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Financial Reporting Council
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24 January 2014

Dear Sirs

Re: Risk Management, Internal Control and the Going Concern Basis of Accounting – BVCA response to FRC Consultation on Draft Guidance to the Directors of Companies applying the UK Corporate Governance Code and associated changes to the Code

The British Private Equity and Venture Capital Association (“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 £33 billion in over 4,500 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 2012 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.

Private v Public Companies

The BVCA welcomes your decision that simpler guidance will be prepared for companies that do not apply the Code. We strongly believe that it is essential that such guidance be straightforward and easy to implement so as not to create an unnecessary burden on SMEs and other private companies many of whom are in business as risk-takers. It should take into account that private companies tend to have more informal communication with their stakeholders in addition to the financial report. Therefore the benefit of additional disclosure can often be less than the burden of having to provide it.



Risk Management and Internal Controls

For those that do apply the Code, we agree with the FRC that:

- The Board should determine its willingness to take on risk, and assess the desired level of risk for the company
- Risk management and internal control should be incorporated within the company's normal management and governance process
- It should include a robust assessment of principal risks looking at their impact in the short and longer term
- Risk should be managed and mitigated as an ongoing rather than periodic process

We also agree that it would be useful for there to be disclosure in annual financial statements of the principal risks (strategic report), the validity of the going concern basis of accounting and any material uncertainties thereon (financial statements) and results of the review of risk and internal control systems (directors' report) and that these disclosures should be linked so as to be consistent and clear.

However, it should be established that when looking at the longer term there is increased inherent uncertainty which means that situations may change

We consider that the Code should be amended to include these concepts

Going Concern

The BVCA welcomes the use of the term Going Concern only with its accounting meaning and the removal of the additional going concern assertion proposed to be required by the Code

We agree that a high level of confidence should be required in making the accounting statement of going concern and that it should take into account both liquidity and insolvency risks. However, we have concerns that in looking at longer term risks, making the statement with a high degree of confidence is still too high a hurdle that many companies who actually have a future would find difficult to achieve. We therefore feel that there should be some differentiation with the high degree of confidence being reserved for shorter term considerations and a reasonable level of confidence for longer term considerations which take into account the inherent uncertainties of the passage of time.

We support the FRC in continuing to try to influence the Audit and Accounting standard setters in providing greater guidance but still do not think that unilateral implementation is a good idea as it could lead to UK companies disclosing information that puts them at a disadvantage to overseas companies with respect to dealings with third parties.

Auditors

As far as auditor disclosure is concerned, we believe that your change to refer to auditors disclosing material information is an improvement but we still believe that the auditors should be focusing on the truth and fairness of the prime financial statements and whether the Going Concern basis is appropriate rather than second guessing directors' disclosure in their report. Such matters should be discussed between auditors and the audit committee so that the audit committee can decide in consultation with the rest of the directors on appropriate additional disclosure.



The auditors are not part of the governance of the company, neither are they privy to the day to day operational running of the company, so they can never be in as good a position to describe which operational matters are important as the directors. Clearly, they may have a view and it is appropriate for that view to be taken up with the audit committee and for the audit committee to consider that in their report but for the auditors to disclose that view publicly might lead to a misleading picture being presented.

The BVCA would of course be willing to discuss further this submission and, if you so 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