WWW.PRIVATEEQUITYVALUATION.COM

International Accounting Standards Board (IASB)
First Floor
30 Cannon Street
London, EC4M 6XH
United Kingdom

15 September, 2009

Comment Letter on Financial Instruments Exposure Draft

Dear Board Members,

The International Private Equity and Venture Capital Valuation Board (IPEV Board) appreciates and welcomes the opportunity to respond to the Exposure Draft (ED) on Financial Instruments: Classification and Measurement.

The IPEV Board's mandate is to provide best practice guidelines for Venture Capital and Private Equity industry globally. The Financial Instruments project has direct impact on whether or not IFRS will be relevant for investors in alternative assets. Our responses are focused on the impact of the proposed changes to our industry. Therefore, we have declined to comment on certain questions because they have no direct impact on private equity investors.

The IPEV Board is pleased to provide the following comments in response to the IASB questions.

Question 1

Does amortised cost provide decision-useful information for a financial asset or financial liability that has basic loan features and is managed on a contractual yield basis? If not, why?

We agree with the Board's analysis that the amortised cost ("AC") method for certain financial instruments may reduce complexity and provide information that is more relevant to selected financial statement users. However, investors in private equity funds need their managers to report Net Asset Value based on the fair value of underlying investments. Therefore, amortized cost does not provide decision-useful information for investors in private equity. All underlying investments, including control positions (further discussed below), should be recorded at fair value to allow investors to determine the fair value of their interests, to exercise their fiduciary duty in monitoring interests, to make asset allocation decisions, to effect incentive compensation schemes, and to be used in the manager selection process.

Question 2

Do you believe that the exposure draft proposes sufficient, operational guidance on the application of whether an instrument has 'basic loan features' and 'is managed on a contractual yield basis'? If not, why? What additional guidance would you propose and why?

The proposed guidance may result in arbitrary results and create unintended consequences. Private Equity Mezzanine debt fund managers often manage their portfolios on a contractual yield basis and such debt often has basic loan features. However, most investors in a Mezzanine debt fund are required to record their interests at fair value. Under the provisions of the Exposure Draft, a Mezzanine debt fund would not necessarily report on fair value basis because it would be required to record its debt investments on an amortized cost basis. Therefore, while amortized cost may be appropriate for Fund management, it might cause confusion for the investors in the Fund who require fair value data. At a minimum, investors may need to request supplemental fair value disclosures to do their accounting correctly.

Question 3

Do you believe that other conditions would be more appropriate to identify which financial assets or financial liabilities should be measured at amortised cost? If so,

(a) what alternative conditions would you propose? Why are those conditions more appropriate?

(b) if additional financial assets or financial liabilities would be measured at amortised cost using those conditions, what are those additional financial assets or financial liabilities? Why does measurement at amortised cost result in information that is more decision-useful than measurement at fair value?

(c) if financial assets or financial liabilities that the exposure draft would measure at amortised cost do not meet your proposed conditions, do you think that those financial assets or financial liabilities should be measured at fair value? If not, what measurement attribute is appropriate and why?

As noted above, the Private Equity Industry needs fair value, not amortized cost data.

Question 4

(a) Do you agree that the embedded derivative requirements for a hybrid contract with a financial host should be eliminated? If not, please describe any alternative proposal and explain how it simplifies the accounting requirements and how it would improve the decision-usefulness of information about hybrid contracts.

No comment.

(b) Do you agree with the proposed application of the proposed classification approach to contractually subordinated interests (i.e. tranches)? If not, what approach would you propose for such contractually subordinated interests? How is that approach consistent with the proposed classification approach? How would that approach simplify the accounting requirements and improve the decision-usefulness of information about contractually subordinated interests?

No comment.

Question 5

Do you agree that entities should continue to be permitted to designate any financial asset or financial liability at fair value through profit or loss if such designation eliminates or significantly reduces an accounting mismatch? If not, why?

For private equity investors, both realized gains and losses and unrealized gains and losses from changes in fair value estimates, should appropriately be recognized through profit and loss.

