IFRS Foundation
30 Cannon Street
London
EC4M 6XH

By email: commentletters@ifrs.org

22 September 2017

Dear Sirs,

Re: BVCA response to the Request for Information: Post-implementation Review—IFRS 13 Fair Value Measurement

The British Private Equity and Venture Capital Association ("BVCA") is the industry body and public policy advocate for the private equity and venture capital industry in the UK. With a membership of over 600 firms, the BVCA represents the vast majority of all UK based private equity and venture capital firms, as well as their professional advisers.

Our members have invested over £27 billion in nearly 3,800 UK-based companies over the last five years. Companies backed by private equity and venture capital in the UK employ around 448,000 people and 87% of UK investments in 2016 were directed at small and medium-sized businesses. As major investors in private companies, and some public companies, our members have an interest in reporting matters, the conduct and information presented by such companies, and the burdens placed on the management of such companies.

We support the enhancement and clarity of the guidance provided by IFRS 13 to strengthen the consistency of approach to valuations across reporting standards and the industry as valuation of investments is important to the BVCA and our members.

Question 1 – Background and experience

This submission has been prepared by the BVCA's Legal & Accounting Committee, which represents the interests of BVCA members in legal and accounting matters relevant to the UK private equity and venture capital industry. Our membership consists of both private equity and venture capital firms, and their investors (limited partners), as well as their professional advisors.

This response focusses on the preparation of financial statements from the perspective of private equity and venture capital funds, as opposed to the financial statements produced by the private equity fund's underlying investments (portfolio companies). Where a private equity fund is required to produce an annual report, it will typically benefit from the investment entity exemption not to consolidate under IFRS 10. To benefit from the exemption, the investments in portfolio companies are measured and evaluated on a fair value basis.

Question 2 - Fair value measurement disclosures

The BVCA believes that the information provided about level 3 fair value measurements is useful in determining the basis of valuation of the various types of investments held in the underlying portfolio of a private equity fund.

We believe the aggregation and generic disclosure of information does not impact the usefulness of the information. From our perspective, the depth of the information is adequate and any additional disclosure could potentially expose the private equity fund's sensitive valuation information, putting them at a competitive disadvantage when they come to a sales process.

The BVCA notes that there is no additional information that we think would be useful beyond what is already required.

The BVCA is aware of some of its members choosing not to report under IFRS due to the significant amount of disclosure required currently.

Question 3 – Prioritising Level 1 inputs or the unit of account

The BVCA agrees with the aggregation and application of unit of account, whereby the subsidiary as a whole, rather than the individual security, is noted to be the unit of account.

The BVCA also acknowledges that the use of Level 1 inputs without adjustment reduces the need for subjectivity due to standardisation. However, there is a need for greater flexibility from simply price x quantity (PxQ) for determining fair value as there are certain instances where PxQ may not reflect fair value.

A typical example is where a private equity fund has a significant holding in a listed investment, having recently listed the business. In such instances, if the private equity fund were to sell its holding in one go, the disposal price achieved is very rarely the same as the market price, as there is insufficient demand in the market at that price. Therefore, the fund would have to place the holding with a broker and accept a reduced price. As such, PxQ does not reflect the fair value of that investment from the perspective of the private equity fund and a downward adjustment should be made.

There are also instances where PxQ may be less than the fair value if the company is subject to a takeover offer to obtain control of the business. An example of this is the acquisition of Actelion Ltd by Johnson and Johnson on 16 June 2017. When the acquisition was announced, the offer price through a public tender was effectively USD 280 per share, whereas the listed share price was trading around USD 272.25.

The BVCA also appreciates the need for enhanced disclosures, where required. For example, if the PxQ approach were not to be used, there should be disclosures as to why it is not the best measure of fair value. If another valuation technique is used, the PxQ fair value calculation should still be disclosed.

Question 4 - Application of the concept of highest and best use for non-financial assets

We have no comments on this question.

Question 5 - Applying judgements required for fair value measurements

The BVCA believes there is currently difficulty in determining the threshold for what is considered an active market. For example, one preparer of financial statements might look at the frequency of trades, whereas others might look the volume of trades. In addition, there is divergence in practice as to the length of time before a trade becomes a 'stale' price and is therefore not considered an active market. This causes variation in practice and application of the active vs inactive market classification. We believe that the industry would benefit from additional guidance or materials to assist in the determination of an active market.

The BVCA does not believe there is difficulty in determining inputs that are considered unobservable.

Question 6 – Education

A - The BVCA does not have much experience on fair value measurement for biological assets and has no comments on this question.

B - The BVCA does not have experience of the education material referenced. Our members have utilised the International Private Equity and Venture Capital Valuation (IPEV) Guidelines for determination of fair value for a number of years. These Guidelines provide practical guidance for valuing unquoted investments and are widely referenced in private equity fund governing documents and financial statements. The BVCA believes this guidance is sufficient to support its members valuing unquoted equities and would appreciate the IASB endorsing these Guidelines as being compliant with IFRS 13.

Question 7 – Effects and convergence

The view of the BVCA is that the cost of implementation of IFRS 13 was not significant and that it did not change the view on future cash flows or overall fair value, as measuring investments held by private equity funds at fair value has always been an important consideration.

We believe that it is important to maintain convergence with US GAAP. Private equity funds reporting under IFRS typically have a global investor base including a large proportion of US investors. As such, consistent valuation standards between US GAAP and IFRS will reduce any additional reporting burden required for these US investors.

Please feel free to contact Gurpreet Manku at the BVCA if you have any queries on this response.

Yours faithfully,

Amy Mahon
Chairman, BVCA Legal & Accounting Committee