Louisa Chender
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

By email: cp21-17@fca.org.uk

10 September 2021

Dear Ms Chender,

Re: CP21/17 – Enhancing climate-related disclosures by asset managers, life insurers, and FCA-regulated pension providers

We are writing on behalf of the British Private Equity and Venture Capital Association, the industry body and public policy advocate for the UK private equity and venture capital (PE/VC) industry. With a membership of over 700 firms, we represent the vast majority of all UK based private equity and venture capital firms, as well as their professional advisers and investors. Between 2016 and 2020, BVCA members invested over £47bn into around 3,500 UK businesses, in sectors across the UK economy ranging from heavy infrastructure to emerging technology. Companies backed by private equity and venture capital currently employ 1.1m people in the UK and the majority of the businesses our members invest in are small and medium-sized businesses.

Summary and key comments

We welcome the FCA's proposals on TCFD-based disclosure. The PE/VC industry is alive to and committed to the role it can play, and has been playing, in countering climate change and its growing physical, social and financial impact globally. Many of the larger BVCA member firms affected by these proposals have already established formal governance processes associated with their ESG frameworks and policies, often in ways that in respect of climate-related issues, are essentially consistent with the TCFD's recommendations. Many in-scope BVCA member firms also already disclose publicly around climate-related issues in their annual reviews, statutory accounts and specific ESG or responsible investing reports.

The increasing proliferation of different approaches to climate risk reporting can leave PE/VC firms burdened with diverse information requests on a variety of similar issues and metrics, and firms newer to the consideration of climate risk in their investment and reporting processes are faced with a bewildering array of options. PE/VC firms therefore welcome a common regulatory framework. As well as fostering comparability for investors, it will, if implemented effectively, be helpful to PE/VC firms when integrating climate risk considerations into their investment processes and supporting efficient and effective communication with their investors (and portfolio companies) on climate issues. The TCFD framework, publicly sponsored and privately developed, internationally recognised and widely respected, is a solid foundation for achieving these outcomes.

Our member firms also understand their collective responsibility in meeting the challenge of climate change. Currently, more than 90 PE/VC firms (supporting companies together worth more than $700bn) have joined the *Initiative Climat International* (iCI). Members of this group are voluntarily working with their portfolio companies to drive down their greenhouse gas emissions, and on other complementary initiatives designed to help the PE/VC industry understand and communicate climate-related risks, opportunities and impacts. This includes supporting the Science Based Targets Initiative's sector guidance (currently under consultation) on how PE/VC firms can set science-based climate targets that make sense in the context of PE/VC's particular commercial and legal structures.

Whilst they share certain characteristics with other types of asset management business, PE/VC firms also have other characteristics that materially distinguish them from their peers in other sectors. We agree that a common framework covering the different constituent parts of the broader asset management industry is highly desirable, not least from an investor perpsective. Equally, it is critical that the FCA's rules reflect the specificities of different sectors and retain sufficient flexibility to facilitate effective climate risk disclosure across the asset managment industry. With this in mind, we would like to supplement our responses to the specific consultation questions with the following general observations that we hope will provide useful context to our detailed comments:

1. ***PE/VC firm structures:*** PE/VC funds are typically structured as limited partnerships, with the PE/VC firm represented by a separate fund manager entity that will be an affiliate or third party appointee of the general partner, often supported by global networks of affiliated advisory firms within the same group. It is important for investors that the rules recognise the variety of PE/VC firm structures, avoid duplicative requirements across different affiliated entities, and ensure that firms can present climate-related information cleanly and clearly to investors. We cover this in our responses to Q1 and Q2 on scope below.

2. ***Close relationships with investors:*** The relationships between PE/VC firms and the relatively limited numbers of investors in their closed-ended funds is inherently close and long-term. Communication between a firm and its investors is primarily direct, discussions on climate-related issues often occur in person, and public methods of communication are less relevant as investors base investment decisions on extensive, direct due diligence. We welcome the FCA's recognition of this dynamic in its "on-demand" product reporting proposals and refer the FCA to our responses to Q10 and Q17 below.

