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BVCA response to the OECD consultation – Pillar One- Amount A: Regulated Financial Services Exclusion

The British Private Equity and Venture Capital Association ("BVCA") welcomes the OECD's continued efforts in developing a consensus solution to the tax challenges arising from the digitalisation of the economy and are pleased to have the opportunity to comment on its public consultation document, 'Pillar One- Amount A: Regulated Financial Services Exclusion' (the "Condoc").

The BVCA is the industry body for the private equity and venture capital industry in the UK. With a membership of over 750 firms, the BVCA represents the vast majority of all UK-based private equity and venture capital firms, as well as their investors and professional advisers. Over the past five years (2014-2018), BVCA members have invested over £38bn into nearly 2,800 companies based in the UK. Our members currently back around 4,330 companies, employing close to 1.6 million people on a full-time equivalent basis ("FTEs") across the world. Of these, around 843,000 FTEs are employed in the UK. Of the UK companies invested in during 2018, around 87% were SMEs.

What differentiates private equity and venture capital funds (PE/VC funds) from many other sources of financing is the active involvement of the manager in advising on the running of the businesses invested in, strengthening management expertise, delivering operational improvements and/or helping companies to expand into new markets. This active approach is also employed in helping underperforming companies to survive, protecting jobs and delivering successful businesses with a strong future.

A significant proportion of private equity and venture capital funding comes from pension funds and insurance companies who invest the pensions or savings of millions of citizens across the world. Private equity and venture capital is a key asset class for these long-term investors, as it generates capital gains on a consistent basis over the long-term. This is important, not least against the backdrop of changing demographics and in today's low yield environment.

Asset Manager Exclusion

As we explained in our prior submissions, the apparatus of a PE/VC investment fund generally consists of four key components – the fund, the investee businesses (referred to as a portfolio companies), the investors and the fund manager (and advisers to the fund manager).

We have noted before that the characteristics of the PE/VC fund holding these MNE's together with its fund manager and advisers are such that very careful crafting of the rules, in particular the proposed carve outs impacting these structures, will be key to ensure that the industry is not inappropriately

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bought within scope of the regime. We acknowledge and are appreciative of the engagement the OECD has shown as regards prior representations made on this topic.

In this regard, we have considered the Condoc carefully and we fully support the inclusion of 'Asset Manager' as a category within the Regulated Financial Services exclusion, on the basis that fund investment managers and advisers are not consumer facing businesses within the intended scope of Pillar One. We are concerned however that limb (b) of this exclusion, which requires the asset manager to be subject to capital adequacy requirements incorporating a risk-based measure, risks excluding regulated investment managers and advisers in some jurisdictions from the scope of this exemption and would consider its deletion or an alternative approach to be preferable.

We note in this regard that there are many different investment management and advisory structures and arrangements that are commonly seen in the market and we are keen to ensure that the final form of the exclusion and associated guidance appropriately covers all commonly found arrangements.

We would very much welcome continued engagement with the process of refining and legislating in respect of the proposed exemptions and 'Asset Manager' carve out in particular, in order to ensure that our stakeholders particular positions can be appropriately taken into consideration.

We would very much welcome the opportunity to discuss our response in more detail and would be happy to walk through any of the characteristics of our industry that we have outlined in this letter. Please contact Chris Elphick for further information.

Yours faithfully,

Mark Baldwin
Chairman of the BVCA Taxation Committee