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AICPA Draft Guide Available for Comment: Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds

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The AICPA recently released for public comment a working draft of its [Accounting and Valuation Guide: Valuation of Portfolio Company Investments of Venture Capital and Private Equity Funds and Other Investment Companies](#).

The Guide is designed to provide investment companies that invest in securities issued by privately held enterprises with an overview of the valuation process and the roles and responsibilities of the various parties involved in the valuation process. It also includes best practice recommendations for complying with FASB ASC 946: Financial Services—Investment Companies and FASB ASC 820: Fair Value Measurement. Investment companies within the scope of FASB ASC 946 include private equity funds, venture capital funds, hedge funds, and business development companies.

Importantly, the Guide does not change existing accounting guidance. The Guide was prepared by the AICPA Private Equity and Venture Capital Task Force and was approved for issuance by the AICPA Financial Reporting Executive Committee. As such, it is non-authoritative. That said, the Guide seeks to

provide funds with interpretive guidance regarding valuation of investments in equity and debt securities issued by privately held enterprises.

In drafting the Guide, the task force considered various accounting and valuation issues that have come up over time. The Guide first provides an overview of the private equity and venture capital industries and related investment strategies. It then summarizes FASB ASC 820 fair value measurement concepts (which updated fair value and measurement disclosures codified in FASB Statement 157: Fair Value Measurements) and provides guidance on market participant assumptions, unit of account, and an overview of valuation approaches (i.e., the market approach, income approach, and asset approach). The Guide also has chapters addressing restrictions on transfer, calibration, back-testing, and factors to consider at or near a transaction date, and includes frequently asked questions and appendices addressing documentation considerations and case studies.

Comments on the working draft are due to the AICPA by August 15, 2018. A final version of the Guide is expected to be released in May 2019.