3. ***Significant influence or control, typically over SMEs:*** PE/VC funds take significant minority or majority ownership stakes in the companies they invest in. This means PE/VC firms are in a strong position to drive improved climate risk management and reporting standards across their funds' portfolios, on behalf of fund investors and as stewards of portfolio companies. Given that PE/VC portfolio companies are mostly (although not exclusively) unlisted SMEs, BVCA member firms are well-placed to help drive change in parts of the real economy that would otherwise remain outside the scope of climate reporting regulation. Under the TCFD framework, PE/VC firms will support SMEs to consider, gather and report on the necessary climate-related data. However, it is important that the new rules fully recognise the data limitations in relation to smaller unlisted companies whose entry into a PE/VC portfolio will often represent their first encounter with climate-related reporting requirements. Please see our responses to Q3 and Q4 below.

4. ***Closed-ended funds with multi-year holding periods:*** A key element of the PE/VC investment model is the making of operational improvements to portfolio companies over a typically three-to-seven year holding period, in order to increase their value prior to exit. An increasingly important aspect of increasing value over this time period is the implementation of ESG strategies, which include improving the companies' resilience to physical and transition

climate risks. During the 10-12 year term of a typical closed-ended PE/VC fund, different portfolio companies, from different sectors of the economy, are acquired and sold at different times, and will enter the portfolio when they are at different stages in their journey towards being better managed from a climate risk perspective. The regularly-changing composition of a PE/VC fund portfolio thus presents specific challenges to the utility of scenario analysis, which we detail in our answers to Q6, Q15 and Q16 below.

5. ***PE/VC firms are relatively small businesses:*** Even the larger PE/VC firms from an AUM perspective are mostly relatively small businesses with low headcount and may be in scope of the proposed framework due to a small UK team that is part of a global firm. Whilst many in-scope firms increasingly have a dedicated in-house ESG specialist, this is not always the case. Responsibility for climate issues in some cases will be an additional responsibility of one or more employees with parallel responsibilities elsewhere in the business. This relative scarcity of in-house resource combined with the detailed technical knowledge required to gather and report on information using the TCFD framework, in particular as regards metrics and targets, means that firms will depend on third party support from specialist consultancies in order to meet their obligations under the new rules. This provides context behind our responses relating to the need to reduce unnecessary burdens and avoid duplication, for example in relation to the overlap with SFDR. Please see our response to Q12.

BVCA responses to specific consultation questions

Design, scope, timing of implementation and compliance basis

Q1: Do you agree with our proposed scope of firms, including the £5 billion threshold for asset managers and asset owners? If not, please explain any practical concerns you may have and what scope and threshold would you prefer.

As noted above, we welcome the FCA's proposals on TCFD-based disclosure. We consider that getting ESG disclosures right is a key challenge for the asset management industry. We agree that large private equity managers should be included in the disclosure requirements.

We broadly agree with the FCA's proposed scope of firms and the £5bn threshold for asset managers. However, we consider that there are a number of points that would benefit from additional clarification by the FCA:

1. ***Small authorised AIFMs:*** We note that the scope of the regime encompasses small authorised UK AIFMs managing over £5bn. However, we note that a firm will only be regulated as a "small authorised UK AIFM" if it manages unleveraged closed-ended funds below £500m. It is our understanding that a small authorised UK AIFM could only fall within the scope of the new ESG rules if it has top up permissions and the AUM associated with those top ups, combined with its AUM as a small AIFM, took it over the £5bn threshold. We think it would be helpful if the FCA could confirm our understanding in the commentary in the policy statement.

2. ***Group clients:*** We suggest that sub-advisers that solely advise other (non-UK) group entities should be specifically excluded from the scope of the rules where the relevant group entities agree in writing that no entity level report is required. If there is no such exemption for group entities with no external clients, it would make the UK less attractive as a location for an

international asset manager to locate its European sub-adviser as this would be an additional regulatory obligation with no external benefit.

3. ***Product level disclosure (1):*** We think it is currently unclear whether the FCA expects firms to prepare product level disclosures where these disclosures have already been prepared by another firm (e.g. a third party manager, not in the same group). Whilst ESG 2.1.11R helpfully contemplates firms cross-referencing data in a third party's disclosures, it would be helpful if the rules could expressly state that it is open to a firm to rely on a third party's disclosure in full. We suggest that the FCA clarify that a firm is not required to prepare product level disclosures (including on-demand product level disclosures) in such circumstances, to avoid unnecessary duplication.

