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Private Equity Reporting Group

Consultation on amendments to the Walker Guidelines on Disclosure and Transparency in Private Equity

July 2024

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Invitation for comment

The Private Equity Reporting Group (PERG) is inviting comments from interested parties (including private equity firms, portfolio companies, advisers and other stakeholders) on options for updating the Walker Guidelines, as set out in this consultation document.

This consultation is being administered by the British Private Equity and Venture Capital Association (BVCA). Comments can be submitted over email to committees@bvca.co.uk and are due by 30 September 2024.

All responses will be treated as confidential. Feedback shared with PERG will be anonymised.

For any queries or to arrange a meeting to discuss the proposals and your comments in more detail, please contact Ciaran Harris via email at charris@bvca.co.uk.

1. Executive summary

Background

The Walker Guidelines (the Guidelines), issued on 20th November 2007, were created to increase public understanding of the performance and activities of large private equity-backed businesses, to demonstrate the industry's commitment to transparency of its activities and to provide data to demonstrate the industry's contribution to the UK economy. The Private Equity Reporting Group (PERG) was established in 2008 to implement and monitor the Guidelines, and to make recommendations to the British Private Equity and Venture Capital Association (BVCA), the trade body representing private equity (PE) in the UK the vast majority of PE firms in the UK are members of the Association.

The Guidelines followed an independent review led by Sir David Walker, who was asked by the BVCA and a group of private equity firms to examine the nature of the disclosure and transparency in larger businesses owned by private equity and by the PE firms backing them. Sir David completed this review and recommended a set of guidelines for the industry which were adopted in 2007. Previous updates, under the guidance of PERG, were made in 2014 to incorporate new narrative reporting requirements, and in 2022 to improve public accessibility of the information. Both occasions designed to reflect changing requirements in other areas.

Whilst the Guidelines are followed voluntarily by the businesses concerned, it is a requirement of BVCA membership to comply with them. Each year, there is an independent review of compliance and over 200 portfolio companies (businesses backed by private equity) and their owners have come into scope of the Guidelines over the last 16 years. 90 currently providing additional disclosure and over 35 private equity and private equity-like firms publishing additional information.

Industry growth and changing reporting requirements

The private equity industry has continued to grow in scale, with over £20bn invested in UK portfolio companies in 2023, nearly double the amount in 2017. This has naturally led to increased interest in, and scrutiny of, the businesses and how the PERG process operates, as it is important that the Guidelines remain fit for purpose. Over the past 17 years there has been a great deal more information provided on the industry and portfolio companies, in particular around levels of portfolio company growth, employment and productivity that result from a direct private equity ownership model. However, expectations in relation to transparency continue to grow.

As an illustration of this trend, in recent months interest from stakeholders in Parliament, regulators (including the Bank of England), and in the media has seen the industry responding to difficult questions. These questions have related to the level of risk borne by private equity firms, lenders, and portfolio companies, the transparency of valuation practices, the profit levels within the industry, and the complexity of the industry.

Since the Guidelines were introduced, there have also been significant changes in reporting requirements and expectations of private companies and firms more widely. Most notably, the 'Wates Principles[1]' have been introduced for large UK-based private companies; there have been a host of developments in reporting around Environmental, Social and Governance issues; and there have been developments in the UK Corporate Governance Code (the Code)[2], issued by the Financial Reporting Council (FRC).

Finally, the new Government has committed to corporate governance and audit reform, as announced in the King's Speech on 17 July 2024, showing a clear commitment to reviewing governance and

[1] The Wates Corporate Governance Principles for Large Private Companies (frc.org.uk)
[2] UK Corporate Governance Code (frc.org.uk)

reporting in the UK. The Bill will likely raise standards in audit and corporate governance and amendments to the Guidelines will need to take into account these proposals.

Reviewing the Guidelines

Given the continued high levels of public interest in the industry, and the businesses it backs, and given the time since the last full review of the Guidelines, PERG has requested[3] a full "root and branch" review of the Guidelines.

This review is intended to ensure the original objectives of the Guidelines are still being achieved: to (i) demonstrate a commitment to transparency for the industry by publishing relevant information on its largest UK portfolio companies and (ii) provide data to enable a better understanding of how the private equity industry operates and its contribution to the UK economy.

The review therefore covers both the scope and specific requirements of the Guidelines, seeking to ensure that the scope appropriately captures large private equity investment activity in the UK and that portfolio companies and private equity firms disclose information that is clear, accessible and valuable to their external stakeholders. The quality of narrative reporting should continue to evolve in line with good practice seen amongst constituents of the FTSE 250 (which is deemed to be the most appropriate benchmark).

PERG's central aim for this review is to calibrate the Guidelines to today's reporting world and to ensure that the Guidelines remain fit for purpose and provide value: to the industry's stakeholders who rely on the transparency and related disclosures, as well as to the private equity firms and companies applying the Guidelines.

PERG is of the view that standalone Guidelines for the industry remain the most appropriate way to address and respond to scrutiny of the industry by its stakeholders. The refresh of the Guidelines is an opportunity to be at the forefront of transparency and to showcase public and economic value. In considering how they should be developed, PERG is nevertheless conscious of the other requirements that apply to the industry and is committed to ensuring that updates to the Guidelines are proportionate.

The Guidelines currently try to build in some flexibility around the ways that companies might comply. For example, allowing companies to refer to existing reporting available in other reports which are publicly available (such as on the portfolio company website). PERG believes that this and other flexibilities will be important to retain and enhance in this refresh.

The desired goal of the refresh, as set by PERG, is therefore to create a set of requirements that:

- Continue to address stakeholder expectations about the appropriate level of transparency required by the industry and the businesses it backs.
- Update the Guidelines to ensure they remain valuable and proportionate for the industry.
- Maintain an accessible platform providing one location for all reports produced under the Guidelines and by, or commissioned by, PERG.
- Enable better understanding of how private equity investment creates 'public value' and, specifically, demonstrates its contribution to the UK economy.

These goals will underpin the decisions made on which amendments to take forward when revising the Guidelines.

[3] PERG letter to BVCA re refresh - final.pdf (privateequityreportinggroup.co.uk)

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This consultation sets out options for updates to the Guidelines, which will lead to recommendations for consideration by PERG to enable them to determine a revised set of requirements. It is vital for these recommendations to be well-informed by external stakeholders who have relevant views and insights and by the industry, which has practical experience in apply and complying with the Guidelines and other reporting requirements. The consultation aims to gather information on proportionality and alignment with existing requirements, and value of disclosing information, as well as looking ahead to relevant future developments.