Question 6

Should the fair value option be allowed under any other circumstances? If so, under what other circumstances should it be allowed and why?

The IASB should require the use of fair value for Investment Companies to ensure that investors with such interests receive appropriate fair value based information. Currently, IFRS requires

IPEV Board c/o EVCA – Bastion Tower – Place du Champ de Mars 5 – 1050 Brussels – Belgium – Tel +32 2 715 00 20

Investment Companies to consolidate control investments rather than to record them at fair value (US GAAP requires such investments to be recorded at fair value, not consolidated). To meet the needs of investors with interests in Investment Companies and to harmonize with US GAAP, the Board should require Investment Companies to record all investments at fair value.

Question 7

Do you agree that reclassification should be prohibited? If not, in what circumstances do you believe reclassification is appropriate and why do such reclassifications provide understandable and useful information to users of financial statements? How would you account for such reclassifications, and why?

No comment.

Question 8

Do you believe that more decision-useful information about investments in equity instruments (and derivatives on those equity instruments) results if all such investments are measured at fair value? If not, why?

The ED requires all equities (and related derivatives) to be measure at fair value, while Current IAS 39 guidance allows financial instruments whose fair value cannot be reliably measured, to be measured at cost. We strongly believe recording all private equity based financial instruments at fair value provides needed information to investors and leads to greater convergence with US GAAP.

In addition, US GAAP does not provide an exception allowing cost rather than fair value to be used. We believe fair value can always be estimated. The Private Equity industry has been valuing illiquid assets at fair value for decades. Our recently updated International Private Equity and Venture Capital Valuation Guidelines provide best practice in determining fair value for investments in illiquid companies (http://www.privateequityvaluation.com).

Question 9

Are there circumstances in which the benefits of improved decision-usefulness do not outweigh the costs of providing this information? What are those circumstances and why? In such circumstances, what impairment test would you require and why?

Fair value is the most decision useful method of accounting for investments in alternative assets.

Question 10

Do you believe that presenting fair value changes (and dividends) for particular investments in equity instruments in other comprehensive income would improve financial reporting? If not, why?

No comment.

Question 11

Do you agree that an entity should be permitted to present in other comprehensive income changes in the fair value (and dividends) of any investment in equity instruments (other than those that are held for trading), only if it elects to do so at initial recognition? If not,

(a) how do you propose to identify those investments for which presentation in other comprehensive income is appropriate? Why?

No comment

IPEV Board c/o EVCA – Bastion Tower – Place du Champ de Mars 5 – 1050 Brussels – Belgium – Tel +32 2 715 00 20

(b) should entities present changes in fair value in other comprehensive income only in the periods in which the investments in equity instruments meet the proposed identification principle in (a)? Why?

No comment

Question 12

Do you agree with the additional disclosure requirements proposed for entities that apply the proposed IFRS before its mandated effective date? If not, what would you propose instead and why?

No comment

Question 13

Do you agree with applying the proposals retrospectively and the related proposed transition guidance? If not, why? What transition guidance would you propose instead and why?

No comment

Question 14

Do you believe that this alternative approach provides more decision-useful information than measuring those financial assets at amortised cost, specifically:

(a) in the statement of financial position?

No comment

(b) in the statement of comprehensive income? If so, why?

No comment

Question 15

Do you believe that either of the possible variants of the alternative approach provides more decision-useful information than the alternative approach and the approach proposed in the exposure draft? If so, which variant and why?

No comment

Very truly yours,

The International Private Equity and Venture Capital Valuation Board

Prof. Herman Daems

Chairman of the IPEV Board

IPEV Board c/o EVCA – Bastion Tower – Place du Champ de Mars 5 – 1050 Brussels – Belgium – Tel +32 2 715 00 20

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 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 36 national and regional trade associations.

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

IPEV Board c/o EVCA – Bastion Tower – Place du Champ de Mars 5 – 1050 Brussels – Belgium – Tel +32 2 715 00 20