Department for Business & Trade
Old Admiralty Building
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By email: uk.srs@businessandtrade.gov.uk

17 September 2025

Dear Department of Business and Trade

Re: BVCA response to Developing an oversight regime for assurance of sustainability-related financial disclosures

The British Private Equity and Venture Capital Association (BVCA) is the industry body and public policy advocate for the private capital industry in the UK. With a membership of around 600 firms, we represent UK-based venture capital, private equity and private credit firms, as well as their professional advisers and investors. The private capital industry backs 13,000 UK businesses, nine in 10 of which are small or medium-sized enterprises. Businesses backed by the industry employ 2.5 million people across the UK and contribute 7% to GDP.

In 2024, £29.4bn was invested by private capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. This increased investment has fuelled the growth of businesses across the UK, with six in 10 (58%) of the businesses backed in 2024, located outside of the capital. These investments are long term, with an average investment period of six years, in contrast to less than a year in public markets.

The Chancellor's ambition to establish the UK as a global leader in sustainable finance, as set out in the Mansion House speech, is hugely encouraging and we welcome the Government's continued work to drive this commitment forward. The UK's private capital industry has a leading role to play in global efforts to eliminate the causes and combat the effects of climate change. At the BVCA's annual Summit in September, the Chancellor addressed hundreds of senior investors and reinforced the Government's commitment to reducing the regulatory burden by 25%. She also highlighted the importance of reforming regulation to make it easier to do business in the UK, noting that a more flexible regulatory approach can help foster a competitive and attractive investment ecosystem. We were pleased to hear these remarks and, as such, reiterate throughout this response that unnecessary requirements can be unhelpful and risk undermining UK competitiveness.

As either majority or significant minority owners, principally of unlisted, fast-growing SMEs, private capital funds managed by BVCA member firms are well-placed to drive transition in areas of the UK and global economies that public markets cannot reach. This includes backing innovation that creates the technology needed to fight the impacts of climate change and supporting businesses to transition and grow with sustainable objectives at the heart of its strategy. Regulatory and assurance requirements must be proportionate and sensible to allow for this innovation and growth.

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UK implementation of standards

The BVCA supports the UK Government's framework to create the UK Sustainability Reporting Standards (UK SRS) by endorsing the global corporate reporting baseline of IFRS Sustainability Reporting Standards (IFRS S1 & S2) and therefore welcomes this consultation on developing an oversight regime for assurance of said standards. We welcomed the opportunity to respond to the UK Sustainability Disclosure Technical Advisory Committee's (TAC) call for evidence and will support both the TAC and the FRC/government with their implementation of the UK SRS and associated assurance. The BVCA considers that the introduction of IFRS S1 & S2 via the UK SRS and future sustainability standards, alongside proportionate and well thought out assurance requirements will play a key role in enhancing sustainability reporting in the UK.

BVCA views on assurance on sustainability reporting

Section 2: "A registration regime for UK sustainability assurance providers"
We support the approach set out in the consultation. Sustainability assurance is fundamentally different from traditional financial audit and therefore requires judgments across a broad set of sustainability metrics — many of which are still not fully developed in terms of data availability, measurement techniques and reporting standards.

Given these challenges, a voluntary regime is a pragmatic first step. It allows the market to build expertise, test methodologies and develop sector-specific best practices without prematurely locking in rigid or underdeveloped requirements. It also provides flexibility for assurance providers and companies to respond to emerging international standards.

Section 3: "Looking ahead"
We agree that limited assurance on sustainability reporting will be required across the wider market in the long term, especially once the UK SRS has been implemented and embedded in annual reporting. It is, however, important to recognise that many SMEs and privately held companies are unlikely to require or need formal sustainability assurance and should not be burdened with unnecessary compliance efforts unless explicitly mandated for appropriate reasons. When considering assurance in the private markets space, the below concerns should be noted:

- Resources and skills in the assurance profession
- Cost of audit and assurance fees
- Availability of data and auditing/assurance services
- Assurance ambition versus practicality

We provide further information on section 2 and 3 in our responses below.

If assurance is to be required, the Government/regulator should provide clear guidance for assurance providers and companies receiving assurance, particularly on the specific criteria they are expected to assess and the level of tolerance or flexibility that is acceptable. The BVCA would be happy to assist with the drafting or compilation of any guidance to make it workable and helpful. It is essential that assurance standards are both sufficient and appropriate and consider materiality.

