



Financial Reporting Council
8th Floor
125 London Wall
London
EC2Y 5AS

By email: ukfrsreview@frc.org.uk

26 October 2016

Dear Sirs,

Re: BVCA feedback on FRS 102

The British Private Equity and Venture Capital Association (“**BVCA**”) is the industry body and public policy advocate for the private equity and venture capital industry in the UK. With a membership of over 600 firms, the BVCA represents the vast majority of all UK based private equity and venture capital firms, as well as their professional advisers. Our members have invested over £27 billion into nearly 3,900 UK-based companies over the last five years. Companies backed by private equity and venture capital (“**portfolio companies**”) in the UK employ around 385,000 people and 84% of UK investments in 2015 were directed at small and medium-sized businesses.

The BVCA welcomes the opportunity to give feedback on FRS 102 in advance of the first triennial review. As discussed with the FRC in the past, we would like to confirm our understanding of the application of the exemption from consolidation of subsidiaries when preparing accounts for investment funds and reference to a “basket of investments.”

FRS 102 requires subsidiaries to be excluded from consolidation where “the interest in the subsidiary is held exclusively with a view to subsequent resale”. An interest held exclusively with a view to subsequent resale can be defined as an interest “which is held as part of an investment portfolio.” This in turn is where the interest’s “value to the investor is through fair value as part of a directly or indirectly held basket of investments”.

A “basket of investments” implies that more than one investment must be held in order to benefit from the consolidation exemption. This, however, would not lead to the same accounting treatment as under IFRS 10 and we do not believe this was the intention of FRS 102. From a private equity perspective, there may be situations where a private equity fund is in a start-up period and has yet to acquire more than one portfolio company. Similarly, a fund may be winding down, where only one portfolio remains in its portfolio. In both situations, it could be interpreted that such investments in portfolio companies are not held as part of a “basket of investments”, and would therefore have to be consolidated by the parent fund.

Moreover, private equity funds are often structured to hold a number of intermediate holding companies, each holding a single portfolio company investment. FRS 102 defines an indirect basket of investments where “an investment fund holds a single investment in a second investment fund which, in turn, holds a basket of investments.” Again the implication would be that the aforementioned private equity fund structure would not meet this definition.



However, we believe that it is generally accepted accounting practice that a “basket of investments” could only contain one investment. We hope that this will be an area that the FRC will confirm as part of the upcoming triennial review to prevent a scenario where this is interpreted inconsistently.

If you have any questions or comments, please feel free to contact me.

Yours faithfully,

A handwritten signature in black ink that reads 'GKManku' with a horizontal line underneath.

Gurpreet Manku
Director of Policy
British Private Equity and Venture Capital Association