4. ***Product level disclosure (2):*** We understand that managers of, and advisers to, unlisted unauthorised AIFs will not be required to prepare TCFD product reports, but would need to prepare on-demand product reports if requested by a client. However, we found the FCA's proposed rules on this to be difficult to navigate. We think it would be helpful if the FCA could expressly confirm that this was FCA's policy intent in the final policy statement.

5. ***"Client"***: We also suggest that the FCA clarify whether the notion of "client" for the purposes of the regime is the same as applies in other contexts. For instance, for the manager of an AIF, the "client" is the AIF rather than an investor in the AIF. This impacts how the on-demand product report rules will work in practice.

Q2: Do you agree with our proposed scope of products? If not, what types of products should, or should not, be in scope and why?

We broadly agree with the scope of the proposed rules. In particular, we support the FCA's approach of covering both ESG-focussed products and other products – in principle, the rules should apply to all types of product managed by in-scope managers. However, we would like to highlight the following areas where the rules require further clarification in order to function effectively in the PE/VC industry context:

1. ***Private equity advisory services:*** We understand that the FCA proposes applying the rules to private equity firms which advise on and arrange transactions. We think there are two important scoping questions relating to this which should be clarified in the final rules. The first concerns the circumstances when an "adviser/arranger"[1] is subject to the on-demand information requirements for a particular product. The second concerns the definition of adviser/arranger services.

    a. ***On-demand information:*** We understand the on-demand information requirements are intended to apply where a UK manager or UK adviser-arranger is the primary or sole provider of management/advisory services for a product. That will certainly be

[1] Adviser/arrangers are currently regulated as Exempt-CAD firms by the FCA and advise on and arrange deals in investments. Typically, these are PE/VC firms based in the UK that provide fund advisory and deal services to a fund manager in the same group that itself is based and regulated outside the EU, often in the US or the Channel Islands or inside the EU and regulated as an AIFM, typically in Luxembourg or Ireland. This might be an attractive approach where the firm pursues global fundraising and investment strategies. The UK is a leading international hub for these types of firms.

the case for some structures. However there are many others where the UK entity is one of a number of global entities which provide advisory services to the relevant manager in respect of the same funds. In these other examples, the UK adviser/arranger might only advise on one or two transactions entered into by a fund, where the fund enters into perhaps 15 or so deals in total, with the balance being advised on by entities in other jurisdictions. We suggest that the adviser/arranger should not be subject to the on-demand information requirements in this latter case, otherwise the burden on the UK firm to report information on global investments in relation to which it has no real connection would be disproportionate. This point is relevant also for asset managers appointed on a sub-manager basis. We suggest the rules should apply in the same way in these circumstances to ensure parity of treatment between sub-managers and adviser/arrangers.

b. ***Private equity advisory services (definition):*** Portfolio management is defined as "managing investments; or private equity or other private market activities consisting of either advising on investments or managing investments on an ongoing basis in connection with an arrangement the predominant purpose of which is investment in unlisted securities". As set out in our response to CP 20/24 in the context of the Investment Firms Prudential Regime, we reiterate our view that advice provided by adviser/arrangers to PE/VC fund managers should fall outside the definition of "investment advice of an ongoing nature" (and therefore outside the definition of portfolio management for these purposes) on the basis that such PE/VC advisory services are not carried out on an "ongoing basis" in the natural reading of that phrase.

   PE/VC adviser/arranger firms may advise fund managers on buying and selling portfolio entities but this is on an ad-hoc basis and usually relates to specific potential transactions. PE/VC adviser/arrangers do not routinely monitor or review a fund's portfolio on an ongoing basis. At most, PE/VC adviser arrangers identify certain ad hoc opportunities and make recommendations to buy or sell certain portfolio companies, albeit under the terms of a standing mandate. Such recommendations may (or may not) be adopted by the fund manager. If the FCA's intention is to bring PE/VC advisory arrangements within the scope of the proposals we suggest the FCA reformulates its rule to clarify this.