Potential impact of the UK SRS on private capital

<u>Private capital structure (firms, investors and portfolio companies)</u>
Private capital firms, their investors and portfolio companies will all likely be impacted by the implementation of the UK SRS and therefore sustainability assurance. The data gathering, the processes involved, and the resulting reporting will require significant resource, resulting in substantial costs and additional assistance from external advisors, many of whom may not have the increased expertise and bandwidth to provide such services.

- <u>Limited partners (such as institutional investors or family offices)</u>
  In the vast majority of cases, there will be more than one limited partner invested in a private capital fund, and depending on the type of limited partner, different reporting and assurance may be required. Limited partners are a primary user of accounts in our industry and the reporting can vary. It may be a difficult task for general partners to provide bespoke information to each limited partner to meet their own UK SRS assurance requirements, unless the data requirements of the standards are clear, concise and consistent.

  Phasing in the assurance requirements will be critical while the industry puts in place the practices and processes so that investors receive the information they require in a consistent form across all general partners.

- <u>Portfolio companies</u>
  As we note in our opening remarks, there are over 13,000 UK companies backed by private capital which currently employ over 2.5 million people in the UK. 90% of the businesses receiving investment from our members are SMEs. These companies are the backbone of the UK economy, and their focus is primarily on innovation and growth. While we agree that more sectors of the economy need to report on sustainability related matters and therefore have them assured, the likelihood of these SMEs being able to implement these standards is questionable. Many SME portfolio companies, particularly those at the earliest stage of their growth (Seed – Series B) simply do not have the expertise, resource, systems and data collection processes in place to be able to report in accordance with the UK SRS. Therefore, assurance of this information will be extremely difficult.

  Private capital will be there to assist these companies when implementing the standards, however, similarly, they are focused on innovation and growing their portfolio companies into better businesses. It will take substantial time and resource for SMEs to align with these standards, and therefore we would advocate assurance to not be extended to these companies.

- <u>Private capital firms</u>

The new rules will require private capital firms to address sustainability related issues in a number of areas, including data, methodology, professional expertise, deal execution and value chain monitoring.

In preparation for potential future mandatory reporting, firms will need to work with their portfolio companies to identify gaps in their data collection and reporting processes. For example, if a company has never collected greenhouse gas (GHG) emissions, they will be required to begin collecting this data. It is not uncommon for companies to require multiple reporting cycles to optimize their data collection processes and, in turn, use this data for business transformation.

The new range of issues, including monitoring and data collection, is exacerbated for private capital firms which can typically manage multiple funds, each of which contain investments in a number of portfolio companies. These portfolio companies can and will be different sizes and operating across a wide range of sectors and potentially geographies. Our members invest in all sectors, ranging from emerging technologies to heavy industry to consumer goods. Adding to that the requirements around value chains, the implementation of these standards will require substantial work.

The government should carefully consider how the implementation of the standards, and therefore assurance, will affect the three types of entity above, including the complexity, skills shortage, additional costs and the time it will take for assurance. Private capital drives growth and employ millions of people in the UK. The industry invest all over the world and it is vital that they come to and stay in the UK.

Response to consultation questions

Q1. Do you agree or disagree with the government's core proposal to create a voluntary registration regime for sustainability assurance? Provide justification.
Q2. In your view, what are the advantages and disadvantages of the opt-in approach?

Yes, the BVCA agrees that a voluntary registration regime for sustainability assurance is the right approach. Sustainability assurance is fundamentally different from traditional financial audit. It requires judgments across a broad set of sustainability metrics — many of which are still not fully developed in terms of data availability, measurement techniques and reporting standards. Unlike financial data, which is typically historical and quantitative, sustainability disclosures often include forward-looking statements, scenario analyses, imperfect sciences and qualitative assessments that are much harder to verify and therefore assure.

Given these challenges, a voluntary regime is a pragmatic first step. It allows the market to build expertise, test methodologies and develop sector-specific best practices without prematurely locking in rigid or underdeveloped requirements. It also provides flexibility for assurance providers and companies to respond to emerging international standards.

A voluntary model can help set expectations and create a pathway to more robust oversight over time, especially if it includes:

- Clear criteria for registration and competence.
- Transparency in methodologies used.
- Alignment with global best practices.

Q3. Do you agree or disagree with the government taking a profession-agnostic approach to sustainability assurance? Provide justification.

We agree with this approach as sustainability assurance is different from traditional financial audit and therefore requires judgments from a broad range of professions. However, given the responsibilities involved in signing off sustainability assurance, it is essential that individuals undertaking this role possess the appropriate experience, qualifications and independence, similar to the standards required for financial audits.