Best practice and proportionality

Over recent years there has been a notable increase in narrative reporting requirements resulting in longer annual reports, often with standard language, according to the Financial Reporting Council. This is the case for all types of companies. In order to ensure any new requirements are proportionate and do not over-extend requirements and add unnecessary length to annual reports, PERG will put a particular focus on best practice. PERG will aim to prioritise specific reporting requirements relevant and informative to industry stakeholders whilst ensuring they are appropriate for the private equity industry.

For example, in the area of governance, the Code, which does not apply to portfolio companies, offers one way to bridge the gaps in the Guidelines' requirements on board composition and on principal risks, uncertainties, trends and factors. Following July 29th, the Code applies to all commercial category companies on the new single listing segment on the London Stock Exchange, including the largest quoted companies with differing governance and reporting needs and structures. Large quoted companies are, mostly, of a scale that is not comparable to private equity-backed companies. So it is appropriate to consider which aspects of the Code, if any, may be suitable for private equity firms and their portfolio companies to apply, and do so in a proportionate manner.

The Guidelines will be updated not only to bring the requirements up to date but to address and potentially reduce complexity and allow appropriate flexibility for portfolio companies as they navigate other developments in the reporting environment. PERG will update its Good Practice Guide to assist firms complying with the Guidelines and will be clear on areas where it is appropriate to include optionality on specific reporting requirements under the revised Guidelines.

Highlighting the importance of compliance with the Guidelines

The primary purpose of the Guidelines is to support external stakeholders' understanding of the industry through enhanced transparency of the large businesses backed by private equity. Compliance with the Guidelines by the companies in scope is crucial to achieving this aim. The BVCA is committed to demonstrating the importance of compliance with the Guidelines to those who adhere to them.

Benchmarking

In order to inform this consultation, the BVCA, at the request of PERG, commissioned Deloitte to conduct a benchmarking exercise to compare and assess current transparency and disclosure requirements within the Guidelines (as set out in Part V of the Guidelines) with FTSE 250 and other relevant corporate reporting regimes. This report has informed this consultation exercise and is published alongside this consultation document.

Next steps

Once the consultation has concluded the PERG and the BVCA will assess the responses and publish a feedback statement summarising the responses and setting out next steps. The feedback statement will be published in Autumn/early Winter and final amended Guidelines will be published in January, alongside the 17th Annual PERG Report.

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2. Structure and responding to the Consultation

The consultation is laid out in the 5 following sections:

- Section 3 outlines current requirements under the Guidelines, reminding the reader of what is in scope, including the enterprise value (EV) thresholds and UK nexus tests. We would recommend that all participants in this consultation review and respond to questions on these proposals.

- Sections 4 and 5 outline the specific disclosure requirements for portfolio companies and private equity firms respectively. Section 4 is applicable for portfolio companies, their auditors and others that are interested in reporting requirements. Section 4.3.4 – 4.3.6 relates to environmental and social issues, two key areas for external stakeholders.

- Sections 3, 4 and 5 also set out the recent compliance and findings in order to provide context on how the industry is complying with the current requirements. In each Section for each area of disclosure, we have laid out the current requirement, current/future landscape, BVCA assessment, options and questions.

- Section 6 sets out the timeline for implementation, taking into account further engagement, education and policy development by the Government and the Financial Reporting Council.

- In Section 7 you will find the full list of questions.

Many of the options set out in this report reflect approaches to reporting (for example, the Wates Principles and the UK Corporate Governance Code) that are more prescriptive in nature than the current Guidelines' requirements. When reflecting on these please note that the Walker Guidelines are based on disclosure and do not look to advise (or suggest) on whether a company should or should not have taken a specific approach to the arrangement or activity underlying a certain type of disclosure. The PERG and BVCA will keep this in mind when deciding how to amend an area of disclosure required by the Guidelines.

There are consultation questions in Sections 3 to 6, with a full list of questions in Section 7. Please note that some of these questions are technical in nature and we do not expect respondents to respond to all questions. Responses can be sent over in another document or via email. When considering the questions it may be useful to refer to the:

- Benchmarking report – prepared by Deloitte, this is a factual document which compares the Guidelines requirements with other reporting requirements. The Guideline's chosen benchmark is the FTSE 250. This report has been used to inform this consultation.
- Most recent PERG report (16th annual report)
- Part V of the Guidelines – a link can be found at the end of this consultation.

The consultation will run to 30 September 2024.

We thank you in advance for taking the time to respond to this consultation and look forward to working with you on the refresh of the Guidelines.

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3. Scope of the Walker Guidelines

3.1 Current scope

Part V Section 2 and Section 3 of the current Guidelines (Definition of a private equity firm for the purpose of the Guidelines and Definition of a portfolio company to be covered by the enhanced reporting guidelines) set out the definitions for the scope of the Guidelines.

This section is set out as follows:

- Thresholds and UK tests for inclusion (3.2)
- Options to change the definitions of a portfolio company and a private equity firm (3.3)
- Infrastructure assets in the Walker population (3.4)
- Companies that have achieved significant growth under private equity ownership (3.5)
- Companies that have reduced in size while in scope of the Guidelines (3.6)

3.2 Thresholds and UK tests for inclusion

The thresholds and tests that are applied to a transaction to determine whether a private equity firm and its portfolio company is in scope have not changed in over a decade. Since then, we have seen the private capital industry grow to become a vital part of the UK economy. Due to this and normal inflationary effects, the Walker population has continued to grow.

The thresholds used for a portfolio company were intended to reflect large companies with a significant degree of activity in the UK. In 2007, when the Guidelines were created, concern was expressed that UK companies with most of their operations outside the UK would be brought, inappropriately, into scope in the absence of some additional test of UK significance.

The relevant Section of the Guidelines (Part V Section 3) accordingly specified that only companies with more than half of their revenues generated in the UK **or** 1,000 full time equivalent UK employees will be brought into scope (when the relevant EV threshold is met – see table 2). With these threshold criteria it was estimated that some 65 companies would be included in the population, however, as table 1 shows, the 2024 population has 90 portfolio companies in scope.

The 2024 population reflects the growth of the industry in the 17 years since the inception of the Guidelines, during which we have seen a substantial increase in private capital activity and investment into the UK. Since the creation of the Guidelines, private capital (private equity and venture capital) has invested over £180bn[4] in the UK. This has had an effect on the size of the population, with more companies coming into scope in recent years.