   Since the publication of the FCA's draft ESG rules, the FCA has published Policy Statement 21/9: implementation of Investment Firms Prudential Regime. That paper sets out extensive guidance on the meaning of the phrase "investment advice of an ongoing nature". Private equity adviser/arrangers will need to consider that guidance in connection with their regulatory capital requirements. One way to clarify the FCA's ESG proposals would be to bring them into line with the prudential rules by referring to the defined term "*investment advice of an ongoing nature*" which will be introduced in MIFIDPRU.

2. ***Funds closed to new investments:*** We also believe that the rules should provide that AIFs that are no longer making new investments after the relevant effective date (i.e. 1 January 2022 or 1 January 2023) should be outside of the scope of the proposals. In this regard, we note that paragraph 3.19 of the CP (and draft ESG 2M3.4R), in relation to authorised funds, excludes sub-funds which are in the process of winding up or termination from the scope of the

proposed rules. For reasons of consistency, we recommend that the FCA adopt a similar approach to unauthorised AIFs and exclude AIFs that are outside of their investment period (and therefore, only making disposals or follow-on investments in existing portfolio companies) from the scope of the proposed rules. We suggest inserting a new provision along the following lines:

"A firm is not required to prepare a TCFD product report or on-demand information in respect of an unauthorised fund where the unauthorised fund is no longer making new investments."

Similarly, we would suggest that the AUM of those funds should also be excluded from the calculation of the relevant thresholds.

Q3: Do you agree with our phased implementation and timings? If not, what approach and timings would you suggest and why?

Subject to what we say below in relation to Scope 3 data and the non-core metrics, we think that the proposed timings are reasonable, given current expectations regarding data availability and the development of consistent standards. However, we believe that the timings set out in the consultation paper should be kept under review by the FCA. At present, there are significant data gaps for those PE/VC firms whose investment strategies include investments in SMEs and non-UK companies (as compared with asset managers whose strategies focus on larger listed European equities where climate-related data reporting mechanisms are better understood and developed). Difficulties relating to data gaps are compounded by the fact that there are competing methodologies for the calculation of certain of the FCA's "additional metrics" (e.g. the climate value-at-risk and implied temperate rise metrics) and a lack of consultancy support and analytical tools to process and rationalise climate-related data. Differences in calculation methodologies mean that the disclosures produced by asset managers relating to these metrics, even if calculable, are unlikely to be comparable and therefore of limited use to investors. We therefore think that it is important for the FCA to acknowledge that, while these data gaps remain, reporting will, of necessity, be imperfect.

More time for Scope 3 data: In addition to the general issues about data gaps referred to above, there is a serious concern among our members about the possibility of compiling reliable and comparable Scope 3 emissions data and calculating the other non-core metrics. As regards Scope 3 emissions data, we note that firms are actively seeking to develop reporting solutions, though such solutions are not yet fully developed. Firms are dependent on third party service providers in order to source that data. The FCA has recognised this in part, but we suggest that firms subject to the second phase of implementation (effective from 1 January 2023) be given a similar one-year grace period regarding the reporting of Scope 3 emissions as is proposed for the largest asset managers, and to extend that deferral to the non-core metrics, to allow smaller firms, and their investee companies, to put in place the required systems and to allow consistent reporting standards to be developed. We also encourage the FCA to remain actively engaged with the development of Scope 3 emissions reporting solutions and to keep its proposals regarding Scope 3 emissions under review, with the potential of further deferring them if appropriate.

Q4: Would there be significant challenges in using proxy data or assumptions to address data gaps? If so, please describe the key challenges and implications as well as any preferred alternative approach.

Reasonable care: We welcome the FCA's proposal that firms may address data gaps through proxy data or assumptions. As the FCA is aware, there continue to be significant data gaps at the portfolio company level where climate-related disclosures are not mandatory, especially for the types of company often invested in by PE/VC strategies (e.g. SMEs), relative to publicly listed companies for which third-party data providers already exist. We suggest that the FCA clarify that where firms use such data, provided that a firm has exercised reasonable care in sourcing that proxy data and outlines any relevant assumptions, there is no risk that the firm may be subject to regulatory enforcement action if that information proves to be inaccurate.

