The Social Investment Team
Strategy & Competition, Policy Division
Financial Conduct Authority
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Re: FCA Call for Input - Regulatory Barriers to Social Investment

The **British Private Equity and Venture Capital Association ("BVCA")** is the industry body and public advocate 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 houses, as well as their professional advisers. Our members have invested over £30 billion in nearly 3,900 UK-based companies over the last five years. Companies backed by private equity and venture capital in the UK employ around 490,000 people and 88 per cent of UK investments in 2014 were directed at small and medium-sized businesses.

Whilst the majority of our members invest money on a strictly commercial basis with a view to growing businesses and generating returns for their investors, an increasing number are funding social enterprises or 'profit with purpose' companies, applying their long-term, hands-on approach to a new field. The BVCA has fully embraced this development and played a proactive role in the advancement of social investing in the UK over several years. Indeed, Social Investment Finance Intermediaries (SIFIs) represent a growing section of our membership, and many of these contribute to our efforts to advance the social investment agenda through the BVCA Impact Investment Advisory Group, as well as broader initiatives including the recently launched UK National Advisory Board (NAB) to the Global Social Impact Investment Steering Group.

Despite welcome advances in recent years to bolster the nascent social investment sector, there remains a great deal of work to do if we are to create a vibrant, fully functioning social finance market and unleash large amounts of capital from professional and retail investors. Such funding can then be put to work tackling some of Britain's most pressing public policy challenges such as homelessness, financial exclusion and adequate health and social care provision. This will be partly remedied by the forthcoming expansion of the Social Investment Tax Relief (SITR), making SITR funds more attractive to intermediaries and investors, and releasing greater levels of finance to charities and impact-focussed businesses. Whilst firms eligible for SITR can currently receive up to £250,000 of tax-advantaged investment over three years, ongoing Government negotiations with the European Commission should see an increase of the limit on the amount of SITR investment an organisation can receive to £5 million per year and £15 million in total.

Further improvements will be secured, as this Call for Input acknowledges, through a reassessment of the financial regulatory framework to cater for the nuances of this new market, but also in recognising where social investment in charities and social enterprises should in fact be treated more in-line with standard investments in small companies. We welcome the decision of the FCA to review this increasingly important sector and hope that our comments provide a positive contribution to an overarching mission we no doubt all share: to see our nation's charities and social enterprises flourish and improve lives.

The UK remains one of the most charitable nations in the world, with 74 per cent of the public donating money to a charitable cause in 2014, according to the Charities Aid Foundation (CAF) World Giving Index.[1] Developing alternative avenues down which to channel this generosity would present an exciting opportunity for social investment to bolster hundreds of worthy causes across the country. Notably, a recent survey by Barclays found that 56 per cent of High Net Worth Individuals (HNWIs) and the broader retail investor community would be keen to fund social investments, with only 9 per cent currently doing so.[2] Encouragingly, the vast majority of those surveyed also stated that they would not reduce their existing philanthropic donations as a result, instead using money from their pensions and existing investments to fund new charitable activities.

Despite this significant interest in social investment from members of the general public, there are currently very few opportunities for them to direct their money into the sector; an issue primarily caused by the current structure of regulations concerning financial promotions. In contrast, HNWIs are able to invest through a social investment fund (including SITR funds), charity bonds or via a financial adviser. These paths usually require substantial initial investments, with many charity bonds featuring minimum contributions of £1k, whilst social investment funds usually necessitate at least £10k. Furthermore these fundraising structures are complex and expensive for charities and Community Interest Companies (CICs) to establish, with many unable to take advantage of economies of scale and therefore burdened by high administrative costs related to listing, bond documentation, marketing, and in the case of SITR funds, the tax relief process.

Evidently then, smaller charities and social enterprises are poorly placed to take advantage of HNWI money as well as demand from the broader public to invest in the sector with a smaller investment size. Indeed, figures from Social Enterprise UK suggest that the average amount of funding sought by social enterprises was £60k in 2014.[3] Wider public demand is further evidenced by recent research into community shares, with 58 per cent of investors in this structure having an income of up to £35k per annum, with 74 per cent contributing £500 or less.[4]

With this in mind, we believe - in line with recommendations by Big Society Capital - that new regulation is required to provide a simple, proportionate, consistent and safe way for social enterprises to raise smaller amounts of money from the general public. The FCA would be able to establish such a route by extending the current exemption from financial promotions rules to include charities and CICs. We would emphasise however, that should such changes be considered, there must be a concerted effort to ensure that additional burdens associated with receiving an exemption - such as obtaining certificates, providing significantly more prescribed information and confirmations, or having web pages and other promotional materials approved or registered - be as straight-forward as possible to ensure that social enterprise resources are not unduly consumed by compliance costs.

Whilst expanding the breadth of social investment by improving access to capital from the general public is important, it remains essential that the asset class is marketed as widely as possible to HNWIs, who continue to provide a key source of funding to social enterprises across the UK. One way in which this area could be enhanced would be by reducing the barriers faced by financial advisers and private banks when seeking to promote social investments. The existing regulatory framework uses a very

[1] CAF, World Giving Index 2014, November 2014
[2] Barclays, The Value of Being Human: A Behavioural Framework for Impact Investing and Philanthropy, September 2015
[3] SEUK, State of Social Enterprise Survey 2015, September 2015
[4] Community Shares Unit, Community Shares: Inside the Market Report 2015, June 2015

narrow definition of financial risks and returns which effectively prevents advisers from fully understanding the intentions and requirements of investors, who may be entirely aware of the nature of investing in social enterprise and its potential impact on their portfolio over time, be that positive or negative. Should the FCA decide to consult further on this matter, there are two potential areas of inquiry to consider. On a general level, regulatory changes could include the introduction of an additional duty for advisers to have an understanding of the social investment space. More specific changes may include an obligation for advisers to understand client preferences with regard to financial and non-financial returns through social impact, a requirement for advisers to assess a prospective investors' suitability for social investment opportunities, and to inquire as to whether they would be interested in associated financial products.

Moving away from the investment side of social impact, there are also concerns to be addressed regarding restrictions on advisory firms' relationships with smaller companies, and by extension social enterprises. It is currently unclear what activity is permitted in terms of advising on M&A and similar work for such businesses, and with the social enterprise sector expected to undergo a period of consolidation in the short-to-medium term, clarification would be highly useful. Our members have indicated that there have been instances where mergers have not proceeded as a result of this opacity, which has by extension lessened the potential of social enterprises, once enlarged, to have a greater impact in their specific area of focus.

Please do not hesitate to contact us if you have further questions regarding our submission.

Kind regards,

BVCA Impact Investment Advisory Group