[4] BVCA research reports from 2010 – 2023, found here.

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Portfolio companies in scope of the Walker Guidelines since 2009

Table 1.

Table 2.

Definition of a portfolio company

For the purposes of the Guidelines, a portfolio company is a UK company:

a) acquired by one or more private equity firms in a public to private transaction where the market capitalisation together with the premium for acquisition of control was in excess of £210 million (reduced from £300 million) and more than 50% of revenues were generated in the UK or UK employees totalled in excess of 1,000 full-time equivalents; **or**

b) acquired by one or more private equity firms in a secondary or other non-market transaction where enterprise value at the time of the transaction was in excess of £350 million (reduced from £500 million) and more than 50% of revenues were generated in the UK or UK employees totalled in excess of 1,000 full-time equivalents.

The above definition of a portfolio company reflects the changes made to the criteria in April 2010 and has been effective for accounting year ends of 31 December 2010 and onwards.

Table 3.

Definition of a private equity firm

The definition of a private equity firm for the purposes of the Guidelines includes private equity and 'private equity-like' firms (together "private equity firms"). Private equity firms include those that manage or advise funds that either own or control one or more companies operating in the UK and the company, or companies are covered by the enhanced reporting guidelines for companies. Private equity firms include those that acquire portfolio companies:

i) with funds provided by one or more investors;
ii) an exit/disposal of the company is envisaged and
iii) may play an active management role in the company.

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3.3 Options to change the definitions of a portfolio company and a private equity firm

Portfolio Companies

There may be a case for updating the definition of a portfolio company for the purposes of the Guidelines, as it has not been updated in over a decade; and the definition differs from the Wates[5] Principles, FTSE Women Leaders Review[6] and other benchmarks. It may also be necessary to reconsider the use of "enterprise value" at time of transaction and instead to consider other audited figures (such as revenue), which would align with other reporting requirements. Updating the definition of a portfolio company would likely increase the number of companies in scope each year but may also result in a more accurate population of the largest UK private equity-backed companies.

One of the key reasons to reconsider the definition of the portfolio company is to ensure that the population includes the appropriate types of infrastructure and "buy-and-build" companies. The next section of this consultation discusses each in turn.

Questions
Q1. Does the current definition of a portfolio company appropriately capture large private equity investment activity? If not, would it be appropriate to continue using enterprise value or should other metrics (such as a revenue threshold) be considered in order to accurately capture relevant investment activity?

Private equity firm

We do not propose changing the definition of a private equity firm for the purposes of the Guidelines (as shown in table 3). The definition of a private equity firm is well founded and based on the facts of how a private equity firm operates, is structured, and how it invests in portfolio companies (the majority ownership model with alignment of interests).

Questions
Q2. Do you agree that the definition of a private equity firm within the scope of the Guidelines accurately captures private equity firm activity and should remain the same? If not, how might you adjust the definition and why?

3.4 Infrastructure assets in the Walker population

A number of infrastructure companies have been included in the Walker population since the inception of the Guidelines. There are currently four main types of infrastructure assets that remain in the Walker population. They make up a minority of the population and are generally owned by BVCA members. The sectors include:

- Airports
- Telecommunications infrastructure
- Energy infrastructure
- Waste management

The original intention of the Guidelines was to include infrastructure assets that were treated in a private equity manner by their owners as part of the Walker population. In 2017, concern was raised by PERG as to whether infrastructure assets should be in scope of the Guidelines and in particular,

[5] The Wates Principles apply to private companies which have more than 2,000 employees and/or a turnover of more than £200 million, and a balance sheet of more than £2 billion.
[6] FTSE Women Leaders

the impact such assets may have on the performance of portfolio companies report[7]. PERG conducted a review in 2018 which resulted in 'pure' infrastructure assets (i.e. solely held for income returns) being removed from scope. This, however, resulted in a challenge determining when an infrastructure asset is operated in a private equity-like manner.

A traditional infrastructure asset is typically held by investment managers to derive low risk, regular income (i.e. it is held for yield). The asset is normally held in a passive manner, with minimal operational interference from the owner. Examples include investments in wind farm portfolios or solar arrays. However, some investment in infrastructure is considered more active, with owners involved in the strategic and operational development of the company in order to generate capital growth, (as opposed to/in addition to yield). This is considered by PERG to be private equity like behaviour, hence such infrastructure portfolio companies and their owners may be captured by the Guidelines.

PERG agreed in 2018 that there should be a specific review for each potential infrastructure asset that may fall into scope. The review now in place considers:

Table 4.

Investor criteria	Investee company criteria
-Is the owner a BVCA member?	-Does the company generate a stable yield, with predictable long term cash flows (and is less sensitive to economic cycles)?
-What is the investment mandate of the fund/owner?	-Is the business monopolistic or quasi-monopolistic?
-What is the historical investment hold period of the owner?	-Is the company involved in long-term contracts?
-Does the fund that has purchased the asset have a limited life?	-Is the company subject to regulatory oversight?
-How has the media referred to the transaction and the owner?	-Does the investee company require material ongoing Capital Expenditures (CAPEX)?
-Is the investment made by one or a few owners with a controlling stake, or is it a consortium of owners with no controlling investors?	-Is the debt used to fund the acquisition / business more like infrastructure-style debt than buyout debt?
-Has the original/lead investor in a consortium reduced its stake over time?	

The view of PERG has been that including "private equity-like" infrastructure portfolio companies better reflects the nature of the industry and demonstrates transparency in an area of the industry that is increasing important for Governments not just in the UK but globally. Infrastructure investment includes vital technology and services that most people use or rely on. Given the nature of active investment into infrastructure and the time since the last review of this area, there may be a case for reconsidering the criteria described above to ensure that they accurately capture private equity-like infrastructure investment. It is vital that the population includes the right portfolio companies to ensure proportionality while at the same time improving transparency of private equity investment activity in the UK.

Questions
Q3. Should certain infrastructure assets be included in the Guidelines' scope?

[7] This relates to the report prepared by EY report on the performance of portfolio companies in scope of the Guidelines. The BVCA commissions EY annually to collect data from portfolio companies to illustrate performance under private equity stewardship.

Q4. Do the current review criteria set out in table 4 effectively identify private equity-like ownership of infrastructure assets that should be in scope of the Guidelines?

3.5 Companies that have achieved significant growth under private equity ownership

Creating value in a portfolio company is key to the private equity model. This means improving the business and growing it over the lifetime of the investment, so that by the time the fund comes to sell, the portfolio company is in a better shape and is worth more than when the investment was first made.

