NEW YORK - The Private Equity Industry Guidelines Group has amended its valuation recommendations, with the new version sure to ruffle just as many feathers as the last one did.

The five-year-old group, which has tried to lay out rules dictating how private equity firms should value the companies they invest in, is no stranger to controversy. After all, it's fairly difficult to assign a dollar value to a private company.

When PEIGG issued its first set of recommendations in late 2003, private equity fund managers, especially those on the venture capital side of the business, balked at the problematic "Paragraph 30," which instructed them - in certain cases - to increase the value of their companies between rounds of financing.

This time around, the group says its changes reflect the Financial Accounting Standard Board's "Statement 157" on fair value. That means more auditors will start using PEIGG's guidelines to determine firms' compliance with Generally Accepted Accounting Principles.

Three amendments stand out:

- PEIGG is reconfirming its position that private equity firms should be open to conducting non-round write-ups and write-downs. "If the firms say 'We don't do non-round write-ups, that policy is not GAAP,'" said David Larsen, a PEIGG member and managing director of the financial advisory firm Duff & Phelps.

- PEIGG is opposing the use of "blockage discounts" or "liquidity discounts." These are practices in which private equity firms reduce the value of shares they hold in publicly traded companies if they determine that the market for the shares is too thin. The PE firms think that they would force share prices to drop if they sold all their holdings at once, meaning the value of what they hold is actually lower than the market price.

- PEIGG says private equity firms should be willing to write up or write down the value of their companies even if the last round of financing was conducted only by players participating in the previous round as well.

Some venture capitalists feel that non-round write-ups help them assign more precise company values when reporting to their investors. Jeanne Henry, chief financial officer of Atlas Ventures, said she conducts a non-round write-up when a company has matured in the months or even years since the last financing round.

"From time to time, we write up a company without an external event," she said. "As companies mature, they're generating revenue, and they become cash-flow positive."

But most venture investors object to such write-ups, and as a result have elected not to adopt the guidelines. According to a 2005 survey conducted by the Center for Private Equity & Entrepreneurship at Dartmouth's Tuck School of Business, only 19% of fund managers said they follow the PEIGG recommendations.

"By definition, there is a lot of subjectivity," said Stephen Holmes, CFO of venture capital firm Interwest Partners and a founding member of PEIGG. "There's no set of guidelines that will give you an equation that automatically dumps out a value."
Venture capitalists overwhelmingly oppose non-round write-ups primarily because such tactics also bring non-round write-downs back to the table. Too many VCs remember having to slash the values of their Internet and technology companies after the bubble, and nowadays prefer to boost a company's value only when a formal financing round dictates it.