July 1, 2011

VIA Email

Ms. Elizabeth M. Murphy
Secretary
U.S. Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-1090
rule-comments@sec.gov

RE: Comments on Roundtable on International Financial Reporting Standards, July 7, 2011; File Number 4-600.

Background and General Comments

The National Venture Capital Association ("NVCA") represents the vast majority of American venture capital under management.[1] Venture capital funds provide start-up and development funding for innovative entrepreneurial businesses. As such we are significant participants in the private capital formation process over which the SEC exerts considerable influence.

[1] Venture capitalists are committed to funding America's most innovative entrepreneurs, working closely with them to transform breakthrough ideas into emerging growth companies that drive U.S. job creation and economic growth. According to a 2011 Global Insight study, venture-backed companies accounted for nearly 12 million jobs and $3.1 trillion in revenues in the United States in 2010. As the voice of the U.S. venture capital community, the National Venture Capital Association (NVCA) empowers its members and the entrepreneurs they fund by advocating for policies that encourage innovation and reward long-term investment. As the venture community's preeminent trade association, NVCA serves as the definitive resource for venture capital data and unites its 400 plus members through a full range of professional services. For more information about the NVCA, please visit www.nvca.org.

NVCA appreciates the Commission staff's intent to explore the benefits and costs of incorporating international financial reporting standards ("IFRS") into the SEC reporting system through its upcoming Roundtable. We are encouraged that the staff has included representatives of smaller publicly traded companies. However, the purpose of this letter is to remind the staff and the Commission that its decisions regarding the future of IFRS in SEC reporting also have consequences for private companies and for capital formation in the U.S.

As we noted in our 2007 comment letter on the SEC's *Concept Release on Allowing US Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards*, both venture capital firms and venture funds generally operate as private companies in a partnership form. Additionally, venture funds invest almost exclusively in private companies. As we note in our 2007 comment letter,[2] NVCA is concerned that the SEC's evaluation of IFRS has included too little consideration of the way decisions regarding accounting standards for public companies ripple through and affect accounting and auditing for venture capital funds and the private companies in which they invest.

These comments are informed by the active engagement of the NVCA CFO Task Force. This group is made up of the Chief Financial Officers and Administrative Partners of more than 100 venture capital firms. With guidance from the CFO Task Force, NVCA has engaged with the FASB over the past several years as it developed various accounting standards pursuant to its convergence effort with the International Accounting Standards Board. Throughout this process we have encourage the FASB to preserve, and improve upon, aspects of GAAP that are essential to the usefulness of financial reports for investors in private companies. Of equal importance, we have advocated a thoughtful evaluation of costs and benefits for investors in private entities so that US standards remain both relevant and cost-effective for private companies.

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[2] National Venture Capital Association, Comment Letter on IFRS Concept Release, File No. S7-18-07 November 13, 2007. Available at http://www.sec.gov/comments/s7-20-07/s72007-64.pdf

While we respect the Commission's deliberate approach on many of the issues around the use of IFRS in SEC reporting, we sense that the SEC is like the FASB in that it is focused to an overwhelming degree on publicly traded companies. Therefore, we urge the Commission to actively consider the impact that further use of IFRS would have on private companies such as venture capital funds and the operating companies in which they invest. Unless the Commission affirmatively considers private companies as part of its review of potential IFRS impacts, unintended negative consequences are almost certain to result.

Specific Comments

1. **Efforts to converge IFRS and US reporting standards have added to the FASB's excessive focus on issues of publicly traded companies and retail investment vehicles.**

As noted above, over a number of years NVCA has endeavored to remind the FASB of its obligation to take private company impacts into account. We have done so in recognition of the many demands place upon the FASB by both the IASB and participants in the public securities markets. It is not surprising that the FASB sees securities analysts and large investors in publicly-traded securities as the primary "users" of financial statements. The FASB's agenda reflects the demands of the public markets and, unfortunately, is often driven by current events and priorities in the public markets. This fact is as much a result of immutable circumstances as a result of any intent or oversight on the part of the FASB. Indeed, many of our CFO Task Force members have served on different FASB advisory groups and have participated in the FASB's efforts to understand the perspective of smaller companies and private companies. However, despite these ongoing improvements, the FASB's ability to properly calibrate their standards for private companies is lacking.