The Guidelines were created with the intention of including the largest UK portfolio companies in the scope. However, at present, the Guidelines do not apply to a portfolio company when it exceeds the thresholds due to growth, because the threshold for inclusion only relates to the initial transaction by the private equity firm. There is a strong argument that all relevant sizeable portfolio companies in private equity ownership, no matter how they meet the thresholds, should be in scope and voluntarily comply with the Guidelines. As such, this consultation is requesting views on changes to the scope to include portfolio companies that grow into the current thresholds, including portfolio companies that have achieved significant growth by buy and build (also known as "bolt on") strategies or organic growth.

- Buy and build strategies: Buy and build refers to portfolio companies expanding operations by acquiring other businesses. It is a strategy adopted by private equity firms, who purchase a company and grow the business by acquiring additional businesses within the same industry to increase the value of the company. Buy and build strategies have become more common in recent years and the scope of the Guidelines was not originally created to include portfolio companies that grow to become large companies in this way.

- Portfolio companies that grow into scope organically: Organic growth is the growth a company achieves by, for example, increasing output, enhancing sales internally and growing revenues. This does not include profits or growth attributable to mergers and acquisitions but rather typically an increase in sales and expansion through the company's own resources.

As a model private equity is a driver of sustainable business growth over the medium to long term. This is achieved through operational improvement, sound management and, importantly, through the close working relationship between the private equity backer and the company management team. BVCA data from the last 5 years shows that the vast majority (>80% each year) of UK companies receiving private investment in 2023 were small or medium sized – employing 250 or fewer people. As these small and medium enterprises (SMEs) are invested in by private equity and grow in size further, employing more people and growing revenue, the current scope of the Guidelines omits them as no transaction took place over the period of ownership.

The BVCA does not currently monitor portfolio companies that have grown into scope via buy and build or organic growth when assessing potential portfolio companies. However, it would be possible to identify portfolio companies meeting these criteria through a range of external data sources such as Pitchbook and Preqin.

Important factors that PERG will consider

- Parameters for inclusion: PERG will need to consider carefully how a company might be included, for example, if the company meets one of the UK nexus tests for two financial years, it will be

reviewed and considered in scope of the Guidelines. It will be vital to engage in detail with private equity firms to ensure the right portfolio companies are included.

- Disclosure requirements: A portfolio company that grows will most likely be required to provide more disclosure in their annual report. The Guidelines and the process companies go through with onboarding can assist firms with including this extra disclosure.
- Performance of portfolio companies report: When a portfolio company comes into scope it is required in its first year of private equity ownership to provide certain data from the date of acquisition. If a company only comes into scope following potentially years of growth under private equity ownership, the BVCA would need to consider and agree on the data from which data should be collected. If the company was acquired a number of years ago, it may be difficult to start to collect data and so the data requirement under the Guidelines may not be applied.

Updating the definition of a portfolio company would likely increase the number of companies in scope each year. However, including companies that used a buy and build approach to scale or grew into scope may better reflect the nature of the industry, taking account of assets held for long periods of time and demonstrating transparency in an area of the industry under increased media scrutiny. Careful consideration will be needed on the appropriate disclosure requirements and data gathering if a company has grown into scope.

Questions
Q5. As there is a strong case for including companies that have grown into the current thresholds (for example, via buy and build growth strategies), should there be a mechanism to include those companies in the scope of the Guidelines? If so, how might the scope criteria change?

3.6 Companies that have reduced in size while in scope of the Guidelines

A portfolio company is currently eligible for removal from the population when any one of the following criteria is met:

- The portfolio company is sold via a trade sale; or
- A private equity firm exits via an Initial Public Offering, even if the private equity firm retains a majority stake; or
- An event occurs, such as a restructuring, whereby a private equity firm is no longer able to control the financial and operating policies of a portfolio company.

To ensure that the Guidelines consider instances where there has been a dilution of ownership post initial acquisition, a private equity firm that holds 20 percent or more of the voting rights following such dilution is presumed to continue to exercise significant influence over that portfolio company and therefore continues to be a Walker company, unless the contrary can be shown.

The current rules may mean that the population does not currently reflect the original intent of the scope as it continues to include portfolio companies that are not “large” in size. The amended Guidelines should be proportionate and strike the right balance, including only those companies that the original Guidelines intended to capture. As such, this consultation is requesting views on changes to the scope to exclude portfolio companies that reduce in size, potentially by applying the current thresholds at key junctures in the ownership lifecycle.

Important factors that PERG will consider

- Parameters for exclusion: PERG will need to consider carefully how a company might be excluded. For example, if the portfolio company has completed a major divestment of one or

more of its businesses, has undergone a restructuring, or it no longer meets the UK nexus tests, it could be removed. It will be vital to engage carefully with private equity firms and complete a detailed review to ensure the right portfolio companies are excluded.

- Performance of portfolio companies report: when a portfolio company exits the population it is required to provide data on the exit transaction. If a company falls out of scope, the BVCA will need to consider and agree on how to reflect the exit from the population in the data collection process.

Questions
Q6. Should there be a mechanism to include those companies that have reduced in size? If so, how might the criteria change?

4. The narrative reporting requirements for portfolio companies [Section 4 of Part V]

4.1 Current requirements

Portfolio companies are required to publish their annual reports and accounts on their websites within six months of their financial year-end and:

- The report should identify the private equity or private equity-like fund or funds that own the company and provide details of the composition of the board;
- The financial review should cover risk management objectives and policies in light of the principal financial risks and uncertainties facing the company with links to the appropriate detail in the notes to the accounts; and
- The report should include a business review that substantially conforms to the provisions of Section 414C of the Companies Act 2006 including the enhanced reporting requirements that are ordinarily applicable only to quoted companies.

The financial and business review disclosures above are expected to be included in the Strategic Report (or Directors' report or equivalent for non-UK companies) and bring together key elements of the financial statements.

Table 5. The following disclosures are required:

<table>
<tr><th colspan="2">Guidelines – specific disclosures</th></tr>
<tr><td>• Identity of private equity firm
• Details of board composition
• Statement of conformity with the Guidelines</td><td>• Financial review – position
• Financial review – financial risks</td></tr>
<tr><th colspan="2">Business review – these are included in the Strategic Report for UK companies and could be included in the Directors' Report or another appropriate report for non-UK companies</th></tr>
<tr><th>Applicable to all companies[8]</th><th>Enhanced disclosures normally applicable to quoted companies that are required by the Guidelines</th></tr>
<tr><td>• Balanced and comprehensive analysis of development and performance during the year and position at the year-end
• Principal risks and uncertainties facing the company
• Key performance indicators (KPIs) – financial
• Key performance indicators (KPIs) – non-financial</td><td>• Strategy
• Business model
• Trends and factors affecting future development, performance or position
• Environmental matters
• Employees
• Social, community and human rights issues
• Gender diversity information</td></tr>
</table>

A portfolio company should also publish a short half year review and upload this on its website within three months of the mid-year date.

