The Board of Directors
The IPEV Association

23 November 2012

Dear Sirs,

I am writing on behalf of the British Private Equity and Venture Capital Association ('BVCA') in response to the updated draft of the International Private Equity and Venture Capital Valuation Guidelines ('IPEV Guidelines').

The BVCA is the industry body for the UK private equity and venture capital industry. With a membership of over 500 firms, the BVCA represents the vast majority of all UK based private equity firms and their advisers. Thank you for the opportunity to comment on the latest draft of the IPEV Guidelines.

This submission has been prepared by the BVCA's Legal & Technical committee, which represents the interests of BVCA members in legal, accounting and technical matters relevant to the private equity and venture capital industry. We have discussed this response with the BVCA's Investor Relations and Limited Partners Committees and incorporated their feedback. This draft was also discussed with a member of the IPEV board at the November Investor Relations Committee.

The BVCA continues to endorse the IPEV Guidelines and supports the use of fair value as the best measure of valuing private equity investee companies and investments in private equity funds.

We draw your attention to our earlier response dated 28 September 2012, and attached to this letter, commenting upon a prior draft of the guidelines. In respect of your Question 1 we comment further as follows:

Representatives from the Legal and Technical Committee have spoken recently with David Larsen and have expressed a concern that the draft guidelines may not reflect the current requirements of IFRS 13, IAS 39 and IFRS 9 regarding the unit of account.

The BVCA believes that the general requirement under IFRS that the unit of account for an investment measured at fair value is an individual financial instrument will in certain circumstances result in equity valuations which are misleading to investors. The BVCA believes that organisations qualifying as Investment Entities under the IASB accounting standard *Investment Entities (Amendments to IFRS 10, IFRS 12 and IAS 27)* published on 31 October 2012 should consider the level of aggregation at which the market participant is likely to transact when determining unit of account.

Representatives from the BVCA have taken part in discussions with IPEV board members on this point and have also participated in a conference call with IPEV and the IASB staff. Further, we have met with the IASB Chairman to explain our concerns. We note that the IASB staff has recognised the difficulty PE practitioners will have in applying current IFRS and have agreed to re-evaluate the question of unit of account in an Investment Entities context in 2013.

The BVCA will work with IPEV to develop a submission to the IASB to support this analysis. In the meantime we note that the draft guidelines include an explanation of this issue and confirm our commitment to work with IPEV and the IASB to ensure that IFRS remains a meaningful accounting framework for the private equity industry.

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We note that the language in the document has been amended to converge with IFRS and US GAAP. Specifically on the definition of fair value itself, we believe that further clarity should be added to avoid any misinterpretation from a practitioner's perspective. For example, making it clear that fair value is the price that would be received *if* an asset *is sold* in an orderly transaction.

With respect to Question 2, in our view there are changes that could be made to the style and drafting of the Guidelines which would make them easier to read and understand, especially for the non-technical reader. The Investor Relations Committee discussed some of these comments with Stephen Kempen at a recent Committee meeting and we would be happy to discuss these further if helpful. It is clearly important that documents such as the Guidelines are written in plain English and are accessible by a wide variety of stakeholders.

We remain highly supportive of the efforts of the IPEV board to prepare such guidelines.

Yours faithfully,

Simon Witney
Chairman, Legal & Technical Committee
The British Private Equity and Venture Capital Association

Attachment

The Board of Directors
The IPEV Association

28 September 2012

Dear Sirs,

I am writing on behalf of the British Private Equity and Venture Capital Association ('BVCA') in response to the updated draft of the International Private Equity and Venture Capital Valuation Guidelines ('IPEV Guidelines').

The BVCA is the industry body for the UK private equity and venture capital industry. With a membership of over 500 firms, the BVCA represents the vast majority of all UK based private equity firms and their advisers. This submission has been prepared by the BVCA's Legal & Technical committee, which represents the interests of BVCA members in legal, accounting and technical matters relevant to the private equity and venture capital industry. We have also incorporated input from the BVCA's Investor Relations and Limited Partner Committees as part of this process.

The BVCA continues to endorse the IPEV Guidelines and supports the use of fair value as the best measure of valuing private equity investee companies and investments in private equity funds. Our response to your specific questions is set out below.

Question 1

Do any changes need to be made to the updated draft to ensure that entities that adopt or comply with the IPEV Guidelines would be compliant with ASC 820 / IFRS 13?

Comments

While we do not believe it is the IPEV Board's intent, the areas highlighted below may result in a different interpretation to the guidance in the accounting standards ASC 820 and IFRS 13.

Unit of account

We held a call with you on 21 September 2012 to explain in detail our concerns on the unit of account topic. As currently drafted, the application of the unit of account guidance set out in part 1.4 of Section 2 in the IPEV Guidelines may not be consistent with accounting standards. Under IAS 39 and IFRS 9 the unit of account is generally an individual financial instrument which could be interpreted as valuing investments on an individual share basis.

We have read the updated draft of the IPEV Guidelines sent on 26 September (which we note are yet to be approved by the IPEV Board) including the newly inserted definition of unit of account. We agree with the guidance that accounting standards should take precedence when determining the unit of account. We recommend including a consultative suggestion as IFRS 10 and investment entity practice evolves.

We will continue to liaise with you on this subject to ensure a practical solution can be reached.

Valuing of fund interests

At present, no guidance is available for IFRS reporters to value a fund interest as the IASB has not incorporated the FASB guidance permitting an entity with an investment in an investment company to use the reported net asset value as a measure of fair value in specific circumstances as a practical expedient.

We recommend clarifying this point in section 4 of the IPEV guidelines by: a) explaining why IFRS does not have a practical expedient and b) to ensure compliance with IFRS, the valuer needs to review the reported net asset value of the fund interest to assess if the accounting policies adopted by the fund are in compliance with IFRS.

Question 2

Do the format changes make the document more readable?

Comments

Yes

Question 3

Do you have any other suggestions that would enhance the IPEV Valuation Guidelines?

Comments

Premiums and Discounts

While we do not believe it is the IPEV Board's intent, reference to the prohibition of the use of block discounts rather than of all blockage factors may unintentionally permit the use of blockage premiums in the fair value measurements.

We also recommend that the Board consider incorporating guidance around when other premiums or discounts should be taken into account in fair value measurements (for example, a control premium or a non-controlling interest discount).

The guidance on page 26 relating to premiums and discounts should be incorporated in 3.9. Available Market Prices as this presently only refers to the use of discounts.

Finally, we recommend clarifying why the accounting standards do not permit the use of blockage factors and how this should be treated when entering into a transaction. Under IFRS 13, blockage factors are conceptually similar to transaction costs in that they will differ depending on how an entity enters into a transaction for an asset or a liability. The accounting boards concluded that if an entity decides to enter into a transaction to sell a block, the consequences of that decision should be recognised when the decision is carried out regardless of the level of the fair value hierarchy in which the fair value measurement is categorised.

Terminology updates

To ensure further clarity in the IPEV Guidelines, we would encourage the consistent use of Measurement Date rather than using the term interchangeably with Reporting Date.

Further the term Market Participant should be consistently applied as this is a term that has been defined in the IPEV Guidelines.

Valuation techniques

For clarity, the guidelines should indicate that users must disclose the significant unobservable inputs used in the fair value measurement (e.g. when a valuation is based on projected, rather than actual revenues). We also note that the use of discounted cash flow models is becoming more widespread and the IPEV Board should consider this in its guidance.

Thank you for inviting us to comment on these guidelines and we will continue to work with you on the unit of account guidance.

Yours faithfully,

Simon Witney
Chairman, Legal & Technical Committee