



Policy and Planning
The Financial Reporting Council
5th Floor, Aldwych House
71-91 Aldwych
London WC2B 4HN

28 March 2013

Dear Sirs

I am writing on behalf of the Legal and Technical Committee of the British Private Equity and Venture Capital Association ('BVCA') in response to The Draft Plan and Budget 2013/14.

The BVCA is the industry body for the private equity and venture capital industry in the UK. With a membership of over 500 firms, the BVCA represents the vast majority of all UK based private equity and venture capital firms, as well as their professional advisers. This submission has been prepared by the BVCA's Legal & Technical committee, which represents the interests of BVCA members in legal, accounting and technical matters relevant to the private equity and venture capital industry.

Our members have invested £40 billion in over 5,000 UK companies over the last five years. Companies backed by UK-based private equity and venture capital firms employ over half a million people and 90% of UK investments in 2011 were directed at small and medium-sized businesses. As major investors in private companies, and some public companies, our members have an interest in financial reporting matters, the conduct and information presented by such companies, and the burdens placed on the management of such companies.

Private equity ownership involves the close alignment of interests between investors and the management of a company, and this leads to closer and often more informal relationships than between comparable forms of ownership. As such, the level of communication between these parties tends to be high, and to a level that covers the areas investors require.

We note the six priority projects which you have identified. Our comments are limited to Corporate Reporting and Audit Quality and Value.

Cost v Benefit

We consider that the current set of financial reporting standards for both IFRS and UK GAAP and the auditors' report forms a good basis for company reporting.

Companies need to be able to concentrate on running their businesses and therefore additional financial reporting requirements add management time and indirect costs not only in their preparation but in the cost of the audit. We have some concerns that regulations and standards at present seem to be in a state of constant change, and for management to keep up with the learning involved to be able to implement these changes is becoming more of a challenge.

However, we are supportive of such initiatives if the benefit outweighs the cost but consider that this has to be a prime consideration before any proposal is suggested. Therefore we would suggest that impact assessments are considered before new regulations are proposed.

Private Companies

This becomes even more important for private companies, particularly SMEs, where the costs and time can be higher proportionally. Because of the ability of stakeholders to communicate



informally with these companies, the benefits can be lower, therefore, when impact studies are carried out, a separate one is needed for such companies.

For larger private equity companies, The Walker Guidelines monitored by the Guidelines Monitoring Group provide a good basis for safeguarding the interests of investors and stakeholders and these are regularly reviewed together with the compliance of the PE houses concerned which is reported on each year. We consider this to be an effective way of maintaining useful communication to stakeholders. Requirements designed by standard setters and lawmakers for public companies are reviewed by the Guidelines Monitoring Group and implemented if they consider them to be relevant.

Influencing v Promulgating

We support FRC's aims to influence international standard and law setters so that good ideas can be implemented internationally and bad ideas can be stopped. However, we have concerns about standards being developed which apply additional requirements to UK entities because of the additional comparative burden that these cause. We therefore consider that it is important that this comparative burden is also taken into account in impact studies but would be supportive of the additional requirements if the benefits justify it.

Disclosure requirements

We are supportive of simplified disclosure and therefore have concerns about the number of current disclosure initiatives which may make financial reporting more complex and confusing to the readers. Therefore, we ask the FRC to concentrate on clear concise reporting of matters that are important to stakeholders that can be based on factual information. We warn against too much concentration on forward looking information which, at best, will always be uncertain and at worst could, with hindsight, turn out to be misleading.

Audit Quality and Value

We consider that the most value received from the Audit is when the Auditors have to reach a firm opinion on the truth and fairness of accounts which can be judged against the standards that they have to comply with. We do not want them to be able to soften that opinion by disclosing the procedures that they adopted and judgements or assumptions that they made in reaching that opinion. We consider that such detail should be a matter for discussion between the auditors and the audit committee, or management in many private companies. We believe that the dialogue on risks and controls should be between the audit committee or management and stakeholders which as we have stated above can be done in a regular and more informal way with private companies. We consider that any measures that are likely to increase audit cost and time should be subject to the same type of cost benefit impact study as for measures directly affecting management.

The BVCA would of course be willing to discuss further this submission and if you wish you should contact Gurpreet Manku.

Yours faithfully

A handwritten signature in black ink, appearing to read 'S. Witney'.

Simon Witney
Chairman – BVCA Legal and Technical Committee