4.2 Recent compliance and findings

60% of the companies sampled in 2023 prepared disclosures to at least a good standard[9]. This was comparable with previous years.

[8] This is applicable to all companies (including private companies) except those eligible for the small companies' exemption per Companies Act 2006. Medium-sized companies per Companies Act 2006 are also eligible for an exemption to provide non-financial information.

[9] Each year, as part of the PERG review, PwC forms a view on the quality and standard of the disclosures of a sample of the population. These are classified as being excellent, good or meeting the level of basic compliance. This is a subjective judgement made by PwC from assessing how many of the expected attributes of good quality reporting are included in the disclosures. This is assessed for each of the Guideline's criteria, utilising expectations set out in the PwC Good Practice Guide.

Key findings on specific disclosures are summarised below. This feedback relates to the sample reviewed in 2023 and comparisons to the prior year's review therefore relate to a different sample of companies.

Table 6.

Areas with good quality disclosures or significant improvements from previous years	Additional feedback
Financial position	• We saw improvement in the standard of disclosure compared to the quality reported in previous years' reviews.
Financial KPIs	• There was a significant improvement in the quality of disclosure this year which was pleasing given the prevalence of only basic disclosures in previous years and the importance of financial KPIs given the macroeconomic environment.
Details of board composition	• This requirement continues to be met, with portfolio companies including the additional information around explanations of the industry and other relevant experience that external directors (from the private equity owner) bring to the company.
Areas requiring improvement	**Additional feedback**
Trends and factors affecting the future development, performance or position	• There needs to be a greater effort to provide sufficient information on the wider macroeconomic environment as well as quantifiable trend data. Many companies fell short in these areas.
Principal risks and uncertainties facing the company	• Portfolio companies omitted important information on the likelihood of risks and uncertainties occurring and how they have changed in the year. • There should be greater disclosure on the impact of each risk versus the likelihood.
Non-financial KPIs	• The deterioration in compliance with non-financial KPIs was caused by companies explicitly disclosing their non-financial KPIs and leaving it up to the reader to deduce what management considered to be 'key'. • The KPIs included need to link to the strategy and include comparative data.

4.3 Proposals to amend the requirements

This section should be read alongside the Benchmarking Report and Section 4 of Part V of the Guidelines.

It is set out as follows:

- Statement of compliance with the Guidelines (4.3.1)
- Identity of private equity firm (4.3.2)
- Board composition (4.3.3)
- Principle risks, uncertainty, trends & factors (4.3.4)
- Environmental matters (4.3.5)
- Employees and other stakeholders (4.3.6)
- Strategy and business model (4.3.7)
- Diversity disclosures (4.3.8)
- Further portfolio company reporting (4.3.9)

4.3.1 Statement of compliance with the Guidelines

Current requirements under the Guidelines

The report should include a statement by the directors of the portfolio company confirming

compliance with the Guidelines or setting out explanations for areas of non-compliance.

BVCA assessment

The statement of compliance with the Guidelines is a requirement for portfolio companies. Such a statement is viewed as a proxy for the "fair, balanced and understandable" requirement under the Code. Only 60% of companies included such a statement in their annual report last year (2022: 52%).

PERG think that a statement of compliance with the Guidelines can be incorporated into a company's annual report with relative ease and it should not be contentious to comply with this requirement. It is disappointing that 48% of the sample reviewed did not include a statement. PERG do not suggest removing this requirement and instead would like to understand why so many annual reports do not include a directors' statement of compliance with the Guidelines.

Questions
Q7. Why might a portfolio company not include a Statement of Compliance with the Guidelines and what can the BVCA and PERG do to increase compliance with this requirement?

4.3.2 Identity of private equity firm (see page 42 of the Benchmarking report)

Current requirements under the Guidelines [4a Identity of a private equity firm]

The report should identify the private equity fund or funds that own the company and the senior executives or advisers of the private equity firm in the UK who have oversight of the company on behalf of the fund or funds.

Current landscape/future developments

FTSE 250 companies are required to provide more information relating to ownership structures than the Guidelines. The nature of the portfolio company disclosures relates to their private equity backing and executives at the private equity firm holding roles at the portfolio company.

BVCA assessment

The additional disclosure requirements around the identity of the private equity firm go beyond what is required of other private companies around ownership. However, there is often a difference at a private equity firm between those who typically sit as non-executive directors of a company and those with operational oversight and who actively manage the performance of the company. This additional disclosure, if included in the Guidelines, could enhance the understanding of how companies are managed and who is involved in their operations providing informative context.

PERG noted that just over half of portfolio companies achieved a good standard of disclosures around the identity of the private equity firm. The basic disclosures only referenced the name of the firm or fund, with limited disclosure on the history of the firm or discussion on the firm's involvement with operations. The Guidelines could request further information on the active management of companies either through portfolio company disclosures or private equity firm website disclosures:

- The portfolio company disclosures around the identity of the private equity fund and senior executives could be amended to include a description of the cadence and structure of stewardship interactions with the private equity fund or firm.
- The private equity firm website disclosures could be amended to include a description of the cadence and structure of stewardship interactions with the portfolio companies.
- The private equity firm website disclosures could be amended to include the identity of UK investment advisory teams and for which portfolio companies they are involved in the active management of.

Summary
The role of private equity firms in actively managing their portfolio companies has gained significant attention as stakeholders, including investors, regulators and the public, seek to understand the influence and impact of private equity firms on the companies they invest in. Current disclosure requirements may not fully capture the extent of the active management and strategic direction provided by private equity firms.
Questions
Q8. How should the additional disclosure requirements around ownership structure and management activity be updated to request further information on the active management of companies - either through portfolio company disclosures or private equity firm website disclosures?

4.3.3 Board composition (see pages 15 to 18 of the Benchmarking report)

Current requirements under the Guidelines [4b Board Composition]

The report should give detail on the composition of the board, identifying separately executives of the company, directors who are executives or representatives of the private equity firm and directors brought in from outside to add relevant industry or other experience.

