

1 February 2010

Peter Godsall
ACCOUNTING STANDARDS BOARD
5th Floor
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By email: ukgaap@frc-asb.org.uk

Dear Sir,

Re: Consultation Paper – Policy Proposal: The Future of UK GAAP

The BVCA is the representative body for private equity and venture capital in the UK. Our 450 members cover the whole investment spectrum, from venture capital firms investing into high growth technology start-ups, to the largest global buyout funds turning around and growing mature companies. We respond in that context here to the above consultation.

Whilst we support the convergence of accounting standards we are concerned that conversion and subsequent compliance should not impose an unwarranted burden on our members. In this respect we are concerned that the Board's policy proposal includes a definition of public accountability that could require private equity and venture capital management entities to prepare their annual statutory accounts in accordance with the Tier I accounting regime. We do not think this is appropriate or desirable since fund investors are not generally users of the accounts of private equity and venture capital management entities.

We attach as an appendix to this letter our responses to the ASB's questions set out in the Consultation Paper. Our responses are based on analysing industry specific matters rather than addressing the questions which cover generic policy matters which do not have specific industry relevance.

Yours faithfully

Sue Woodman
Chair, BVCA Legal & Technical Committee

Appendix – Responses to questions

APPENDIX

ASB Policy Proposal – The Future of UK GAAP

Responses to Questions

Responses to questions are confined to analysing industry specific matters and therefore we have not addressed the ASB's questions which cover generic policy matters and which have no industry specific relevance.

It should be noted that all of the private equity and venture capital entities which carry out asset management activities (structured as either a limited company or a limited liability partnership) are regulated by the Financial Services Authority.

Question 1 – Which definition of Public Accountability do you prefer: the Board's proposal (paragraph 2.3) or the current legal definitions (paragraph 2.5)? Please state the reasons for your preference. If you do not agree with either definition, please explain why not and what your proposed alternative would be?

Paragraph 2.3

The Board's definition of Public Accountability under 2.3(ii) needs to be clarified as to:

- (i) whether the term "holds assets in a fiduciary capacity" is intended to include private equity and venture capital managers ("fund managers") or not?
- (ii) what the term "broad group of outsiders" means in the context of the definition? and
- (iii) whether "mutual funds" includes limited partnership investment funds?

Hold assets in a fiduciary capacity

The phrase "holds assets in a fiduciary capacity" may be interpreted as excluding fund managers who typically do not hold on include client assets on their balance sheets. However, there could be doubt as to the interpretation because fund managers may have regulatory permission to hold client monies or customer assets and, in a wider sense, may be considered as holding assets in their asset management capacity and therefore in a fiduciary capacity (albeit such assets are likely to be owned by the relevant private equity or venture capital fund).

The primary activity of a fund manager is managing assets in funds not holding client monies / customer assets.

Accordingly, we believe that the definition should exclude fund managers and that this is the preferable position because fund investors are not users of the financial statements of such fund managers. We do not perceive any benefits to investors from including fund managers within the full regime of IFRS.

Broad group of outsiders

The term "broad group of outsiders" needs clarification. It is unclear whether this would include the institutional and professional investors in a limited partnership investment fund.

We consider that where a limited partnership investment fund has institutional or professional investors and is not available to retail investors, then that entity should not be subject to full IFRS. Typically, such investors would have negotiated the level and type of financial

information that they want from that entity and do not need the same level of protection as retail investors.

Mutual Funds

There is also reference to mutual funds which could be interpreted as including Limited Partnership private equity and venture capital investment funds. Such funds are generally restricted to professional clients and not accessible by retail clients. The format of the fund accounts is determined in the Limited Partnership Agreement. We consider the definition, of mutual funds, should exclude Limited Partnership investment funds that are only accessible by professional investors because we do not believe there will be any benefit to such investors of preparing accounts under the full IFRS regime.

Paragraph 2.5

All private equity and venture capital managers carry on a regulated activity under the Financial Services and Markets Act 2000 ("FSMA") and therefore would be considered as publicly accountable based on the legal definition in paragraph 2.5. Most private equity and venture capital managers are small entities and we consider the costs of compliance with IFRS may outweigh the benefits. Accordingly, using the legal definition under the FSMA does not appear to produce a sensible result.

