International Accounting Standards Board (IASB)
First Floor
30 Cannon Street
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RE: Comment Letter on the IASB's Investment Entities Exposure Draft

Dear Members,

The International Private Equity and Venture Capital Valuation Board (IPEV Board) appreciates and welcomes the opportunity to respond to the IASB Exposure Draft (EDs) on Investment Entities. As we have stated with our responses in the past, there is great importance for the private equity[1] investment community to provide investors with useable financial information prepared using reliable and consistently determined fair value estimates. Virtually all investors who undertake investments in the debt or equity of private companies, directly, through a fund, or through an account managed by others, are required to report such investments at fair value. Therefore, it is critical that such investors receive fair value reporting of underlying investments. Existing IFRS is not relevant for the private equity industry, because of the consolidation rules that currently include investment entities. The Board's proposal, subject to the amendments discussed below, would provide a framework where IFRS could be a relevant basis of accounting for investment entities.

The IPEV Board is responsible for issuing and periodically updating International Private Equity and Venture Capital Valuation Guidelines (IPEV Guidelines). The IPEV Guidelines were launched in March 2005 and revised in September 2009. They provide the private equity industry with best practice in consistently estimating the fair value of investments compliant with IFRS and US GAAP accounting principles. The IPEV Board expects to make minor revisions to the IPEV Guidelines in 2012 to incorporate the wording of IFRS 13. Valuation guidelines are used by the private equity industry to consistently value private investments and provide a framework for fund managers and investors to monitor the value of existing investments. Further the IPEV Board has been tasked with providing supplemental Investment Reporting Guidelines which provide a framework for reporting information beyond the financial statements which is important to investors. A draft of the IPEV Investor Reporting Guidelines will be released for public comment during the first quarter of 2012.

Our responses to the Investment Entities Exposure Draft are presented with the objective of providing the Board with practical input on the impact of the proposed changes on the global private equity industry. Because of the unique nature of the private equity industry, in particular the need to regularly estimate the fair value of illiquid or infrequently traded assets, we can provide the Board with our experience and insight of the challenges faced by both private equity investors and managers.

[1] For ease of reading, the term private equity as used in this document means: buy-out funds, mezzanine debt funds, venture capital funds, and certain fund-of-funds.

Responses to Specific Questions

Question 1: Do you agree that there is a class of entities, commonly thought of as an investment entity in nature, that should not consolidate controlled entities and instead measure them at fair value through profit or loss? Why or why not?

IPEV Board Response to Question 1:

Yes, the IPEV Board strongly agrees that investment entities should report investments at fair value. Investors in investment entities are generally required to report their investment in a fund at fair value. Therefore, if a fund reports consolidated financial information, rather than the fair value of underlying investments, the fund financial statements are not relevant for the investor. Consolidated financial statements of an Investment Entity provide no meaningful information for either management or investors.

Question 2: Do you agree that the criteria in this exposure draft are appropriate to identify entities that should be required to measure their investments in controlled entities at fair value through profit or loss? If not, what alternative criteria would you propose, and why are those criteria more appropriate?

IPEV Board Response to Question 2:

Private Equity is a dynamic industry; continually changing to meet investor needs. We do not agree that the six criteria articulated in the exposure draft are flexible enough to cover the full spectrum of existing and anticipated investment entities. We recommend that the IASB focus on principles and not be rule driven as is included in the proposal. An investment company should be defined by the preponderance of the available evidence. We recommend that *an investment entity be defined as an entity that substantially meets the majority of the following criteria*:

a. *The entitiy's ~~only~~ substantive activities are investing ~~in multiple investments~~ for capital appreciation, investment income (such as dividends or interest), or both.*

b. *The entity makes an explicit commitment to ~~a group of investors~~ one or more investors that the entity's purpose is investing to earn capital appreciation, investment income (such as dividends or interest), or both.* [Increasingly, investors are contracting with managers on a "managed account basis". Therefore, an investment entity should also include situations where there is a single investor.]

c. *Ownership in the entity is represented by units of investments, such as shares or partnership interests, to which proportionate shares of net assets are attributed.*

d. *The funds of an entity's investor or investors are pooled so that the investor or investors can benefit from professional investment management. The entity has an investor or investors that are unrelated to the parent (if any). ~~and collectively hold a significant ownership interest in the entity.~~*

e. *Substantially all of the investments of the entity are managed, and their performance is evaluated, on a fair value basis.*

f. *The entity provides financial information about its investment activities to its investor <u>or investors</u>. The entity can be, but does not need to be, a legal entity.*

From a principle perspective, we believe that an investment entity should be defined as an entity that substantially meets the majority of the characteristics above, with a potential additional characteristic being that the entity has an investor or investors who must report their investment in the investment entity at fair value.

We do not believe that it is preferable for an investment entity to consolidate a service related subsidiary; rather it would be appropriate to report the service investment at fair value. Again, investors need fair value, not consolidated financial information.

Question 3:

Should an entity still be eligible to qualify as an investment entity if it provides (or holds an investment in an entity that provides) services that relate to:

(a) its own investment activities?

(b) the investment activities of entities other than the reporting entity?

Why or why not?

IPEV Board Response to Question 3:

Yes. See more detailed response above. Investors need fair value reporting, not consolidated reporting.