Current landscape/future developments

Board governance in the current landscape refers to how a board is composed and operates. This is usually defined by a specific code. The Financial Conduct Authority Listing Rules[10] (FCA LR or LR), together with the Code dominate the requirements for what FTSE 250 companies disclose in their annual report, with little required by the Guidelines beyond board composition.

BVCA assessment

The Guidelines apply additional disclosure requirements around board composition which go beyond what is required of many other private companies, however, the current requirements provide limited information. Transparency on board composition is key to understanding the governance structure and main activities of a board and board committees and provides valuable information to the reader.

Although portfolio companies do not necessarily have the same number of board committees that a listed company has (such as remuneration or audit) they often report to an investment committee or operations committee made up of investors. Given that FTSE 250 requirements are more comprehensive, there may be a case to consider the Code, however, we would note again introductory comments on the Code and its applicability to portfolio companies when considering any change. Some of the information may have limited relevance and use for portfolio companies or the readers of annual reports. Other requirements, such as the Wates Principles, include an approach to board composition which allows more flexibility to explain the chosen approach and avoid box-ticking.

Additional disclosure of portfolio company committees and their activities could enhance the understanding of how companies are managed, who is responsible for governance and who is involved in their operations. The Guidelines could therefore request further information on the activities of board and executive level committees either through portfolio company disclosures or private equity firm website disclosures:

- The portfolio company disclosures around board composition could be amended to include activities of investment or operations committees of the private equity firm and how they are governed.

[10] FCA Handbook - FCA Handbook

- The private equity firm website disclosures could be amended to include the identity of members and activities of investment or operations committees.

Portfolio companies do not have to disclose their board nomination or appointment processes unlike listed companies. Additional disclosures around the appointments could enhance the understanding of the governance of private equity-backed companies and what factors are considered. However, in portfolio companies, specifically those which are backed by multiple private equity firms, the number of directors are largely appointed based on representation of shareholding. For example, the shareholding of the private equity firm might not give it the right to appoint board directors or give it veto or voting rights. Therefore, the process of nomination and appointment may not be as straightforward for portfolio companies to disclose and so might be a difficult requirement to implement.

Options for extending board composition and committee disclosure requirement			
No change to the Guidelines	**Add the Wates Principles**[11]	**Apply the Disclosure Guidance and Transparency Rules (DTR) to meet listed company requirements**	**Apply the Code to meet FTSE 250 requirements**
The Guidelines require companies to provide detail on the composition of the board, identifying separately executives of the company, directors who are executives or representatives of the private equity firm and directors brought in from outside to add relevant industry or other experience. The Guidelines go beyond the requirements of other large private companies.	Principle 2 requires companies to give 'careful consideration' to the size and structure of the Board. In addition, companies should consider value in appointing independent non-executive directors and delegate some functions to board committees, depending on the size, structure and complexity of the company.	- DTR 7.2.7R requires UK listed companies to describe the composition and operation of the Board and/or Board committees. - DTR 7.1.5R requires UK listed companies to disclose which 'body' carries out the function of an equivalent 'audit committee' and how it is composed.	The Code further highlights the roles of board members, their functioning as a board, including knowledge and skills and their effective delegation to board committees. FTSE 250 companies need to explain how these principles have been applied to meet LR requirements in addition to reporting on compliance with the relevant Code provisions.
Questions follow next table			

Options for extending board nominations and appointment disclosures		
No change to the Guidelines	**Add the Wates Principles**	**Apply the Code to meet FTSE 250 requirements**
In addition to the Guidelines requirement around board		- Code Provision 23 requires a description of the process used in relation to appointments, the board's

[11] Where options are proposed, please note that it is disclosure around the option and not a specific approach to the arrangement or activity underlying a certain type of disclosure. This is explained in Section 2.

composition, the Companies Act requirements for Directors Reports will include a list of Directors including any appointments, resignations and those who will stand for re-election in the current year. Disclosures do not cover the board's approach to nomination and appointment of directors.	The guidance for Principle 2 states that appointments to the board should promote diversity in line with the protected characteristics within the Equalities Act 2010. An effective board should be able to demonstrate that there has been a considered effort to establish an appropriate balance of expertise, diversity and objectivity.	approach to succession planning and how both support developing a diverse pipeline of future directors. - Code Provision 18 states that all directors should be subject to re-election. The Code requires details to be sent out to shareholders accompanying a resolution to elect or re-elect directors which outline the specific reasons why the director's contribution is and continues to be, important to the company's long-term sustainable success. In practice these details will often be provided within the annual report but, at a minimum, details are required to be included within the papers accompanying the notice of the Annual General Meeting (AGM).

Summary
Stakeholders are particularly interested in understanding how private equity funds contribute to the management and strategic direction of portfolio companies. The additional disclosure of committee activities and board appointments could provide greater transparency and insight into the governance practices, thereby helping stakeholders assess the effectiveness and accountability of the management team. Private equity firms are known for their active involvement in the management of their portfolio companies, often bringing in significant expertise and giving strategic guidance. However, the extent and nature of this involvement is not always clear to external stakeholders. Changes to disclosure requirements that provide more detailed information on the private equity firm's role could enhance the understanding of how private equity firms contribute to the value creation process. This includes how they exert their stewardship, the expertise they bring and the specific ways in which they support the portfolio company's growth. There is often a balance to be struck between providing comprehensive information and ensuring that the annual report remains accessible and not overly burdensome for companies to produce. Stakeholders need clear, relevant and proportionate information to understand the business and make informed assessments. Identifying the options that offer the most valuable insights without overwhelming the reader or the company with excessive reporting requirements is crucial for effective communication and transparency.
Questions
Q9. When considering disclosure requirements around board composition: a. Would additional disclosure of the types of committees, their activities and board appointments enhance transparency and understanding of how portfolio companies are managed, what role private equity plays in their management and how private equity provides stewardship and expertise to a portfolio company? b. Of the given options, which would be the most proportionate in striking the balance between accessible information and demonstrating value to the reader? Are there alternative options that would better strike this balance?

4.3.4 Principal risks, uncertainty, trends & factors (see pages 30 to 32 to of the Benchmarking report)

Current requirements under the Guidelines [4c.iii.a principal risks, uncertainty, trends & factors]

Principal Risks and uncertainties: The report must provide a description of the principal risks and uncertainties facing the company and a description of how the company manages the principal risks.
Trends and factors: To the extent it is necessary for an understanding of the development, performance or position of the company's business, companies must include the main trends and factors likely to affect the future development, performance and position of the company.