If the Board does decide to use the legal definition in paragraph 2.5, then we believe that the Board should exclude any fund managers that are not authorised to hold client money or customer assets, or if they have such permissions, to exclude fund managers who only act for professional clients rather than retail clients.

Question 2 – Do you agree that all entities that are publicly accountable should be included in Tier 1? If not, why not?

See our response above.

The definition of publically accountable needs to exclude private equity and venture capital management or advisory entities and limited partnership funds. Subject to this we agree that entities which are publically accountable should be included in Tier I.

Question 3 – Do you agree with the Board's proposal that wholly-owned subsidiaries that are publicly accountable should apply EU adopted IFRS? If not, why not?

No industry specific comment.

Question 4 – Do you still consider that wholly-owned subsidiaries that are publicly accountable should be allowed reduced disclosures? If so, it would be helpful if you could highlight such disclosure reductions as well as explaining the rationale for these reductions.

No industry specific comment.

Question 5 – Do you agree with the Board's proposal that the IFRS for SMEs should be used by 'Tier 2' entities?

No industry specific comment.

Question 6 – Do you agree with the Board’s proposal that the IFRS for SMEs should be adopted wholesale and not amended? If not, why not? It would be helpful if you could provide specific examples of any amendments that should be made, as well as the reason for recommending these amendments.

No industry specific comment.

Question 7 – Do you agree with the Board’s proposal that large Non-Publicly Accountable Entities should be permitted to adopt the IFRS for SMEs? Or do you agree that large entities should be required to use EU adopted IFRS? Please give reasons for your view.

No industry specific comment.

Question 8 – Do you agree with the Board that the FRSSE should remain in force for the foreseeable future?

No industry specific comment.

Question 9 – Do you agree that the FRSSE could be replaced by the IFRS for SMEs after an appropriate transition period, following the issuance of the IFRS for SMEs?

No industry specific comment.

Question 10 – Do you agree with the Board’s current views on the future role of SORPs. If not, why not?

Many of our members use Limited Liability Partnerships (“LLPs”) as the entity of choice for their asset management or asset advisory activities. We consider that the SORP for LLPs is useful guidance to the preparers of LLP financial statements both as to format and as to the application of accounting standards which ensure consistency of presentation. Therefore we believe the SORP regime is useful and should be retained.

Question 11 – Do you agree with the Board’s proposal to develop a public benefit entity standard as part of its plans for the future of UK GAAP? If not, how should (converged) UK GAAP address public benefit entity issues?

No industry specific comment.

Question 12 – If you do agree with the proposal to develop a public benefit entity standard, should the standard cover all the requirements for preparing true and fair view accounts or should it cover only those issues where IFRS or the IFRS for SMEs needs to be supplemented for the public benefit entity sector?

No industry specific comment.

Question 13 – Do you agree the issues listed in the above table are distinctive for the public benefit entity sector and should therefore be covered in a public benefit entity standard? What other issues might the proposed standard include?

No industry specific comment.

Question 14 – The Board accepts there may be a continuing need for guidance to supplement a public benefit entity standard in sectors such as charities, housing and education. Where this is the case, do you think the Board should provide a Statement confirming the guidance is consistent with UK GAAP, including the public benefit entity standard?

No industry specific comment.

Question 15 – If you are an entity whose basis of preparing financial statements will change under these proposals, what are the likely effects of applying those new requirements? Please indicate both benefits and costs and other effects as appropriate. If you are a user of financial statements (such as an investor or creditor) what positive and negative effects do you anticipate from the implementation of the proposals set out in this paper?

For many of the entities in the private equity and venture capital sector, the proposals will require significant effort in achieving the conversion, even at Tier 2 level. Many entities in this sector will not have the appropriately skilled staff to implement the conversion, so costs will be incurred with external advisers. Although one can see sense in having a standard accounting regime in the EU, in this sector it is dubious whether the financial information prepared under IFRS brings any significant benefit over that prepared under UK GAAP.

Question 16 – What are your views on the proposed adoption dates?

The implementation date should be established as soon as practicable. An implementation date commencing 1 January 2012 seems ambitious considering that work will need to be undertaken on the comparative numbers and therefore there are significant cost considerations involved for many small and medium sized enterprises that will start to impact in 2011.