Mr David Larsen
IPEV

By email:david.larsen@duffandphelps.com

10 June2012

Dear Mr Larsen

I am writing on behalf of the British Private Equity and Venture Capital Association ("BVCA") in response to the IPEV Board's request for input and comment on the IPEV Investor Reporting Guidelines.

The BVCA is the industry body for the UK private equity and venture capital industry. With a membership of over 520 firms, the BVCA represents the vast majority of all UK based private equity and venture capital firms and their advisers.

This submission has been prepared following consultation with a number of BVCA Committees and members firms representing all sectors of the industry including Global Capital firms, Venture firms and Limited Partners. The response initially focuses on the eight questions presented in the consultation document and provides additional comments on the various sections of the document.

**Questions:**

**Q1: Do the Investor Reporting Guidelines clearly articulate the additional information needed by investors beyond that contained in the GAAP/Statutory Financial Statements?**

Answer: Yes.

**Q2: Do the Investor Reporting Guidelines provide sufficient flexibility for different types of funds, Venture Capital vs. Buyout, etc?**

Answer: Yes

**Q3: Do the Investor Reporting Guidelines provide sufficient explanation to allow a GP to claim compliance with the Guidelines?**

Answer: Broadly yes, however, due to the depth and breadth of these guidelines we believe to claim compliance the majority of the guidelines need to have been adopted. Nevertheless, putting forward the idea that GPs can claim compliance needs to be avoided otherwise the guidelines risk becoming a rules based checklist rather than a principles based approach as intended.

**Q4. Please provide specific suggestions for modifications to essential disclosure or additional disclosure items.**

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Answer: Specific suggestions are as follows:

• LPs require in 45 days a capital account and portfolio summary with an indication of how the portfolio items have been valued. In addition LPs would benefit from a breakdown of the fair value movements by portfolio company in order to fully understand the drivers of any movement in NAV.

• Where parallel vehicles exist it would be useful to provide a whole fund capital statement (where legally possible) in order to ascertain the performance of the fund as a whole rather than just the parallel vehicle. The whole fund capital statement should disclose the aggregate of; commitments; investments; and the LPs percentage of the aggregate fund. In addition it should be made clear that the aggregation of portfolio data across funds should only be for the portfolio company detail in section 4.3.

• In 2.4 it would be clearer to state "Description of the individual components of the Distribution, where applicable, analysed between portfolio cost and gain." To make clear the level at which cost and gain is being analysed. In addition it should be essential that GPs state if the distribution is recallable or not, in order that LPs can incorporate this in to their liquidity management.

• In 4.4 the Essential analysis of movement in fair value of the portfolio should be for each portfolio company adding to an analysis of the whole portfolio.

• For benchmarking purposes the vintage year of each fund is hugely important. Within the industry there are varying practices adopted eg. date of first close, date of final close, date of first investment. We believe IPEV should recommend that good practise is the use of a standard definition of vintage, such as; the first close or first investment as this is the date the management fees start accruing and when the fund can make its first draw down for investments.

**Q5. Should example disclosures be incorporated in the Guidelines or provided as a resource on the IPEV website?**

Answer: No. The issuances of examples may develop into an industry precedent or the required template for investor reporting. This may contradict with many GPs current practices and may remove the ability of GPs to report in the most appropriate format.

**Q6. What changes, if any, would you suggest to make the Guidelines more globally accepted?**

Answer: The Guidelines have already been structured to be universally applicable. We would strongly be in favour of ensuring a use of common language throughout the guidelines.

