



Catherine Woods
Financial Reporting Council
Sent by email: codereview@frc.org.uk

27 June 2014

Dear Sirs,

Re: BVCA response to the FRC consultation on proposed revisions to the UK Corporate Governance 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.

The industry has also implemented a voluntary reporting regime through Sir David Walker’s Guidelines for transparency and disclosure in private equity for unquoted companies backed by large private equity houses. The independent Guidelines Monitoring Group (“GMG”) reviews compliance with these guidelines and amends them to ensure they remain fit for purpose. The GMG monitors changes in narrative reporting, including to the UK Corporate Governance Code, for matters that are relevant to companies covered by the guidelines and considers the disclosure requirements that are likely to be relevant to stakeholders. Therefore, for our industry, the provisions that are adopted are the responsibility of this self-regulatory group.

Remuneration

As the matters discussed in this section are mainly not relevant to private companies and the relationship between private companies and their shareholders, we are not commenting on this section of the proposals.

Risk management and going concern

Questions 5 and 6

We are generally supportive of the proposals relating to principal risks, monitoring the risk management system, future viability and going concern subject to our answer to question 7. We consider that our original concerns have been mainly dealt with.

Question 7

We have concerns about specifying time periods and degrees of uncertainty in a viability statement which will usually have an inherent level of uncertainty which is significant. In such circumstances users might gain an unreasonable level of confidence from such a statement if it indicates a specific date to which the statement relates. The reason why the accounting statement is generally considered to relate to one year, in our view, is because beyond that date the inherent uncertainty is too great to specify a date with any reasonable expectation for many businesses without turning the statement into a negative ‘we have no reason to believe.....’ statement.

We therefore consider if the statement is to be positive then it is appropriate that reasonable expectations are linked explicitly with the “foreseeable future” rather than any specific time frame. Such a statement would still be made in the context of the investment cycle and other factors specific to the company including geo-political, and broader macroeconomic considerations, the timing and impact of which will often be very uncertain.

Question 8

Given what the FRC are proposing, we consider that the draft guidance on the viability statement is extremely thin and should be expanded considerably.

Question 9

We do not consider that further guidance is required on the location of the viability statement. Companies should be free to place it where they consider it to be most appropriate.

Question 10

Although we think it is reasonable to state whether actions are being taken to identify significant weaknesses in the internal control or risk management systems, we consider that to specify what these are is potentially a level of detail too far as it is likely to be proprietary information of great interest to competitors who may well have similar weaknesses

Auditing standards

We previously expressed our concerns over developing UK standards in advance of the recognised international standards and although we continue to have those concerns we recognise that we are in a minority as far as this area is concerned.



Location of disclosures and scope of the disclosure requirements

Questions 11 and 12

We are not responding to these questions as they are not relevant to private companies.

The BVCA would of course be willing to discuss further this submission and, if you so wish, you should contact Gurpreet Manku.

Yours faithfully

Simon Witney
Chairman – BVCA Legal and Technical Committee