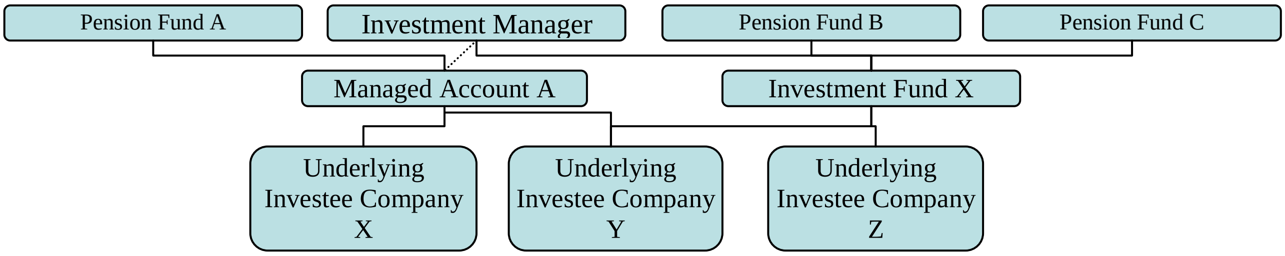
Question 4:

(a) Should an entity with a single investor unrelated to the fund manager be eligible to qualify as an investment entity? Why or why not?

(b) If yes, please describe any structures/examples that in your view should meet this criterion and how you would propose to address the concerns raised by the Board in paragraph BC16.

IPEV Board Response to Question 4:

Yes. Increasingly, Investors are using a "managed account" strategy with an investment manager. A manager is selected to invest, often alongside other third party investors. Investors need their interest in such "entities" to be reported at fair value. The following diagram better explains this situation.



Assume that the Investment Manager makes all investment decisions:

Managed Account A should be an investment entity which reports at fair value.
Investment Fund X should be an investment entity which reports at fair value.

Note: "Underlying Investee" is synonymous with "Portfolio Company".

The Board's concern that some would use the provision of B14-B16 to achieve off balance sheet accounting does not seem well founded. The fair value of the underlying assets would be reported and recorded on the investor's balance sheet. If the underlying investment fund held debt, with recourse that exceeded the fair value of assets, the net fair value would arguably be a liability that would be reported and recorded by the investor. Both scenarios result in on-balance sheet, albeit net, treatment.

Question 5: Do you agree that investment entities that hold investment properties should be required to apply the fair value model in IAS 40, and do you agree that the measurement guidance otherwise proposed in the exposure draft need apply only to financial assets, as defined in IFRS 9 and IAS 39 *Financial Instruments: Recognition and Measurement*? Why or why not?

IPEV Board Response to Question 5:

Yes, as has been previously noted, the investor needs to report their interest at fair value and therefore they need the underlying investment entity to report fair value. Whether the investment entity invests in a private company or a building is not relevant. In both situations the investor needs fair value.

Question 6: Do you agree that the parent of an investment entity that is not itself an investment entity should be required to consolidate all of its controlled entities including those it holds through subsidiaries that are investment entities? If not, why not and how would you propose to address the Board's concerns?

IPEV Board Response to Question 6:

The parent of an investment entity should be allowed to record underlying investment entities at fair value. In addition, the proposed requirement would require keeping two sets of books.

Question 7:

(a) Do you agree that it is appropriate to use this disclosure objective for investment entities rather than including additional specific disclosure requirements?

(b) Do you agree with the proposed application guidance on information that could satisfy the disclosure objective? If not, why not and what would you propose instead?

IPEV Board Response to Question 7:

Generally, we believe that existing fair value disclosure requirements are costly and provide information that is not used. Requiring additional disclosure would not be meaningful.

Question 8: Do you agree with applying the proposals prospectively and the related proposed transition requirements? If not, why not? What transition requirements would you propose instead and why?

IPEV Board Response to Question 8:

No Comment.

Question 9:

(a) Do you agree that IAS 28 should be amended so that the mandatory measurement exemption would apply only to investment entities as defined in the exposure draft? If not, why not?

(b) As an alternative, would you agree with an amendment to IAS 28 that would make the measurement exemption mandatory for investment entities as defined in the exposure draft and voluntary for other venture capital organisations, mutual funds, unit trusts and similar entities, including investment-linked insurance funds? Why or why not?

IPEV Board Response to Question 9:

Because investors generally need fair value information, we recommend that fair value reporting for investment entities be mandatory. At a minimum, fair value reporting should be allowed (option b).

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We appreciate the opportunity to provide the Boards with our feedback. We would be pleased to discuss any questions you may have with you. We would also be happy to provide one or more IPEV Board members to participate in the upcoming Roundtable discussions on this mater.

Very truly yours,

/s/ William J. Hupp

The International Private Equity and Venture Capital Valuation Board

William J. Hupp

Vice Chairman of the IPEV Board

cc: Financial Accounting Standards Board
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The International Private Equity and Venture Capital Valuation Guidelines

The International Private Equity and Venture Capital Valuation Guidelines (IPEV Guidelines) were launched in March 2005 and revised in September 2009 to reflect the need for greater comparability across the industry and for consistency with IFRS and US GAAP accounting principles. Valuation guidelines are used by the private equity and venture capital industry for valuing private equity investments and provide a framework for fund managers and investors to monitor the value of existing investments. The IPEV Guidelines are based on the overall principle of 'fair value' in order to be consistent with IFRS and US GAAP.

The International Private Equity and Venture Capital Valuation Board (IPEV Board) reports and is accountable to a general assembly composed of all the endorsing associations to manage the evolution of the guidelines going forward. The IPEV Guidelines have been endorsed by 40 national and regional trade associations.

For more information: http://www.privateequityvaluation.com.

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