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Dear Sirs,

The British Venture Capital and Private Equity Association (“BVCA”) represents the overwhelming majority of UK based private equity and venture capital firms (“PE/VC firms”). This response to the Financial Reporting Council paper Effective Company Stewardship is submitted on behalf of the BVCA’s Legal & Technical Committee.

We welcome the publication of these proposals as a useful continuation of the debate on the content of communications between directors and the various stakeholders of a company and in this case in respect of the board’s stewardship of its business.

Although we agree that it is vital that an Annual Report communicates high quality relevant historical financial information together with narrative to explain it, we are concerned about any increased emphasis on forward looking information which is inherently more subjective and much more difficult to verify by independent review or audit. Such forward looking information leads potentially to the Annual Report either becoming more of a selling document or alternatively littered with bland ‘boiler plate’ statements which are difficult to measure against. These do not, in our opinion, provide any specific value for the stakeholders but instead create additional cost for the company.

Even if such proposals were implemented, we believe that they should be limited to listed companies of the size of FTSE 350 companies and above and relevant equivalent sized public interest entities. Smaller listed companies and private companies cannot be expected to have the same internal resources and therefore such additional work would become a significant burden impacting profitability with the cost of the expanded report outweighing the benefits of additional information and processes.

Specifically we at the BVCA believe that the shareholder agreements negotiated between private equity companies and their investees and investors are a better way of allowing a flow of relevant historical and forward looking information to sophisticated investors as they can be tailored to specific needs. Where debt is borrowed by a private equity company, the loan documentation also provides for the flow of historical and forward looking information to the lenders. We also believe that where companies have only listed debt (and no listed equity) the debt documentation agreed with the company should provide lenders with the information that they need.

In the case of larger private equity companies we believe that the Walker Guidelines (compliance with which is monitored by the Guidelines Monitoring Group) provide a good basis for safeguarding the interests of investors and stakeholders. The Guidelines Monitoring Group continues to look at

how the Guidelines might be strengthened so that best practices are maintained. Promoting adherence to the Walker guidelines would therefore be a better approach than imposing additional requirements such as mandatory audit committees (or where a company voluntarily has an audit committee) additional external audit requirements and/or additional support and oversight from an outside body .

The BVCA is therefore supportive of regularised and audited disclosure where the objective of such obligation is to promote capital market efficiency. However, for privately held companies without publicly listed equity the disclosure of additional information should be a matter for a company and its shareholders and potentially other stakeholders, in particular employees, to agree. Specifically in the light of the Walker Guidelines and the Guidelines Monitoring Group, we believe those private equity backed companies which meet the Walker Guidelines threshold (broadly equivalent to FTSE 350) are already covered by an appropriate review and monitoring process which is specific to the nature of the investments and therefore do not need another set of obligations and monitoring.

In light of the above, we comment on the individual conclusions:

1. We consider that the Directors of listed companies should take full responsibility for ensuring that the financial aspects of the Annual Report, viewed as a whole, provides a fair and balanced report on their stewardship of the business which we see as being predominantly an historical document. However to include the whole Annual Report in this responsibility might make it more difficult for directors to produce useful narrative at the front end leading to standard 'boiler plate' risk adverse statements.
2.
 - For large listed companies we agree that there should be more factual description of management information systems and how management use them in the business (involving how they assess their usefulness). We do not think that this should go as far as describing how they ensure reliability as we think that this would lead to standard 'boiler plate' statements which would not be useful. It is a requirement of a premium public listing that companies have adequate procedures, systems and controls and we think that this goes far enough.
 - Care needs to be taken in describing the activities of the business and associated risks, because it may lead to releasing information that is useful for competitors or every risk imaginable being listed as a precaution against liability. At most this description should be a requirement for a general high level statement limited to major activities and principal risks with discretion left to the Board if they feel a specific disclosure may undermine their competitive/legal/insurance position.
3.
 - Where Audit Committees have been appointed in listed companies, we agree that fuller reports concerning their responsibilities for the integrity of the Annual Report and other aspects of their remit could be useful.
 - We consider that more work needs to be done before expanding the audit report:-
 - We are doubtful whether the auditor is well placed to comment on business related information and therefore we consider that auditors' comments should be limited to financial information.
 - If auditors are to comment on any information or statements there need to be codes or guidance as to conduct and the preparation of the information or

statements, so that the auditors can reach an objective conclusion as to whether such codes or guidance have been followed where regulation is considered necessary. A “comply or explain” approach should be considered to ensure that the information provided is relevant but not prejudicial.

4. We agree that listed companies should take advantage of technological developments to increase the accessibility of the annual report and its components.
5. We believe that it is the Board who take responsibility for the conduct of the business and the Annual Report so it is the Board who should appoint the Auditors. The Audit gives the Board comfort that they have discharged their duties so that they can report to their investors with the benefit of that comfort. Balance is adequately achieved by the investors having their say at the Annual General Meeting.
6. Increasing the responsibilities of the FRC to support and oversee the active implementation of these proposals would increase the cost of doing business. We are not convinced that this is necessary.
7. We consider that there is enough information on market developments and international initiatives available on best practices in corporate reporting and the role of assurance so as not to require a market participants group to be established by the FRC.

If you would like to discuss any aspect of our submission, please contact me in the first instance on 020 7111 2222 or at simon.witney@sjberwin.com

Yours faithfully



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