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International Private Equity & Venture Capital Valuation Board Statement

IPEV Board commits to fair value amid market turbulence

London, 20th November, 2008

The International Private Equity & Venture Capital Valuation board today reaffirmed its commitment to fair value as the best measure of valuing private equity portfolio companies and investments in private equity funds.

The board's position comes at a time when the appropriateness of fair value has been called into question amid financial market turmoil and stock market volatility.

The board's support for fair value is underpinned by the transparency it affords investors in funds, which use fair value as an indication of the interim performance of a portfolio. In addition, institutional investors require fair value to make asset allocation decisions, and to produce financial statements for regulatory purposes.

The board stressed that fair value for private equity portfolio companies – which are illiquid investments held for long term appreciation – should be viewed as an estimate based on the specific characteristics of each security, as well as on market forces. In such instances, the determination of fair value requires a significant level of informed judgement, rather than a rigid application of a mechanical process.

Therefore, in contrast to earlier valuation practices, the board said that fair value requires a higher level of sophisticated application from all stakeholders – fund managers, institutional investors, auditors and regulators.

The board said that the onus is on fund managers to thoroughly document and demonstrate to regulators and auditors the appropriateness of the process by which they consistently determine fair value.

The board also said that while fair value is an appropriate measure of portfolio company value at a point in time, it should not be used as the sole factor in assessing the general performance of an investment manager by institutional investors. Overall investment manager performance can only be measured when all investments in a fund are realised. As a reflection of this, private equity managers' capital gains allocations are not derived from fair value of holdings, but from the capital gains achieved on disposal.

Finally, the board drew a clear distinction between traditional private equity investing, which has an excellent track record of providing investors with appropriate information on the fair value of illiquid investments held by long term investment vehicles, and the structured credit products that have recently raised public concerns on the use of fair value accounting.

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About IPEV Board

The International Private Equity and Venture Capital Valuation Guidelines were developed by the Association Française des Investisseurs en Capital (AFIC), the British Venture Capital Association (BVCA) and the European Private Equity and Venture Capital Association (EVCA) and 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 new guidelines are based on the overall principle of 'fair value' in order to be consistent with IFRS and US GAAP.

AFIC, BVCA and EVCA also created an independent board (International Private Equity and Venture Capital Valuation Board – IPEV Valuation Board) reporting and accountable to a general assembly composed of all the endorsing associations to manage the evolution of the guidelines going forward.

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