



November 13, 2007

VIA E-Mail

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

Re: *Release Nos. 33-8831, 34-56217 & IC-27924 (File No. S7-20-07): Concept Release on Allowing US Issuers to Prepare Financial Statements in Accordance with International Financial Reporting Standards.*

Background

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.

NVCA appreciates the Commission's interest in raising the question of when and, under what circumstances, it might be appropriate for the SEC to accept public company financial statements prepared under international financial reporting standards ("IFRS"). We appreciate

¹ The National Venture Capital Association (NVCA) represents more than 450 venture capital and private equity firms. NVCA's mission is to foster greater understanding of the importance of venture capital to the US economy and support entrepreneurial activity and innovation. The NVCA represents the public policy interests of the venture capital community, strives to maintain high professional standards, provides reliable industry data, sponsors professional development, and facilitates interaction among its members. For more information about the NVCA, please visit www.nvca.org.

the potential cost savings and improvements in comparability that could come from such a step in our increasingly global investment environment.

Because both venture capital firms and funds generally operate as private companies in a partnership form, the ideas raised in the IFRS Concept Release do not relate directly to them. Furthermore, while most companies that receive venture capital are potentially SEC-reporting companies, there is no demand, nor efficiency to be gained by moving from GAAP reporting to IFRS. On the other hand, we are concerned about the potential unintended consequences of permitting US public companies to use IFRS. We believe the Commission should consider these risks before it pursues any of the ideas raised in this Concept Release.

Comments

1. The Commission should understand the impact on private companies of any move toward permitting public companies to use IFRS.

Before it takes any further steps toward use of IFRS by US public companies, the SEC should ensure that it takes into full account the impact of such moves on private US companies. The venture community has substantial recent experience with unintended effects on private entities like venture capital funds and firms that come from changes in public company accounting standards. While these changes are often important, just as the issues raised in the Concept Release are important, the unintended -- and often unconsidered -- consequences on private companies can be counterproductive and costly to correct.²

² The Release notes that IFRS and GAAP have significant differences in their treatment of consolidation in the investment company context. Release pp. 31-32. This recognition is appropriate given the experience of the venture community with FASB Interpretation No. 46, which was promulgated in 2003 in the wake of the Enron accounting debacle. While it seems to be widely recognized that the FIN 46 approach to consolidation should never have applied to private investment companies, there continues to be uncertainty as to when a final exemption will replace the temporary deferral of FIN 46 for "unregistered investment companies." See generally FASB Board Meeting materials for October 17, 2007 regarding deferred effective date for AICPA SOP 07-1, which is linked to FASB Staff Position FIN 46(R)-7. http://www.fasb.org/board_handouts/10-17-07.pdf. This is an example of the types of unintended, but difficult problems that could arise should decisions about the use of IFRS be made with a sole focus on publicly traded companies.

The FASB has recently recognized that accounting standards devised to address issues in large public companies must be evaluated separately with respect to private companies. The creation of the FASB-AICPA Private Company Financial Reporting Committee is based in part on the recognition that all accounting changes should be evaluated for their impact on private companies. As a relevant example, the Committee has advised the FASB of the need to separately evaluate the issues raised in this IFRS Concept Release as they pertain to private companies.³

2. The Commission should thoroughly evaluate the risk that a move toward greater use of IFRS in the US would cause further concentration of the accounting industry and it should err on the side of caution with respect to that risk.

We urge the Commission to thoroughly evaluate the risk that further moves toward IFRS reporting by US companies will solidify the oligopoly position of the Big 4 accounting firms. The general problems and concerns that arise from the concentration of the accounting profession in the four largest firms are well-documented.⁴ Venture capitalists have first hand knowledge of the negative impact that changes in the accounting profession since 2002 have had on smaller companies in need of a “brand name” accounting firm.⁵ Given the excessive costs and high risks inherent in the current structure of the accounting profession, the impact of greater

³ Letter from Judith H. O’Dell, Chair, Private Company Financial Reporting Committee to Robert Herz, Chairman, FASB, dated September 28, 2007. Available at http://pcfr.org/downloads/PCFRC_letter_to_FASB_about_SEC_IFRS_Proposal_9-28-07.pdf

⁴ See generally, GAO, REPORT TO THE SENATE COMMITTEE ON BANKING, HOUSING AND URBAN AFFAIRS AND THE HOUSE FINANCIAL SERVICES COMMITTEE, *PUBLIC ACCOUNTING FIRMS, MANDATED STUDY OF CONSOLIDATION AND COMPETITION*, July 2003.

⁵ See, e.g., House Small Business Committee Hearing, June 5, 2007, “Sarbanes Oxley Section 404: Will the SEC and PCAOB’s New Standards Lower Compliance Costs for Small Companies”; Testimony of Mark G. Heesen President, National Venture Capital Association (“Since SOX was enacted in 2002, the relationship between the Big 4 accounting firms and venture backed companies has become increasingly problematic. Many of our small companies have lost the attention of their auditors as these Big 4 firms are favoring larger public companies who offer lucrative 404 auditing engagements. Those who do maintain their Big 4 relationships do so at a 404 cost that averages close to \$1 million annually. As Sarbanes Oxley allows only for accredited accounting firms to complete 404 audits, our companies are held hostage to this oligopoly which is becoming increasingly untenable from both a cost and management standpoint.”)

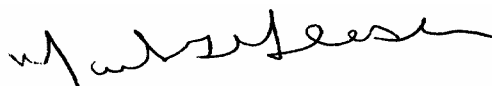
use of IFRS on the level of concentration in the accounting profession is a very serious concern. Certainly no responsible policy would seek to promote greater concentration. Indeed, we hope that the Commission agrees that it is an issue of greater importance than many of the issues addressed in the IFRS Concept Release.

Therefore, we urge the Commission to place the potential impact on the level of concentration and competition in the accounting profession as a critical consideration within the other matters addressed in the Concept Release.

Conclusion

NVCA appreciates the Commission's efforts to understand the ramification of any moves toward wider use of IFRS for financial reporting by US companies. We appreciate your consideration of our comments and recommendations. If we can be of further assistance in regard to any of these matters, please contact me or Jennifer Connell Dowling, vice president for federal policy at 703 524 2549.

Very Truly Yours,

A handwritten signature in black ink, appearing to read "Michael J. ...", written over a light gray rectangular background.

President