**Q7. Is the suggested Frequency of Reporting Guidance described on page 15 appropriate?**

Answer: In recent years there has been ever increasing requirements for investor reporting to reduce the times for publication and increase both frequency and content. Published surveys on reporting show that reporting timescales are gradually reducing for both funds and fund of funds. The timelines proposed within the guidelines do not reflect the movements in recent years, the table included on page 15 should be amended to read the following:

| [illegible] | [illegible] |
|---|---|
| 1.1 Fund Overview | Quarterly |
| 1.2 Executive Summary | Quarterly |
| 1.3 Fund Status | Quarterly |
| [illegible] | |
| 2.1 Cash Flow and IRR Calculation | Quarterly |
| 2.2 Capital Accounts | Quarterly |
| 2.2.1 Since Inception Capital Account | Quarterly |
| 2.2.2 Current Period Capital Account | Quarterly |
| 2.3 Draw Down Notice | Each Draw Down |
| 2.4 Distribution Notice | Each Distribution |
| [illegible] | |
| 3.1 Management Fees and Related Party Transactions | Quarterly |
| 3.2 Carried Interest | Quarterly |
| [illegible] | |
| 4.1 Current Portfolio Summary | Quarterly |
| 4.2 Realized Portfolio Summary | Quarterly |
| 4.3 Portfolio Company Detail | Annual + Changes Quarterly |
| 4.4 Movement in Fair Value of the Portfolio | Quarterly |

It remains that not all GPs report in line with the guidance noted above, it is not uncommon for GPs to agree reporting timetables with LPs as part of the Limited Partner Agreement process, some flexibility within the reporting guidelines would be helpful.

**Q8: Should Fund of Funds guidance be added to these Guidelines?**
Answer: The guidance given on reporting broadly works for a fund of funds, however, revised timelines to reflect the specific position of fund of funds would be useful.

**Additional Response items:**

1. The consultation document defines the term GP/Manager and LP/Investor, however, for consistency and to reinforce the consistent use of terminology, as adopted by the EVCA and others, it would be useful if the guidelines throughout refers to GPs and LPs. Also under the Investor Reporting v Financial Reporting section it would be beneficial to move the GP and LP description to earlier in the document, as the terms GP and LP are used in advance of this description of their roles.

2. The document refers to the guidelines as "best practice" however following recent projects under taken by the BVCA it is more appropriate to name the guidelines as "good practice" in order to allow greater discretion in application.

3. As an introduction to the Preface it would be useful to include a summary of IPEV and its' principles in order to put the reporting guidelines in to context, as included in the Background section.

4. The final paragraph of the preface should be reworded as it does not seem appropriate for such a document to comment on other organisations guidelines. It would be better to merely indicate that they have been endorsed by a large number of organisations and to list them there or to cross refer to the section at the back where the endorsing organisations have been listed.

5. First Paragraph of page 11 should read:

   "It is not the purpose of these Guidelines to encourage or require redundancy in the information exchanged between GPs and LPs. Judgement must be exercised in how, where and when to communicate critical investment information."

6. The concept of Investor Reporting vs. Financial Reporting is confusing. We believe Investor Reporting is the overarching topic of which there are many facets, a significant, but not the only aspect of this being financial and statutory reporting. It would be beneficial to clarify that further in this section.

7. The section on Environmental, Social and Governance (ESG) Reporting on page 13 is too prescriptive and should be deleted. It has been suggested that a separate project be undertaken to consider ESG reporting, although IPEV should be aware that there are other guidelines on this subject.

8. The Guiding Principles Section would benefit from being earlier in the document. Meanwhile the final sentence would benefit from some clarification, for example Investor reporting at the fund level should be in the reporting or functional currency of the fund, but it may be appropriate to provide some portfolio company information in the reporting or functional currency of the company rather than the fund.

9. Within the Disclosure Of Confidential Information section it would more appropriate to amend the wording to highlight that the supplemental information may assist LPs in making decisions on developing asset allocation, GP selection and other related matters, but on their own they cannot (or should not) be used to make such a decisions.10. Within the Guiding Principles we would suggest that greater emphasis should be placed on investor reporting in electronic format. The majority, if not all, GPs provide electronic reporting in some form. It may also be appropriate to develop this further to suggest the use of conference calls, webcasts, websites and data hub providers as being a possible aspiration for GPs.

