending on whether "major category" means each asset class (PE, VC, Mezzanine, etc.), or each partnership, or underlying investments, or securities in each investments, this can be quite operational or impossible to operate. Reporting requirement burden for GP to LP, compared to LP to its own supervision entity, should also be noted. It is almost impossible to make good estimate by LP prior to GP's report.

Again, the opportunity to respond to FSP FAS 157-g is appreciated. Should our organization be of further help in your development of FAS 157, please feel free to contact us.

Sincerely,

Kathy Jeramaz-Larson
Executive Director
Institutional Limited Partner Association
#1201-55 Yonge Street
Toronto Ontario'
L6H 5N9