



Deepa Raval
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Dear Deepa,

Re: Thinking about disclosures in a broader context

This response is submitted on behalf of the Legal and Technical Committee of the British Private Equity and Venture Capital Association ("BVCA").

The BVCA is the industry body and public body advocate for the private equity and venture capital industry in the UK. More than 500 firms make up the BVCA membership, including more than 250 private equity, mid market, venture capital firms and angel investors, together with 250 professional advisory firms, including legal, accounting, regulatory and tax advisers, corporate financiers, due diligence professionals, environmental advisers, transaction services providers, and placement agents.

The private equity and venture capital industry has embraced the need to adapt to the rising expectations on transparency, disclosure and corporate governance. Disclosure in private equity and venture capital is split into two key areas: fund level and portfolio company disclosure. The background to both of these is highlighted below. Whilst the annual report and financial statements constitute a significant aspect of disclosure, they are by no means the only level of reporting that investors and stakeholders receive, or are able to access. As an industry, we have an established practice of considering financial information provided to users in other forms, such as quarterly private reports to investors, and this in turn drives the level of disclosures provided in financial statements.

Private Equity & Venture Capital Fund Disclosure - Background

The majority of private equity and venture capital funds are established as a Limited Partnership ("the fund") which is governed by a Limited Partnership Agreement, a legally binding contract between the investor and a general partner who is responsible for identifying and making investments in private companies (also referred to as portfolio companies below). As such the investor is able to stipulate, to those legally responsible for the management of the fund, the nature, content and format of the disclosure they require. As a result of the basis of the agreement there is very rarely an instance where the user of the financial statements of the fund is unable to obtain the disclosures in the nature or format that it requires. To this end, the BVCA would highlight that any mandatory requirements on content introduced as part of this review can only detract from the quality and relevance of disclosures that are already meeting the needs of the users of these financial statements.

The current disclosure regime within the industry is a recognised framework for investor reporting. Any additional mandatory requirements will add significantly to the cost of preparing this information, but also ancillary costs such as audit costs would increase significantly. Investors often agree to scope out certain disclosure requirements from financial statements, especially when they receive other forms of communication such as quarterly reporting on valuation and returns.



The private equity and venture capital industry has been proactive in establishing further guidance on best practice in investor reporting, through the International Private Equity and Venture Capital Valuation Board (“IPEV”) and its publication of the IPEV Investor Reporting Guidelines. These guidelines were prepared after seeking input from all constituencies involved with private equity and venture capital: managers/general partners, investors/limited partners and service providers. The guidelines establish a standardised reporting framework allowing for greater comparability and enhanced analysis of fund performance. Meanwhile the guidelines do not mandate a specific format but provide guidance which can be adapted to specific circumstances.

Private Equity Portfolio Company Disclosure - Background

In February 2007, the BVCA asked Sir David Walker to undertake an independent review of the adequacy of disclosure and transparency in private equity, which resulted in the publication of the Walker Guidelines (“the Walker Guidelines”) and the establishment of the Guidelines Monitoring Group (“GMG”) to oversee the application and conformity of the Walker Guidelines.

The Walker Guidelines require additional disclosure and communication by private equity firms and their portfolio companies where the private equity firms and portfolio companies meet the Walker Guidelines criteria. The Walker Guidelines focus on providing enhanced reporting that is relevant to all stakeholders and not just shareholders, and advocates a “comply or explain” basis of disclosure.

The Walker Guidelines and IPEV Investor Reporting Guidelines are two examples where as an industry we have implemented disclosure requirements that are relevant to the needs of the users of the financial statements. Our responses below should be read in light of these overriding comments.

Responses to questions in discussion paper

1. Would a disclosure framework that addresses the four questions identified below help address the problems with disclosures?

- What information do users need?**
- Where should disclosures be located?**
- When should a disclosure be provided?**
- How should disclosures be communicated?**

As explained above, the private equity and venture capital industry has an established disclosure regime which addresses these questions. However, any mandatory requirements set as part of this disclosure framework would detract from the value of the current regime.

2. Do the disclosure themes set out on page 16 of this paper capture the common types of disclosures that users need?

The themes presented are common practice; however, it would be useful to recognise that there are instances where not all of these themes will be relevant to a particular fund or portfolio company. Factors to consider include the size and type of entity, and also if the information is available to users in other forms. The disclosure framework would need to incorporate a degree of flexibility in order to provide meaningful disclosures where these are required by stakeholders and remove the need to include non material disclosures which may detract from the key information that stakeholders require. It is important to stress that disclosures are only included to the extent that they are relevant to the users’ needs.



3. Do you agree with the components of the financial report as identified on page 20? Are there any other components that should be identified?

The components highlighted on page 20 would cover the applicable components of a financial report. It is necessary to highlight that these items may not always be included within one report, as funds or portfolio companies may already have established reporting procedures and timetables that address these points separately. Within the private equity and venture capital community non statutory investor reporting often takes place on a quarterly basis and there is not a requirement to include all of this information each quarter. For example, management commentary and financial statements may be published on a quarterly basis, but a full review including corporate governance may be undertaken on an annual basis.

4. Do you believe that the placement criteria identified in this paper are appropriate?

The placement criteria are relevant, however this needs to be put in the context of the forms in which disclosures are provided. For example, a private equity or venture capital fund may not provide large amounts of disclosures in the management commentary but provide it to users in other forms such as quarterly reports. Once again it is necessary to highlight that fund investors receive the information they require as this is agreed in advance as part of the contractual terms on entering in to the partnership.

5. How should standard setters address the issue of proportionate disclosures?

It should be made clear that only material items should be disclosed as mandatory disclosure of items that are not applicable to the fund or portfolio company's business will only detract from the overall value of the disclosure. This would remind preparers not to include "boiler plate" disclosures. Retaining the "comply or explain basis" for corporate governance disclosures remains appropriate.

6. Do you agree with the framework for materiality set out in this paper? How could it be improved?

The framework is appropriate when considered in the context of users' needs. For example, if sensitivity or maturity analysis is not relevant to a user, given other reports they receive using industry standard disclosures for example, then we would not expect to see them in the financial report. Materiality should continue to focus on the basis of the needs of the user and follow that noted by the IASB – "Information is material if omitting it or misstating it could influence decisions that users make on the basis of financial information about a specific reporting entity." This would allow firms to omit information that is clearly not relevant to the user and avoid the need to disclose significant amounts of information that detract from the value of the disclosures as a whole.

7. Are there other ways in which disclosures in financial reports could be improved?

Providing preparers with greater flexibility to tailor disclosures to users' needs will refocus the content of financial reports and resolve some of the issues you have noted with disclosures. In recent reviews the GMG have noted that the disclosure of key performance indicators could be better linked to the actual risks and uncertainties that the reporting entity face. Enhancement of these disclosures would allow users to further their understanding of how the risk and uncertainties of the entity are being managed and the performance against these measures over time. Furthermore, the GMG continue to note the need for the annual report to be considered as a complete review. The primary statements and notes should be considered in conjunction with the management commentary and review of corporate governance.



Additional questions for users

We have outlined above how preparers of financial reports in our industry interact with users to ensure that disclosures meet their needs.

Please do not hesitate to contact me or Gurpreet Manku at the BVCA for further information.

Yours sincerely,

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

Simon Witney
Chairman, Legal & Technical Committee