Current landscape/future developments

The current Guidelines require principal risks and uncertainties to be disclosed. The Companies Act, Code and DTR require FTSE 250 companies to go beyond this by explaining their process of identification, management and mitigation of principal and emerging risks. In light of the forthcoming Provision 29 in the 2024 Code, the disclosure gap is expected to widen between FTSE 250 companies and portfolio companies.

BVCA assessment

The principal risk disclosures are a Companies Act requirement for all companies producing a strategic report (currently companies with more than 50 employees, more than £5.1m balance sheet and £10.2m annual turnover). The Guidelines go beyond private company reporting on trends and factors affecting future developments by including references to Companies Act requirements which are usually only required of listed companies. As noted above, there are a number of regulations/legislation that set out different requirements, including the Code.

PERG noted the disclosures around risks and trends as key areas needing improvement in last year's report. Just over half of companies reviewed last year achieved good or higher standards on principal risk disclosures and only a third of companies achieved a good standard for trends and factors disclosures. They noted a lack of quantitative information to support the disclosures and limited additional contextual information for the disclosures. Principal risk disclosures are not expressly mentioned in the main text of the Guidelines (they are part of the appendix containing Section 414C) and there is no information required in relation to how risks are managed and/or mitigated.

Regulators, Bank of England officials and Parliamentarians are increasingly looking at private equity given the growth of the industry and the acquisition of large well-known UK high street brands. This has included Committee hearings in Parliament and means that the industry must be more transparent about how it operates, including on corporate governance and risk management.

Many current corporate governance frameworks place the Board in charge of the establishment, monitoring and review of the risk management and internal control systems. As the Wates Principles are a principles-based approach, they are not prescriptive about what an appropriate level of disclosure and transparency looks like. FTSE 250 companies currently provide information on their risk management frameworks and the process for identifying and assessing risks, including emerging risks. In the current economic and geo-political climate, together with new reporting for sustainability and changes within accounting frameworks, there is likely to be a need for enhanced risk and internal control frameworks.

Additional requirements around risk management systems and frameworks and internal controls could improve risk reporting in portfolio companies but would need to be proportionate to private equity backed companies' governance which differs from that of listed companies.

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The Guidelines could be updated to include reporting requirements on risk management systems and internal control frameworks in line with existing frameworks including the Wates Principles or DTR rules, or PERG could work with its advisors to better explain the current requirements in order to increase compliance and so ensure better disclosure.

The Code goes beyond other frameworks to require the directors to prepare a long-term viability statement. We do not propose to include a viability statement given the information already included in the business model and going concern statement and the long-term ownership and governance model of private equity.

Options for extending principal and emerging risks disclosures		
No change to the Guidelines	Add the Wates Principles	Apply the Code to meet FTSE 250 requirements
Section 414C(2)(b) and Section 414CA(2)(b)(ii) require a description of the principal risks and uncertainties facing the company and a description of how the company manages the principal risks. This disclosure requirement is included within the Guidelines.	The guidance for Principle 4 notes the Board is responsible for developing a risk management system to identify principal and emerging risks and how these risks will be managed or mitigated within the Company's risk appetite.	Code Provision 28: In addition to the Companies Act requirement, the Code requires companies to disclose and describe their assessment of emerging risks, the procedures in place to identify emerging risks and how these risks are being managed or mitigated.
Questions follow next table		

Options for extending principal and emerging risks disclosures to cover risk management and internal control systems			
No change to the Guidelines	Add the Wates Principles	Apply the DTR to meet listed company requirements	Apply the Code to meet FTSE 250 requirements
There are no requirements in relation to review of risk management and internal control systems in the Guidelines.	The guidance for Principle 4 suggests that the Board should establish an internal control framework and appropriate risk management systems and agree a monitoring and review process over these.	DTR 7.2.5R requires a statement of the main features of the issuer's risk management and internal control systems relating to financial reporting	Code Provision 29 requires companies to report on their annual review of the effectiveness of risk management and internal controls systems.

Summary
External stakeholders are increasingly looking for more information on risk management given the growth of the industry and the acquisition of large well-known UK high street brands. There may be an argument therefore for updating the Guidelines to ensure that this information is included. There are a number of options for increasing the requirements under the Guidelines, including increasing the understanding to the current requirement to apply the Code and there is a need to strike the right balance.
Questions
Q10. When it comes to risk management and disclosures:

a. Would additional disclosure around these topics enhance transparency and understanding for external stakeholders?
b. Of the given options, which would be the most proportionate whilst also providing the most valuable information to the reader of the annual report? Which, if any, align with what portfolio companies already do?

4.3.5 Environmental matters (see pages 26 to 28 of the Benchmarking report)

Current requirements under the Guidelines [4c.iii.b)i Environmental matters]

The report must, to the extent necessary for an understanding of the development, performance or position of the company's business, include information about environmental matters (including the impact of the company's business on the environment). If should include information about the policies of the company in relation to those matters and the effectiveness of those policies.

Current landscape/future developments

Reporting on environmental matters has increased in recent years. FTSE 250 companies are held to the listing rule requirements (namely reporting under the Taskforce for Climate-related Financial Disclosure[12] (TCFD)). In addition, some FTSE 250 companies have started to report voluntarily on their impact on nature and biodiversity in their annual reports.
UK listed companies have reported a statement of compliance with the TCFD recommendations since 2021 and larger Companies have reported in line with BEIS Climate-related Financial Disclosure (CFD) requirements as per the Companies Act in 2023. Furthermore, many companies are required to, or voluntarily opt to, disclose greenhouse gas emissions in line with the Streamlined Energy & Carbon Reporting regulation. The environmental reporting landscape continues to rapidly evolve, with additional sustainability reporting requirements in the UK and the EU expected beyond 2024.

It is important to note that the UK Government is aiming to endorse the International Sustainability Standards Board's (ISSB) IFRS S1 and S2 standards and incorporate these into the UK Sustainability Reporting Standards (UK SRS) in the first half of 2025. This will, at a minimum, incorporate TCFD and the ISSB's materiality framework into reporting legislation.

Frameworks for both the Taskforce for Nature-related Financial Disclosure (TNFD) and the Transition Plan Taskforce (TPT) are established and we note that uptake in the FY23 reporting cycle by the FTSE 250 has been limited. However, these frameworks are likely to be included within the UK SRS in the future.

