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30 April 2012

Dear Madam

**Re: Response to questions on the proposals for the Future of Financial Reporting in the United Kingdom and Republic of Ireland as set out in FRED 46, FRED 47 and FRED 48**

I am writing on behalf of the British Private Equity and Venture Capital Association (“BVCA”) in response to the proposed Financial Reporting Standards set out in FRED 46, 47, and 48 for the Future of Financial Reporting in the United Kingdom and Republic of Ireland.

The BVCA is the industry body for the UK private equity and venture capital industry. With a membership of over 500 firms, the BVCA represents the vast majority of all UK based private equity and venture capital firms and their 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.

As major investors in private companies, and some public companies, our members have an interest in financial reporting matters relating to those companies, and the burdens placed on the management of such companies.

We have only responded to the questions that we consider to be most relevant to our members.

**General**

We welcome the revision to the original proposals and the approach the Accounting Standards Board (“ASB”) has taken in the new proposals. The new proposals remove the definition of public accountability which we fully support. In addition, we consider the revised approach, which includes a definition of assets held for resale, better reflects the desires of both General and Limited Partners to have Fund financial statements that reflect the underlying economics of a private equity or venture capital fund.

**Questions asked by the Board**

**Scope**

1. The ASB is setting out the proposals in this revised FRED following a prolonged period of consultation. The ASB considers that the proposals in FREDs 46 to FRED 48 achieve its project objective:

To enable users of accounts to receive high-quality, understandable financial reporting proportionate to the size and complexity of the entity and users’ information needs.

Do you agree?

*For the private equity and venture capital industry the principal stakeholders in the Fund entities are Limited Partners. The Limited Partners agree with the General Partner the*

*governance structures to be put in place. These governance structures would normally include the requirement to produce annual financial statements for the relevant Fund entity and the basis of preparation of such financial statements is set out in the Limited Partnership Agreement. Hitherto, Limited Partners have received financial statements in a format and presentation that is agreed between the two parties. In particular, the financial statements have not consolidated underlying investments held as part of an investment portfolio but which might otherwise be considered to be subsidiaries under existing accounting standards and UK legislation. Instead such investments were included in Fund entity's financial statements at either cost or fair value.*

*We welcome the ASB proposals to include a proposal that a subsidiary should be excluded from consolidation where the interest in the subsidiary is held exclusively for resale and as part of an investment portfolio. FRED 48 also suggests that when an investment fund has a single investment in a second fund and therefore an indirect holding in an investment portfolio such a holding will still be considered as part of an investment portfolio. We consider that the reference to investment fund should be changed to investment entity to align it with the IASB proposal relating to exempt qualifying investment entities.*

2. The ASB has decided to seek views on whether:

As proposed in FRED 47

A qualifying entity that is a financial institution should not be exempt from any of the disclosure requirements in either IFRS 7 or IFRS 13; or

Alternatively;

A qualifying entity that is a financial institution should be exempt in its individual accounts from all of IFRS 7 except for paragraphs 6, 7, 9(b), 16, 27A, 31, 33, 36, 37, 38, 39, 40 and 41 and from paragraphs 92-99 of IFRS 13 (all disclosure requirements except the disclosure objectives).

Which alternative do you prefer and why?

*Providing that the definition of a Financial institution remains as defined in FRED 48, then we consider most of our members would not be classified as a Financial Institution and therefore we have no comment on the alternative proposals in relation to IFRS 7 and IFRS 13*

3. Do you agree with the proposed scope for the areas cross-referenced to EU-adopted IFRS as set out in section 1 of FRED 48? If not, please state what changes you prefer and why.

*This seems a reasonable approach to take for listed entities.*

4. Do you agree with the definition of a financial institution? If not, please provide your reasons and suggest how the definition might be improved.

*We note that the definition does not include private investment entities and therefore believe this to be appropriate. Such investment entities need to be able to avail themselves of the Reduced Disclosure Framework and in our view the change to remove the definition of public accountability is to be welcomed.*

5. In relation to the proposals for specialist activities, the ASB would welcome views on:

- (a) Whether and, if so, why the proposals for agriculture activities are considered unduly arduous? What alternatives should be proposed?



(b) Whether the proposals for service concession arrangements are sufficient to meet the needs of preparers?

*We have no views on these issues.*

6. The ASB is requesting comment on the proposals for the financial statements of retirement benefit plans, including:

(a) Do you consider that the proposals provide sufficient guidance?

(b) Do you agree with the proposed disclosures about the liability to pay pension benefits?

*We have no views on these issues.*

7. Do you consider that the related party disclosure requirements in section 33 of FRED 48 are sufficient to meet the needs of preparers and users?

*We consider the disclosures suggested in FRED 48 are sufficient and support the exemption for transactions between wholly-owned subsidiaries.*

8. Do you agree with the effective date? If not, what alternative date would you prefer and why?

*Whilst we accept the effective date is necessary for certain organisations to have sufficient time to prepare for the changes to the format and presentation of the financial statements (including comparatives), we are concerned about the indication from The Department for Business, Innovation and Skills ("BIS") that it intends to amend the Partnerships (Accounts) Regulations 2008 (SI 2008/569)(the "Regulations"). This is particularly important to the private equity and venture capital industry. If the Regulations are amended there will be a significant impact on the Private Equity and Venture Capital industry whereby Limited Partnerships could be classified a 'qualifying limited partnerships' and in this case they would be required to produce financial statements as if they were companies under the UK Companies Act. Since BIS is proposing to amend these regulations in the near future, we believe that it is very important to give existing Limited Partnerships the option to early adopt FRED 48/FRS 102. This should not be just from the date of publication but for accounting periods ending after the date of publication.*

9. Do you support the alternative view, or any individual aspect of it?

*We do not support the Alternative view.*

Please feel free to contact me if you would like to discuss further any of the points raised.

Yours faithfully

Simon Witney  
Chairman, Legal and Technical Committee, BVCA