Given that many (small and non-UK) PE/VC portfolio companies will be (indirectly) bought within the scope of mandatory TCFD reporting for the first time by virtue of investment from a PE/VC fund, we also suggest that the FCA provide an ability for in-scope firms to allow a delay of one year in their reporting in relation to such companies to facilitate the post-acquisition on-boarding of underlying portfolio companies. This would allow these firms to develop their internal systems for reporting climate-related metrics. This is particularly important (and perhaps should only be available) in cases where firms are not able to obtain and utilise meaningful proxy data (due to gaps in the coverage of such data) to otherwise fill the gaps in the required reporting with reliable information, which, for certain types of private company, will be an issue in practice.

Where there is no reasonable basis on which to make an estimate of relevant data points (for example, for a fund of funds with no access to underlying information), despite reasonable efforts having been made, and if reliable proxy data is not available, we suggest that it should be clear that firms are under no obligation to provide the data. Otherwise, we think there is a risk that some data will be meaningless and potentially misleading.

Entity-level disclosure rules and guidance

Q5: Do you agree with our proposals for the provision of a TCFD entity report, including the flexibility to cross-refer to other reports? If not, what alternative approach would you prefer and why?

We welcome the FCA's proposals for a flexible approach to the TCFD entity report and in particular the fact that firms will be able to cross-refer to disclosures made in other reports. We consider that this proposal is broadly in line with the reporting methods adopted under other reporting standards such as the GRI sustainability reporting standards and the UN PRI. We suggest that in-scope firms be granted the ability to cross-refer to interim reports where final reports published under other reporting standards and frameworks may not yet be available due to differences in reporting cycles.

However, we would repeat our concern above that, unless and until entity-level reporting becomes the international standard, we believe that it would harm the UK as a jurisdiction to locate a sub-adviser if an adviser with no external clients were brought within the scope of the requirement to publish an entity level report, even if the UK firm is permitted to refer to other reports (since no group-level report may exist).

Q6: Do you agree with our proposed approach to governance, strategy and risk management, including scenario analysis? If not, what alternative approach would you prefer and why?

We strongly believe that information relating to scenario analysis should be required on a "comply-or-explain" basis.

In some cases, scenario analysis can be useful to assist with asset allocation decisions for future funds, or in assessing particular portfolio companies, including those are not themselves mandated to prepare TCFD-aligned reports. However, we note that for many PE/VC firms, *portfolio* level scenario analysis is likely to be of limited or no utility given the fact that the composition of a typical PE/VC portfolio will regularly fluctuate over the lifetime of a fund, the assets are by their nature illiquid, and there is often no pre-defined asset allocation either to particular assets or to particular sectors.

Consequently, we believe that a requirement to prepare entity or product level scenario analysis would be disproportionate and, in many cases, would not assist the firm itself or its investors and could provide misleading information to others. Instead, we believe that firms should be obliged to state whether and, if so, how they utilise scenario analysis (either for strategic portfolio planning or at asset level or otherwise) and to explain why they have chosen to use, or not to use, this tool in the way that they have.

We do not believe that there should be a requirement to publish quantitative results from any scenario analysis that is undertaken if the firm does not consider that such information would be decision-useful for users of the report.

Q7: Do you agree that firms not yet setting climate-related targets must explain why not? If not, what alternative approach would you prefer and why?

We agree that there should not be a blanket requirement to set climate-related targets. This is particularly relevant to the PE/VC industry, where it is appropriate for different firms investing in different sectors to have differing approaches to the setting of climate-related targets. In many cases, the firm will engage with the management of the underlying portfolio company and encourage them to set climate-related targets for that particular company at the company level and that will be more effective and appropriate than setting a firm level target. We also agree that firms that do not set targets should explain why they have not done so.

Q8: Do you agree with our proposals for AFMs that delegate investment management services to third-party portfolio managers? If not, what alternative approach would you prefer and why?

We broadly agree with the FCA's proposals for authorised fund managers which delegate investment management to third-party portfolio managers (which are not in the same group). We suggest that, in the interests of consistency and creating a level playing field, the FCA adopt a similar approach for AIFMs which delegate investment management to third-party portfolio managers. Where the delegate is the in-scope firm, we suggest that the delegate could be responsible for producing a product-level disclosure or on-demand information only where it is the sole or primary manager or adviser for that product.