10. The timing section stating "Information need not be delivered all at once". This needs to be reconsidered as particularly feedback from LPs indicated that this makes an impossible task for LPs if GPs provide multiple statements at varying times throughout the reporting process and to this end keeping track of and reviewing the information received can be difficult and time consuming. As a result the section should be amended to highlight that:

    - NAV or capital account information should be provided within 45 days
    - Quarterly investor reporting data provided within 60 days (not 75 days as suggested in the draft) or 90 days of the reporting year end (not calendar year end as suggested in the draft).
    - It should acknowledge that Fund of funds would need additional time.

    Delete the bullet point dealing with GAAP financial statements.

11. The term "Hurdle rates" is outdated and has been largely replaced by the use of "preferred returns" and it would be useful to amend and use the most up to date terminology.

12. In 1.1 Fund Overview the additional disclosures should be essential disclosures. Furthermore it would be helpful to include the investment period ending and fund life ending. Additional disclosures could include a list of LPs and a list of members of the Limited Partner Advisory Committee. The investment stage should be deleted as this will be evident if the investment period end and fund life dates are provided.

13. In 1.2 Executive Summary: It has been noted that the role of advisory committees varies considerably, it may be clearer to state that if an advisory committee has decision-making powers, and these have been exercised, full details of the issue and decision should be reported. In the additional disclosures section the reference to fund fair value estimation policies should be an essential disclosure item rather than additional.

14. In 1.3 Fund Status: The last bullet point under the essential disclosures should be deleted as this is required in GAAP financial statements. Similarly, the Additional Disclosures should be deleted institutional investors rarely require this information.

15. In 2.1 Cash Flow: Cash flows between the LPs and the GP should be removed from essential disclosures and should state that such data should be available on request to LPs to facilitate reconciling fund information. This should also highlight that if any previous cash flows which have been re-classified this should be disclosed.

16. In 2.1 Net IRR: Delete the word "calculation" In addition, the reference to book accounting basis and tax basis reporting was considered confusing and should be deleted.

17. In 2.1 the essential disclosures dealing with distributions would sit better in section 2.4 dealing with distributions.

18. Sections 2.2.1 and 2.2.2 disclosures seem to have the same bullet points and so could possibly be combined for ease of reading.

19. In 2.2.2 Current period capital account; the essential disclosures suggests that information for the relevant investor can be presented individually or as a percentage. Where this information is presented as a percentage it creates significant difficulty for LPs when reconcile capital account information to actual figures, therefore it is suggested that the disclosure of individual figures remain as essential item of disclosure, with percentage disclosure either removed or provided as an additional disclosure item.

20. In 2.3 Capital Call Notices: The term "Draw Down notice" is more widely used, rather than "Capital Call". The first paragraph could be clarified to read "LPs should be notified of draw downs of their commitments in accordance with the Fund Formation Documents".

21. In 2.3 it would be useful to re order the essential disclosures in order of importance, such as: Date due; Amount; Reason; Wire instructions; Commitment held; Cumulative called; Breakdown of components.

22. In 2.4 Distribution Notices: As noted above it would be useful to amend the first and second sentence to read "LPs should be notified of distributions in accordance with the Fund Formation Documents." Delete the reference to book and tax basis accounting as this creates

more confusion than is helpful. In cases where withholding taxes have only been applied to certain LPs, then withholding taxes should be disclosed.

23. In 2.4 under additional disclosures it would be useful to LPs to include some practical guidance by providing at least 24 hours notice of a distribution given that many receiving banks need to be informed in advance or the LP runs the risk of having its bank bounce receipts into a suspense account, leading to additional time and administration costs to rectify.

24. It would be useful to include that where a Draw Down and Distribution have been netted off by the GP, a formal notification to LPs is essential also providing full details of what happened, this should be issued to LPs in order to avoid confusion later when comparing cash flow data with notices received.

