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The International Accounting Standards Board
30 Cannon Street
London
EC4M 6XH
United Kingdom

E-mail: **CommentLetters@iasb.org.uk**

Dear Sir

COMMENTS ON EXPOSURE DRAFT OF PROPOSED IMPROVEMENTS TO INTERNATIONAL ACCOUNTING STANDARDS (IAS 27, IAS 28 AND IAS 31)

We thank you for the opportunity to comment on the above-mentioned exposure draft. The attached comment letter has been prepared by representatives of the venture capital industry, auditors, the venture capital association and SAICA. Our comments are restricted to specific issues in IAS 27, IAS 28 and IAS 31 and are set out below.

Yours Faithfully

Craig Dreyer
Committee Member: The SA Venture Capital and Private Equity Association

COMMENT LETTER FROM
THE SOUTHERN AFRICAN VENTURE CAPITAL AND PRIVATE EQUITY ASSOCIATION

INTERNATIONAL ACCOUNTING STANDARD IAS 28: ACCOUNTING FOR INVESTMENTS IN ASSOCIATES AND INTERNATIONAL ACCOUNTING STANDARD IAS 31: FINANCIAL REPORTING OF INTERESTS IN JOINT VENTURES

Invitation to comment: Question 1

Do you agree that IAS 28, Accounting for Investments in Associates, and IAS 31, Financial reporting of Interests in Joint Ventures, should not apply to investments that otherwise would be associates or joint ventures held by venture capital organisations, mutual funds, unit trusts and similar entities if these investments are measured at fair value in accordance with IAS 39, Financial Instruments: Recognition and Measurement, when such measurement is well-established practice in those industries (see paragraph 1)?

Response

Yes.

Comments

- The concept of using fair values is supported.
- The definition for Venture Capital Organisations should be 'watertight' and the parameters for exclusion clear if these organisations are going to be excluded from the Standard. This will prevent abuse of the exclusion provision and also be useful to auditors. It should also be borne in mind that in some countries Venture Capital Organisations are established in terms of legislation and are regulated. In these jurisdictions the definition may be different. In South Africa these organisations are referred to as Private Equity Organisations. The following suggested criteria could assist in defining Venture Capital Organisations:

    - The intention for holding the investment must be stated up front and there must be an intention to exit.
    - There must be a finite life for funds under management.
    - The main intention for the purchase of the investment by the Private Equity Organisation is long-term capital gains to remunerate risks and ultimately realising a profit on disposal.
    - The Venture Capital Organisation can prove substantial activity in the management of equity or quasi-equity financing for the start – up and/or development of enterprises that have significant growth potential in terms of products, technology, business concepts and services.
    - The Venture Capital Organisation can provide active management support to investees.

- There is a difference between Venture Capital Organisations, Mutual Funds and Trusts and each of these types of organisation must be defined. This comment letter only refers to Venture Capital Organisations.
- The Standard should be clear that, where an investment is not equity accounted, fair values must be used and the policy, once adopted, must be applied consistently.

INTERNATIONAL ACCOUNTING STANDARD IAS 27: CONSOLIDATED AND SEPARATE FINANCIAL STATEMENTS

Issue

Should venture capital organisations consolidate investments where they have a majority stake?

Response

No. We recommend that venture capital organisations be specifically excluded from the scope of the proposed standard. We are aware that the International Accounting Standards Board has a different view and therefore encourage the Board to proceed with the development of industry-specific accounting standards for Venture Capital Organisations, should it decide to consolidate these organisations.

Comments

- The definition for Venture Capital Organisations should be 'watertight' and the parameters for exclusion clear if these organisations are going to be excluded from the Standard. This will prevent abuse of the exclusion provision and also be useful to auditors. It should also be borne in mind that in some countries Venture Capital Organisations are established in terms of legislation and are regulated. In these jurisdictions the definition may be different. In South Africa these organisations are referred to as Private Equity Organisations. The following suggested criteria could assist in defining Venture Capital Organisations:

    - There must be an intention to exit. The intention for holding the investment must be stated up front. The intention is usually to control the risk of the investment and not to exert operational capacity. They are also held for resale purposes and not to generate profits.
    - There must be a finite life for funds under management.
    - The main intention for the purchase of the investment by the Private Equity Organisation is long-term capital gains to remunerate risks and ultimately realising a profit on disposal.
    - The Venture Capital Organisation can prove substantial activity in the management of equity or quasi-equity financing for the start – up and/or development of enterprises that have significant growth potential in terms of products, technology, business concepts and services.
    - The Venture Capital Organisation can provide active management support to investees.

    The criteria must be applied whether the investment is, e.g., a 5% or 75% holding.
- There is a difference between Venture Capital Organisations, Mutual Funds and Trusts and each of these types of organisation must be defined. This comment letter only refers to Venture Capital Organisations.

- It should be borne in mind that difficulties may arise due to organisations having different year-ends and using different accounting policies of generally accepted accounting practice.
- Concern was expressed by Private Equity and Venture Capital practitioners that, under current standards, f they hold more than fifty percent in a company or control the board, they are required to consolidate the investment. Private Equity Organisations typically have diverse portfolios to spread the risk and do not concentrate on any specific industry, as would a conglomerate. Therefore, on consolidation, one arrives at a consolidated Balance Sheet which is meaningless to the fund manager.