Q9: Do you agree with our proposals for asset owners to cross-refer to group-level, third-party or delegate reports, where relevant? If not, what alternative approach would you prefer and why?

This question is not directly relevant to BVCA member firms. However, generally we agree that in-scope firms should have the flexibility to cross-refer to group-level, third-party or delegate reports where relevant.

Product or portfolio-level disclosure rules and guidance

Q10: Do you agree with our proposed requirements for product or portfolio-level disclosures, including the provision of data on underlying holdings and climate-related data to clients on demand? If not, what alternative approach would you prefer and why?

We agree with the broad approach that the FCA is proposing in relation to proposed requirements for product or portfolio-level disclosures. However, we would be grateful for clarification on how the regime is intended to apply to different asset classes/instruments. In particular we would recommend that the FCA clarify that the disclosure obligations should not apply to 'neutral' investments or other investments that do not finance 'real world' economic activities (e.g. cash held on deposit or derivatives entered into for hedging purposes).

We also have significant concerns relating to the administrative burden that would arise form the way in which the current on-demand requests may be made by clients. In this respect, please refer to our answer to Q17.

Q11: Do you agree with the list of core metrics, including the timeframes for disclosure? If not, what alternative metrics and timeframes would you prefer and why?

Subject to the comments on Scope 3 data and the need for timings to be kept under review, made in our response to Q3 above, we agree with the list of core metrics and the proposed timing for on - demand disclosures.

Q12: Do you agree that firms should calculate metrics marked with an asterisk according to both formulas set out in columns A and B of Appendix 3? If not, please explain why, including any challenges in reporting in accordance with either or both regimes.

We would like to see an approach that supports increased comparability and harmonisation – however we do not think it is appropriate or proportionate for firms to be obliged to prepare two sets of metrics (i.e. SFDR and TCFD metrics) for the same products, particularly where the product in question is not in scope of SFDR. Using two different formulae would also add unnecessarily to the compliance burden on firms and will also be confusing for investors in our view.

We consider that it would be preferable if the FCA adopted a substituted compliance approach whereby disclosure of either the TCFD or SFDR metrics is sufficient to meet the UK requirements, given the similar scope of both regimes. This would be a more efficient, proportionate and practical approach.

Q13: Do you agree that, subject to the final TCFD guidance being broadly consistent with that proposed in the current consultation, our proposed rules and guidance should refer to: a. The TCFD Final Report and TCFD Annex in their updated versions, once finalised b. The TCFD's proposed guidance on metrics, targets and transition plans and the proposed technical supplement on measuring portfolio alignment. If not, what other approach would you prefer and why?

Given the already short timeframe for implementation by firms, we suggest that the FCA phase in changes made by the TCFD consultation to take effect at least one year after these have been finalised, instead of requiring these changes to be reflected from 1 January 2022. This approach will provide greater certainty to firms, which is important given the limited time available before implementation. We are also aware that provision of metrics suggests a degree of precision in the disclosure that is not supported by the data available currently. It would be useful for any policy statement to acknowledge the current position and that data collection and consistency is an area that is likely to improve over coming years as international standards and methodologies develop and coalesce.

Q14: Do you agree with our approach to additional metrics and targets? If not, what alternatives would you suggest and why?

While we understand the rationale for the additional metrics and appreciate the FCA's ambition, we are concerned about the scale and complexity of the data that would be required for these additional metrics, and query to what extent these additional metrics would be helpful to clients. We also understand that the data required to provide the additional metrics will be difficult to obtain – in particular, data on climate value at risk (VaR) is very difficult and expensive to obtain.

We would accordingly suggest that the additional metrics be introduced on a 'reasonable efforts' or comply and explain basis (as a 'best efforts' basis would require an unreasonably high standard given the amount of data available, especially for private companies), with fund managers encouraged to disclose against these additional metrics where the manager considers such disclosure to be reasonably practicable and that the information would be 'decision-useful' for investors.

Q15: Do you agree with our approach to governance, strategy and risk management, including scenario analysis at product or portfolio-level? If not, what alternative approach would you prefer and why?

