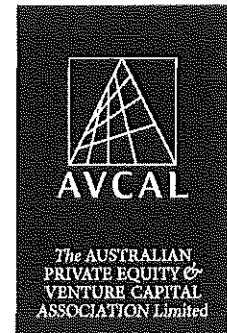


The Chairman  
 Australian Accounting Standards Board  
 Po Box 204  
 Collins Street West  
 Victoria 8007

Re: ED220 Investment Entities



Dear Sir,

I apologise for the delay in responding to the request for submissions regarding ED220 Investment Entities. I hope that you will still consider our comments.

The Australian Private Equity & Venture Capital Association Limited ("AVCAL") is a national association which represents the private equity ("PE") and venture capital ("VC") industries. AVCAL's members comprise most of the active private equity and venture capital firms in Australia. These firms provide capital for early stage companies, later stage expansion capital, and capital for management buyouts of established companies. We are pleased to comment on the above exposure draft.

Overall, AVCAL, on behalf of its members, are supportive of the proposal to exempt investment entities from the requirement to consolidate the investments that are controlled by the entity. For private equity and venture capital entities, the purpose is to invest for capital growth and long-term profits for investors rather than to generate benefits from synergies with the entities that are acquired.

The users of our financial statements are the investors whose money is being invested. They are interested in understanding how the value of the investment has changed. Effectively the entities, as investors, are acting as investment managers on behalf of the users, as stated in paragraph BC5.

While we understand the concerns raised in the Alternative Views, we believe that the user needs should prevail, as the preparation of consolidated financial statements fail to provide the user with the information they need in such circumstances. Preparation of consolidated financial statements in such instances results in information that is less decision-useful than measurement at fair value.

AVCAL itself has developed reporting guidelines for its members [ <http://avcal.com.au/industry-tools/Reporting> ]. These reporting guidelines were developed in conjunction with investor input as to the types of information they identified as being decision-useful rather than consolidated financial statements.

The costs involved in the preparation of consolidated financial statements in such cases are also high without a commensurate benefit. Such costs are high due the following:

- No common management or business operating model to achieve consistency in accounting policies, information systems and reporting
- Different year ends for investees that align with their business and past history

AVCAL does not, however, support the proposal in paragraph 8 that requires a parent of an investment entity, that is not itself an investment entity, to consolidate all controlled investments. Our members often provide investment advisory services to third parties alongside the investment

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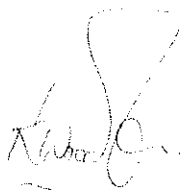
manager to leverage off our skills and expertise. We do not believe that this changes the nature of the investments that are undertaken. We therefore support the proposal that is included in the US FASB ED which allows the fair value measurement to be retained by the ultimate parent of the investment entity.

Paragraphs 2 and B1 to B16 propose criteria for identifying an investment entity. While overall we agree that these are relevant criteria, we have some concerns as follows:

- a) Single investor – In some cases some of our members set up investment funds that only have a single unrelated investor. This is more common in start-up phases for funds, while in other cases this is intentional such as where co-investment vehicles have been established.
- b) Exit strategy – it is not clear if such strategies are to exist at the level of the investment or the fund. If there is a limited life fund would that be sufficient to indicate there is an exit strategy? Additionally, such discussions often exist in internal documents rather than in documents made public to investors.
- c) Multiple investments – we believe B5 should be expanded to include the example of sales during the winding down of the investment fund – divestment phase. That is, it has no intention of replacing its investments, nor is it yet in the process of liquidation.
- d) Investment activity – We believe that the following activities would be permissible activities and not breach the criteria to be an investment entity, and believe the standard would be more useful if this was explicitly included:
  - a. Appointment of independent board members or representatives on the Board. Such appointments are made to enhance to the change in value and investment income, rather than to drive synergies between the investment entity and the investee or between investees.
  - b. Facilitating a group of investees to work together and procure deals with suppliers.
- e) Classes of equity – It is quite common that our members will have different classes of equity that provide different entitlements to the net assets. It is not clear if this would still meet the category of unit of ownership per paragraph 2(c). We believe that this should not affect the ability of an entity to be an investment entity.

Should you have any questions on the above matters, please do not hesitate to contact me at [katherine@avcal.com.au](mailto:katherine@avcal.com.au).

Regards



Dr Katherine Woodthorpe  
Chief Executive Officer