Importantly, allowing professionals without the necessary expertise to conduct these engagements could undermine their quality and credibility. The knowledge required to deliver robust assurance is significant, and as such, it is vital that the government clearly define the skills, qualifications, experience and independence criteria for those providing these services.

Those responsible for signing off should have a background that enables them to understand and critically assess sustainability assurance engagements. This could stem from financial assurance experience complemented by sustainability expertise, or from a dedicated sustainability-focused background.

Q4. Do you agree or disagree that both individuals and firms should be able to be registered as sustainability assurance providers? Provide justification and explain whether any specific requirements are needed to ensure appropriate accountability.

We agree that both firms and individuals should be able to be registered as sustainability assurance providers. In the private capital industry, particularly among funds and their portfolio companies, there are ongoing challenges related to the cost and availability of assurance services. These challenges are often driven by limited capacity and high fees. To enhance accessibility, assurance should be available through a variety of engagement types, including reviews, analytical procedures and both limited and reasonable assurance. This flexibility is particularly important given the practical barriers many market participants face in accessing assurance services.

Furthermore, allowing qualified individuals to conduct assurance engagements, provided they adhere to robust quality control standards, could help expand market capacity and reduce costs, especially for SMEs. This approach aligns with the Prime Minister's ambition to reduce compliance costs of regulation by 25%.

Sustainability assurance is set to become essential for companies aligning with the UK Sustainability Reporting Standards (UK SRS), as verification of disclosed information will be necessary to prevent the resurgence of greenwashing. Without appropriate access to independent verification, the credibility of these disclosures may be undermined.

Q5. In broad terms, what are the main principles that ARGA should consider when developing a registration regime for sustainability assurance providers?

When developing a registration regime for sustainability assurance providers, ARGA should be guided by principles that ensure credibility, consistency, transparency, and accountability.

To make these principles a reality, ARGA must ensure:

- Competence and professionalism are necessary skills and training for professionals who opt in
- Independence and objectivity, similar to principles for financial auditors should be required here
- Transparency and public accountability, similar to principles for financial auditors should be required here
- Use of recognised standards & international compatibility
- Proportionality and scalability of services being provided based on size and resources of companies receiving assurance
- Consistency with financial assurance regulations in terms of quality and transparency
- Effective oversight, quality control and enforcement
- Stakeholder engagement and public interest focus
- Adaptability and responsiveness

Q6. How should ARGA work with other organisations when developing a future registration regime?

Collaboration and engagement with industry will be vital and should be regular, especially as the regulator and registration regime is set up. Industry bodies and standard setters, such as the BVCA and ICAEW and other relevant professional bodies, can provide vital input. We would recommend that ARGA meet with private capital firms who back SMEs in the UK>

Q7. Do you agree or disagree that the UK's registration regime should recognise 'sustainability assurance providers' as being capable of providing high-quality assurance over multiple reporting standards (that is, TCFD, UK SRS, ESRS)? Provide justification.

Yes, the BVCA agrees that the registration regime should recognise 'sustainability assurance providers' as being capable of providing high-quality assurance over multiple reporting standards. Otherwise, companies might be required to hire different advisors for different standards, driving up costs and complexity. They should all be recognised and the assurance provider should be able to look at each. There is a need for global cooperation, and this includes on different reporting frameworks and the assurance of them.

Q8. Do you agree or disagree that sustainability assurance providers must follow UK-equivalent standards to ISSA 5000? Provide justification and, if you disagree, indicate whether any other standards are considered appropriate.

We agree that adopting a UK-equivalent standard to ISSA 5000 is appropriate, as it provides more targeted guidance for ESG disclosures compared to the broader scope of existing assurance standards such as ISAE 3000. Furthermore, the EU Commission bases the International Auditing and Assurance Standards Board (IAASB) on International Standard on Sustainability Assurance 5000 (ISSA 5000). To ensure international interoperability, most firms would be in support of having some degree of alignment between the EU and UK. Greater interoperability would also be achieved on CSRD and ISSB by looking at the standards set by ISSA 5000.

Q9. How should ARGA exercise its proposed functions in respect of sustainability assurance standard setting in the future?

We would recommend that ARGA take a leading role in standard setting functions over time. In exercising its functions, ARGA should engage with industry and industry groups, such as the BVCA, both formally and informally so that questions and issues can be resolved quickly. The UK has a leading financial services and audit industry, therefore it must have a leading regulator, setting standards and providing leadership.

Q10. What factors should ARGA consider when developing its approach to enforcement. Provide justification.

