

12 March 2009

Rt Hon Alistair Darling MP
Chancellor of the Exchequer
HM Treasury, One Horse Guards Road
London SW1A 2HQ

Dear Chancellor

BVCA Budget 2009 submission

While the immediate priority for Government has been to respond to the global financial crisis, the key challenge for the future is how to put in place the building blocks for recovery.

We believe that the private equity industry can play an important role in creating new businesses, accelerating growth and generating sustainable private sector jobs:

- It has a proven track record over a number of economic cycles of increasing productivity and producing strong returns for investors, many of whom have been pension funds.
- At a time of general illiquidity, private equity has cash ready to invest when market conditions are right: it is estimated that globally the industry might have over \$1 trillion at its disposal.
- It is structured in a way that aligns the interests of managers with investors. In contrast to many other areas in financial markets, the model of remuneration is entirely aligned to long-term success, with no rewards for failure.
- It can help in all areas of the economy: it has expertise in supporting new business start-ups and university spin-outs; in helping middle-sized businesses to grow and expand into new markets; and in helping to re-energise larger businesses and make them more productive.
- It is an industry fully regulated by the FSA, and is widely accepted not to pose any systemic risk to financial stability. It also has a new industry code which is delivering far greater transparency.

If private equity is to fulfil its potential in aiding recovery, the BVCA believes there are three key areas where the Government should act:

1. Encouraging venture capital

Venture capital is vital if we are to invest out of the downturn by backing new business start-ups with huge potential for job creation. There are almost 1,100 VC-backed technology businesses currently employing around 40,000 highly-skilled individuals in the UK.

Yet there is now a critical lack of follow-on funding for these companies. A survey conducted for the BVCA found that 75% of VC firms thought it unlikely that their portfolio companies would be able to find the next round of financing. Without that additional funding, over 60% thought their companies would be unable to survive beyond the next 12 months.

We believe the government can take a lead here, and in doing so encourage private money from institutional investors to come back into the sector.

The BVCA therefore calls on the Government to cornerstone a fund which would invest in top-performing UK venture capital funds. The fund should focus on the UK's areas of strength such as

low carbon technology, communications, electronics and biotech, in order to help secure our competitive advantage.

We are also asking the Government to introduce some more minor measures which would enable young companies to attract and retain high quality management talent. By allowing the Enterprise Management Incentive to function to best effect (by allowing NEDs to qualify and raising individual limits), HM Treasury could make a significant additional difference to venture capital-backed (and indeed many other) SMEs in the UK.

2. Supporting bank lending

Ensuring bank lending continues to flow to business has rightly been a top priority for Government in recent months. Over 75% of our members' investments by number are in to SMEs, and it is likely that figure will become even higher in the months and years ahead as our members focus on smaller deals with minimal leverage.

However, the approach taken by some of the banks to current deals and the prospect of new ones has hindered our members. In particular, a return to some variation of the non-statutory London Rules, which would provide an external review in particular cases where a bank and a distressed company are at an impasse, could be a helpful step forward. We are in active discussions with the BBA and others to try and find a solution here and will keep you posted on our progress.

3. Ensuring effective regulation

The BVCA fully recognises the need for effective regulation in which the public can have confidence. We accept there will be change to the regulatory frameworks in the UK, across the EU and internationally.

Proposals are currently being drawn up by the EU Commission to impose additional regulation on private equity. It is vital that this is done in a way which a) does not impede the industry's ability to operate effectively; and b) respects areas of national competence. The UK represents 58% of private equity activity in Europe, so any changes would disproportionately affect our members.

The UK private equity industry is already well-regulated and the industry was the first in the world voluntarily to put in place a system of self-regulation that offers greater transparency than any other jurisdiction. As we have repeatedly asserted, and as Ernst & Young's analysis of private equity portfolio company exits shows, private equity investors raise productivity levels without either asset stripping or damaging employment levels. It is also the case, as a recent World Economic Forum report explained, that private equity does not pose systemic risk to financial stability.

It is therefore important that we do not allow other countries without strong private equity industries but who are keen to limit the UK's competitive advantage as a financial centre, to seize the opportunity to impose pan-European regulatory burdens which could hold private equity back from contributing to the recovery.

We ask HM Government to take up our concerns and ensure that the industry is allowed to play its full part in rebuilding the economy and returning to growth.

Yours sincerely



Simon Walker

Chief Executive

BVCA – The British Private Equity and Venture Capital Association