We consider that conducting scenario analysis to a degree of reliability that would permit disclosure will generally be difficult for privately held assets, and in many cases may not result in useful outcomes. The lack of comprehensive and good quality data in the private assets space in particular is likely to be quite challenging and may result in misleading scenario analysis outcomes for investors.

We do however acknowledge that scenario analysis can be useful for certain strategies, including during the ownership period of investments and as an engagement tool with management teams.

Accordingly, as suggested also in our answer to Q6 above, we would therefore strongly recommend that scenario analysis requirements are introduced on comply-or-explain basis (with firms given the flexibility to determine whether scenario analysis would be appropriate or useful for their products, and to explain their reasons where not) and over a longer period within which firms can prepare before any disclosure is required.

Q16: What form(s) could quantitative scenario analysis outputs at product or portfolio-level take? What do you consider the cost and feasibility of producing such outputs might be? How useful would such outputs be for users' decision-making?

As noted in our response to Q15 above, we do not believe that scenario analysis would generally provide useful outcomes in the PE/VC context at a portfolio level (as opposed to asset level), and could result in misleading or distorted outcomes for investors. However, we do acknowledge that it can be useful in certain contexts. We therefore would strongly recommend that scenario analysis is introduced on a comply-or-explain basis, with firms given the flexibility to use it where they consider it will provide meaningful and appropriate information regarding their products.

Q17: Do you agree with our proposed approach that would require certain firms to provide product or portfolio-level information to clients on request? If not, what approach and what types of clients would you prefer and why?

We welcome the FCA's decision not to require public product disclosures for unauthorised AIFs. However, we have significant concerns with the current proposals to require detailed on-demand information to be provided to clients. We suggest some changes which we think would make the rules more workable and proportionate whilst still meeting the policy objective of delivering information to investors.

BVCA suggested approach: We believe that it woud be appropriate for firms to be subject to a requirement to provide clients with a ***non-public*** product or portfolio-level TCFD-aligned report. This should be sufficient to meet the needs of most clients. If a firm is not required to produce a ***public*** TCFD-aligned product report under the FCA rules, it should be allowed to elect to provide similar information, with a standard reporting period, to its investors "on demand". In our view that would be sufficient to achieve the FCA's policy objectives.

We have three concerns with the FCA proposals:

1. ***Underlying asset data:*** The FCA proposes that in addition to product level data, firms should be obliged to supply "underlying asset data" as part of on-demand reporting. That might make sense for segregated management for individual clients, where firms provide services under an investment management agreement. However we do not believe this approach makes sense where the client is invested in a collective investment product such as an AIF. We suggest amending the rules so that firms do not need to supply that data for AIFs. Where underling asset data is required by the FCA rules, we believe that the scope of any such obligation should be limited to the name, holding size, and current price or valuation. For illiquid assets where the valuation is only carried out periodically, the valuation should be the most recently available at the time the information is provided.

2. ***Reporting period:*** We also agree that the frequency for on-demand disclosures should be limited to once a year. We suggest, in order to make this more operationally manageable, that the FCA clarify that a firm may itself specify a reporting period, in order to avoid a requirement to provide information on multiple different dates for different clients. It would be disproportionate for firms to be obliged to attempt to capture and report the relevant information for rolling 12-month periods with the potential to be required to produce reports covering multiple different periods if clients request these. It would still of course be open to firms to agree with clients to provide this information. The regulatory backstop provided by the FCA rules should be limited to annual production of the data.

3. ***TCFD only:*** The proposal in 2.3.8R to give a client the right to demand additional carbon or climate related data is disproportionate and should be removed. This open-ended obligation may result in in-scope firms being made indirectly subject to reporting obligations that do not directly relate to the TCFD but instead are imposed for other ESG related compliance reasons (which could be very wide-ranging). We think the TCFD requirements could be met through the non-public product report.

We would be happy to discuss the contents of this letter with you; please contact Tim Lewis (tim.lewis@traverssmith.com) and Tom Taylor (ttaylor@bvca.co.uk).

Yours sincerely,

Tim Lewis, Chair, BVCA Regulatory Committee