25. In 3.2 Carried Interest: As noted above Hurdle rates have largely been replaced by preferred returns, therefore it would be useful to replace with "the rate of preferred return"

26. In 4.1 under Additional Disclosures the stage of investment disclosure is more relevant to be the current stage rather than at initial investment. In addition, the "Gross IRR" per portfolio company should be disclosed rather than "Gross unrealised IRR". The Total Return for each investment should include in brackets the explanation "(carrying value and realised proceeds)".

27. In 4.2 Realized Portfolio Summary: The additional disclosures noted are all appropriate to be included as essential disclosures items.

28. In 4.3 Portfolio Company Detail: As noted above, for ease of use by LPs this should be reported quarterly, not just annually with changes noted on a quarterly basis. The disclosure of "Name of significant syndication partners and coinvestors" should move from additional disclosures to essential disclosures.

29. In 4.3 Under ownership information delete the "specific valuation methodology". It is not typical to disclose this to LPs as a matter of course. It is typically shared with the Advisory Committee and available to LPs on request. In this section disclosure that valuations are in accordance with IPEV valuation guidelines may be more appropriate and also to disclose if the valuation basis has been changed and if so why. In addition, for quoted shares it would be helpful to include the percentage of free float. In addition on the disclosure of the description of the company's status it may be helpful to add in brackets "(on, below or above plan)".

30. Within additional disclosures it would be useful to include the debt maturity profile for portfolio companies in buy out funds and cash burn runway for venture capital funds, however, this needs considered in the context of the commercial sensitivities that surround this information.

**Section II:**

1. Internal Rate of Return: It would be useful to highlight the use of net IRR , as this is the true return to LPs rather than gross IRR information.

   The second paragraph could be amended to read "In conjunction with IRR other frequently used measures of performance within the private equity industry are the net multiples to investors of: ..."

   It may be beneficial to delete the final paragraph as this will possibly lead to greater confusion and should be determined between GPs and LPs on a case by case basis.

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2. Two levels of IRR Advocated by IPEV: The primary users of IRR information are LPs and their advisors or potential LPs. Therefore, it would be helpful to reword the second paragraph to reflect this, at present it suggests that this information is produced for a wider audience.

3. Gross return on all investments deals with a portfolio company return. The assessment of the realised and unrealised return on a gross basis should be classified on all fully realised portfolio companies and should not take account of partial realisations on current portfolio companies.

4. Under net returns to the Investor it is suggested to amend the wording to read "the actual cash flows which take place between the Fund and the LP taking account for the following:"

5. Principles of Calculating Returns: We suggest you add "a) Gross" and then followed by the words "Commitments made ....". The under the next subheading "b) Net:".

6. Under the net section, in the first paragraph it may be clearer to amend the wording to read "An LP will commit itself to making a series of investments in a fund over a period of time, up to their committed investment. The cash outflows should be taken to be the amount of commitment actually drawn down into the Fund from the LP at any given point in time"

7. Within the Realisations section it would be useful to provide further guidance on the methods used for valuing in specie distributions.

8. Taxation: Treatment of taxation adjustments can often be confusing, especially when using the term "grossed up". It would be clearer to state that if tax deductions are made before the Fund receives a distribution, then the amount received by the fund should not be adjusted. If tax is deducted on an individual LPs distribution because of specific circumstances, the fund IRR should not be adjusted.

9. Timing of cash flows: In general LPs expect an IRR to be calculated on the basis of the date of cash flows. If LPs receive monthly or quarterly data this is adjusted to take account of the actual date of the cash flow. Therefore it would be useful for GPs to adopt a standard practice.

The response to the initial questions and the additional comments included cover a wide range of investor reporting matters and in some cases focus on particular issue and precise details. Input on this response was sought from a combined subcommittee representing LPs and GPs looking at it from an investor relations perspective and also our legal and technical committee. If you would like to discuss any of this further please feel free to contact Oliver Morris (BVCA Technical Director), who can facilitate further input or explanations from these groups.

Yours sincerely

Mark Florman

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Chief Executive

BVCA