We would recommend that proportionate approach is taken to enforcement in the early years of assurance until those providing services are well trained and have educated their teams, and the assurance standards can embed. Uncertainty and unpredictable enforcement can damage the confidence of investors and create problems for the UK businesses they invest in. Capital is mobile. ARGA should consider the messages it may be sending to investors, including in the media when enforcing. Investors are often considering making large, long-term investments in the UK, and could instead look at businesses based elsewhere.

Q11. Do you agree or disagree that assurance of UK SRS disclosures is desirable in the long term? Explain your view and also indicate whether there are any implementation approaches (for example, timelines for phasing-in requirements) or alternative measures to regulation that the government should consider.

Yes, we agree that limited assurance on sustainability reporting is desirable in the long term and is required for larger companies once the UK SRS have been implemented and imbedded. However, while reasonable assurance of UK SRS disclosures is generally desirable in the long-term due to its potential to build trust and verifiability, it may be difficult in practice and be disproportionate. Many companies that members invest in either do not require assurance or are not suitable for it, based on the industry and/or materiality. While assurance plays a vital role in building trust and transparency, it should not be applied disproportionately.

Companies frequently invest significant costs and effort in preparing disclosures, only for little to be reported or assured in the end. Therefore, the government should consider whether assurance should be mandatory or voluntary, and whether limited assurance is appropriate.

Assurance should be used where it adds the most value. In private markets, investors often have direct access to company information and may not see the benefit of verification, particularly for smaller or less complex entities. In contrast, public markets benefit more from assurance, as it supports public disclosures and enhances credibility for a broader investor base. Therefore, rather than applying a blanket regulatory approach, efforts should focus on making assurance targeted and business specific.

Assurance can be helpful if mandated for certain sectors, especially for industries with higher sustainability risks, rather than uniformly applied to sectors like financial services where sustainability risk is still relatively low. Applying assurance where it is not needed can undermine engagement and risks losing credibility with companies due to the lack of standardisation.

To be effective, the assurance market must evolve to be more focused, delivering information and data, where it is needed without overburdening companies that do not materially benefit from such services.

The Government should consider the following points:

Resources and skills
Accounting firms, and other professional services providers and specialists, may not be sufficiently resourced or skilled to complete this difficult additional work yet. Auditor independence rules can exacerbate this issue as there is less choice of service provider for many of the larger private capital firms and portfolio companies. The skills will need to be developed which will take time, and in the interim, the related costs will be higher than many anticipate.

Additional costs
Audit and assurance fees have grown by 75% since 2017[1]. Requiring assurance on sustainability reporting will raise professional services fees further, due to the increase in demand shortage of skilled professional services.

Availability of data and auditing
The requirements under the UK SRS are extensive and it will take time for our members and their portfolio companies to collect the data before being fully able to implement and report. At the same time, providing assurance on data will be difficult as systems and controls are put in place.

Assurance ambition versus practicality

[1] Audit fees rise by 75% since 2017 | ICAEW

The proposed changes rightly seek to encourage climate positive investments and lower carbon emitting processes. However, demonstrating these outcomes in practice remain challenging. Under the CSRD, for example, firms found it difficult to align with auditors who often push for a 'gold standard' approach, which may not reflect the transitional nature of sustainability efforts.

There is a clear need for a strong, accessible assurance environment. However, this should be cost effective, well resourced, and equipped with sufficient capabilities and capacity.

Q12. Provide evidence where assurance providers have been excluded from or where you anticipate future barriers to competing for CSRD assurance engagements, due to a lack of UK registration regime or other reasons. Where possible, include quantitative estimates of the scale of impact on UK companies.

We do not have a view on this as we are not assurance providers. We note the potential barriers around resource and skills, additional costs and data in our response to question 11.

Q13. Provide evidence where the non-audit services cap has been a barrier to accessing or providing high-quality sustainability assurance. Where possible, include quantitative estimates of the scale of impact.

The non-audit services cap can already be a barrier for our members and their portfolio companies when attempting to access high quality services. We note that choice in the market can be difficult for the larger private capital firms and large portfolio companies. We agree with the findings from the FRC's market study. The introduction of sustainability assurance could make accessing services worse if the provision of sustainability assurance services is treated as a non-permitted non-audit service for the purpose of the cap. We do not see any concern with conflicts of interest when providing both financial statement assurance and sustainability assurance.

Please do not hesitate to get in touch if you have any questions or if you would like to discuss any of the above in more detail (please contact Ciaran Harris and Chris Khoury).

Yours sincerely,

Sarah Adams and Isobel Clarke, Directors of Policy, BVCA