As the staff is surely aware, the Financial Accounting Foundation ("FAF") joined with the American Institute of CPAs ("AICPA") and the National Association of State Boards of Accounting ("NASBA") in responding to the growing concern among private entities that the

FASB was not maintaining accounting standards that were useful and cost effective for private entities and their investors. The Blue Ribbon Panel they appointed concluded that dramatic change was needed. A majority of the Blue Ribbon Panel recommended a wholly separate board under the FAF to decide accounting standards issues related to private entities.[3] NVCA intends to support these recommendations.

These developments should be a clear indication of the growing need for the SEC and its staff to gain a clear and concrete understanding of the impact of its rules related to accounting and financial reporting on private companies.

2. **The SEC has a responsibility to minimize the negative consequences of any move to IFRS on private companies in the US and is uniquely positioned to do so.**

As part of its mission to promote capital formation, the SEC must consider the impact of a move toward IFRS on private companies, capital formation and entrepreneurship. Whatever steps the FAF or even the FASB might take to improve the standard-setting process for private companies, an SEC move toward IFRS will impact private entities. There are a few distinct reasons why this is the case. Not all of the dynamics at work are within the direct control of the SEC; however, no other organization is better positioned to have a positive influence in this area. Moreover, it is clearly part of the SEC's mission to oversee the FAF, the FASB and the Public Company Accounting Oversight Board ("PCAOB") with an eye toward the SEC's capital formation mission.

With regard to accounting standards, we believe that different standards for private companies would make a positive difference in their usefulness and cost effectiveness. However, even if there are different standards for private companies, those new standards would be applied to the vast majority of venture capital funds through the same few large accounting

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[3] Blue-Ribbon Panel on Standard Setting for Private Companies, REPORT TO THE BOARD OF TRUSTEES OF THE FINANCIAL ACCOUNTING FOUNDATION (January 2011) p.2. Available at http://www.accountingfoundation.org/cs/ContentServer?site=Foundation&c=Document_C&pagename=Foundation%2FDocument_C%2FFAFDocumentPage&cid=1176158181336

firms. It is simply the reality of venture capital's institutional investor base that the same large audit firms that dominate public company auditing will dominate venture capital fund auditing. Therefore, the national office interpretations that dictate application of standards to public companies will certainly have great influence on their application to private companies. Based on past experience, we see a high likelihood of similar interpretations as to requirements even if the standards differ. Responsibility for ensuring that the appropriate distinctions are made rests with the Commission and the Chief Accountant because of their roles in overseeing the PCAOB.

Unfortunately, in our experience, PCAOB oversight of the accounting firms has been an impediment to properly nuanced cost effective application of GAAP standards to private companies. The PCAOB has significant influence over the "audit climate" for venture capital. The PCAOB's oversight of the accounting profession sets the tone which ripples through every audit performed, including those of venture funds and the companies in which they invest. Questions of the adequacy of audit work and documentation are matters of judgment. Intense scrutiny of the audit firms has a predictable effect in the exercise of such judgment. Our members have not yet seen the audit profession establish a proper balance since the PCAOB assumed its current regulatory role. Moreover, we have seen no evidence that the PCAOB, with its mandate related to public companies is aware of, or concerned with its impact.

Therefore only the SEC, and the Chief Accountant, through their oversight of the PCAOB can move the balance point toward genuinely decision-useful financial reporting. We urge the staff to expand its horizons and consider these issues as it advises the Commission on whether incorporation of IFRS will be in the interest of the nation and its economic prosperity.

3. **We remain concerned that the move to IFRS will further solidify the oligopoly position of the Big Four Accounting firms.**

The concerns we raised in our 2007 comment letter on the Commission's IFRS Concept Release have not been allayed by the passage of time. We see no significant change in the concentration of power in the four largest firms. Therefore we reiterate the concerns stated in

2007 letter.[4] We urge the Commission to carefully consider the potential for further concentration of the accounting profession as a significant risk in any move toward IFRS in U.S. reporting.

Conclusion

The knock-on effects of changes in public company accounting and auditing standards on private companies are often counterproductive. They are always costly to correct. The SEC should thoroughly evaluate the risk that further moves toward IFRS reporting by U.S. companies will negatively affect the relevance and cost effectiveness of financial reports for private companies and their investors. NVCA would be please to work with the SEC and its staff on these important matters. Please feel free to contact me or Jennifer Connell Dowling, Senior Vice President, at 703 524 2549.

Sincerely yours,

Mark G. Heesen
President

[4] See NVCA Comment letter, s*upra*, note 2, p.3-4.