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Dear James

**FSA Policy Statement 11/06 – Client Money & Asset Return: Operational Implementation  
BVCA Draft Guidance**

We refer to our recent discussions and correspondence relating to the implementation of CMAR and the potential concerns that the new reporting regime raises for private equity and venture capital firms who are caught by the rules.

We were pleased to note that the policy statement included guidance relating to some of the issues we highlighted to you and we anticipate that our members will find this helpful.

Whilst the policy statement offers broad guidance, the BVCA will publish an additional briefing to offer firms practical advice on completing the form. It is intended that this will be included in the BVCA's July newsletter which is circulated to all member firms and is to be published at the end of this month. The briefing will cover those issues we have already discussed with you, together with some additional matters which have been identified following the publication of the policy statement.

We enclose for you information a copy of the draft briefing. We would be happy to discuss any aspects of this with you.

Yours sincerely



Margaret Chamberlain  
Chair – BVCA Regulatory Committee

## **BVCA GUIDANCE**

### **COMPLETING THE CLIENT MONEY & ASSET RETURN**

#### **Summary**

The FSA has recently introduced new reporting requirements for firms which hold client assets. Client assets include share and loan note certificates and therefore the requirements will affect most private equity and venture capital firms. Firms which hold assets worth £10m or more ("CASS Medium or CASS Large Firms") are required to submit monthly reports to the FSA providing them with a variety of details - including the value of assets held (for firms holding assets of less than £10m the report is only required every six months).

In May the FSA published its policy statement on the implementation of the Client Money & Asset Return. The policy statement can be found [here](#). For CASS Medium or CASS Large firms, the rules come into force on 1 October 2011 with the first report due on 21 November 2011. The implementation of the rules affecting firms holding assets of less than £10m has been postponed until further notice. Affected firms should already be considering how they will approach the reporting requirements.

#### **Issues for Private Equity and Venture Capital Firms**

During the consultation process the BVCA identified potential problems with the proposed rules and reporting requirements – in particular the frequency of the reports the information that firms are asked to provide. We discussed these concerns with the FSA who have offered limited guidance on some of these areas in the policy statement. Whilst this guidance provides some clarity on the issues, we have prepared some additional practical advice which you may wish to take into account when completing the CMAR.

#### *Unreconciled Items*

The CMAR requests details of "safe custody assets unreconciled items". There had initially been concerns that "unreconciled items" may include a private equity house's interests where a portfolio company has acknowledged the fund's entitlement but the paper certificate evidencing the entitlement has not yet been issued. Following discussions with the FSA, the policy statement now makes clear that this is not the case and therefore there is no need to report such items.

It is quite difficult to imagine circumstances in a venture capital or private equity investment where there would be unreconciled items. An example might be an instance where there is a genuine difference between the number of shares a firm thinks its funds should hold in a company and the company's own calculation of that number. We therefore think it is unlikely that there will be many unreconciled items to be reported by private equity/venture capital firms.

#### *Reconciliations and Valuations*

The CMAR must be submitted on a monthly basis. We noted to the FSA that due to the limited number of trades private equity and venture capital firms perform, they only undertake full internal reconciliations quarterly or once every six months.

The FSA have confirmed that the CMAR does not require private equity and venture capital firms to revalue assets intra-month or on a monthly basis. Firms are able to complete the CMAR based on the latest valuation prepared for other purposes – you are not required to perform monthly valuations or reconciliations and your current internal processes should be maintained.

This means that the information you record in the CMAR may be based on reconciliations performed several months earlier and on valuations which have not been updated to the relevant reporting date.

For example, the CMAR return in December will identify assets up to the end of November. If the firm has a policy of carrying out reconciliations by the end of the month following a period end, then the CMAR will relate to the reconciliation done in respect of assets held at the end of October.

### *Stock Lines*

The CMAR currently contemplates that a separate line of stock can be recognised by having an individual CUSIP or ISIN number. Clearly, this guidance is meaningless for unlisted securities.

A sensible approach for private equity and venture capital firms would be to consider each different type of interest in a portfolio company as a separate line of stock. For example, ordinary shares, preference shares, 10% loan stock 2015 and 12% loan stock 2018 in a portfolio company should each be considered a separate line of stock.