Finally, ISSB is looking to take responsibility for TPT and work more closely with the greenhouse gas (GHG) protocol, Carbon Disclosure Project (CDP), TNFD and Global Reporting Initiative (GRI). This further emphasises the strong likelihood of an increase in environmental and climate regulation.

BVCA assessment

The current requirements give portfolio companies a high degree of flexibility in how they report on environmental matters and do not set minimum standards or prescribed methods for reporting. This has resulted in varying degrees of quality of disclosures, with less than two-thirds of companies achieving an excellent rating against the existing Guidelines. This suggests a need to reflect on whether the Guidelines are achieving their intended aims.

In addition, in recent years, there has been increased emphasis on environmental reporting for listed companies, with investors often expecting disclosures that align with recognised standards. The three standards frequently used are the SECR, BEIS CFD and TCFD, with additional regulatory

[12] Task Force on Climate-Related Financial Disclosures | TCFD) (fsb-tcfd.org)

changes expected. While many companies disclose under SECR and may provide additional carbon reporting, there is a clear gap between current requirements under the Guidelines and evolving expectations and regulations with regards to environmental reporting.

It is important the Guidelines focus on environmental topics and sectors that are significant or relevant to the company. We recognise concerns about overlapping requirements highlighted by market participants, but also acknowledge the importance, value and benefits of enhanced environmental reporting, such as improved reputation, risk management and decision making. As the landscape evolves, aligning reporting standards to avoid duplication while ensuring comprehensive and valuable disclosures will be key.

There is an opportunity for additional disclosures around climate and other environmental matters to create value by helping portfolio companies outline their approach to environmental risks and opportunities, which could drive organisation behavioural change, improve companies' reputations and improve exit value.

When updating the environmental matters requirement, it is important to note that most, if not all, companies subject to the Guidelines will exceed the thresholds requiring SECR reporting, establishing expectations for increased carbon disclosure. This consideration applies whether incorporating SECR reporting or adding BEIS CFD requirements. This speaks to the point of the need for increased transparency and disclosure in the market.

Additionally, the recommendations from the TCFD have been integrated into the ISSB Standards, set to be adapted into UK SRS in early 2025. As TCFD reporting is a requirement for listed entities, it offers a framework of recommendations that companies can choose to follow or explain their non-compliance.

Options for additional disclosures around climate		
Add SECR reporting	**Add BEIS CFD requirements**	**Apply TCFD reporting standards**
The Guidelines state companies can include in the directors' report the disclosures concerning greenhouse gas emissions as set in Part 7 of Schedule 7 of the Large and Medium-sized Companies and Groups (Accounts and Reports) Regulations 2008. This is not a mandatory requirement of the Guidelines. SECR requires in-scope companies to report on their global Scope 1 and Scope 2 energy consumption, GHG emissions in accordance with the GHG protocol. Companies must also	Companies must describe: - governance arrangements in relation to assessing and manging climate related risks and opportunities. - the process of identifying, assessing and managing climate related risks and opportunities and describe the integration into the overall risk management process. - principal climate related risks and opportunities and the time periods in which these are assessed. - actual and potential impacts on the business model and strategy of the business and describe the resilience of the business model taking into account different climate related scenarios. - targets used to manage climate related risks and opportunities and performance vs targets. KPIs used to assess progress against targets including a description of the	Companies should describe: - management's role (and board oversight of) the assessment of climate related risk and opportunities. - the processes for identifying, assessing and managing climate related risk and describe how the process for climate risk management is integrated into the overall risk management process. - the climate risks and opportunities over the short, medium and long term. The impacts of climate risks and opportunities on a company's business strategy and financial planning should be provided.

provide an intensity ratio and include comparative information.	calculation of KPIs should also be provided.	The resilience of an organisation's strategy to different scenarios, including a '2°C or lower' scenario. Companies should disclose the metrics and targets used to assess climate related risks and opportunities in line with the strategy & risk management process employed by the company and describe the targets used to measure risks and opportunities against there targets.
Questions follow next table		

Options for additional disclosures around environmental reporting		
Add requirements around Carbon reporting	**Add requirements around transition planning**	**Add requirements around nature and biodiversity**
The UK government strongly encourages the disclosure of Scope 3 (value chain) emissions and TCFD recommends the disclosure of Scope 3 emissions, however there is no mandatory disclosure of Scope 3 emissions. FTSE 250 companies commonly report on their Scope 3 emissions on a voluntary basis, often using GHG Protocol Corporate Standard guidance.	The TPT was established by the UK government as best practice for firm-level transition plans. TPT guidance is currently applied on a voluntary basis, but several regulations include requirements for transition plans including ISSB, Corporate Sustainability Reporting Directive (CSRD), Corporate Sustainability Due Diligence Directive (CSDDD) and TCFD.	The TNFD has released a set of TCFD aligned recommendations, which Companies can report against on a voluntary basis.

Summary
Environmental reporting disclosure requirements and regulation are increasing, with a current sharp focus on climate related disclosures. This shift is driven by global climate policy and the need to better understand the associated risks and opportunities climate change represents to companies and financial markets. Environmental disclosure reporting supported by meaningful and quality environmental data can help increase understanding, create trust and confidence with key stakeholders as a result of being able to show commitment and year on year performance against targets. There is, furthermore, increasing consideration being shown regarding value chains and ensuring companies understand their wider operations. This underscores the importance for companies to apply appropriate materiality and sector-specific considerations to their data collection.
Questions

Q11. How do the options set out in the tables above align with a portfolio company's current environmental reporting practices and disclosures? How do the options align with your short-, medium- or long-term objectives for environmental reporting?
Q12. How could these options create value for your organisation and key stakeholders and why?
Q13. What challenges might portfolio companies face in implementing these options considered through a materiality and sector lens and why?

4.3.6 Employees and other stakeholders (see pages 20 to 24 of the Benchmarking report)

Current requirements under the Guidelines [4c.iii.b)ii & iii Employees and other stakeholders]
In line with listed company requirements, to the extent necessary for an understanding of the business, portfolio companies should provide information about employees, including information about policies in place at the company in relation to employees and the effectiveness of these policies. Portfolio companies should also provide information about social, community and human rights issues, including information about any policies of the company in relation to those matters and the effectiveness of those policies.

Current landscape/future developments
The Guidelines require portfolio companies to disclose information about social, community and human rights matters if important for an understanding of the business. In addition, given that the vast majority of portfolio companies will be UK incorporated, it is likely that they are already meeting the requirement to disclose a Companies Act section 172(1) (s172) statement explaining how their Board has considered the s172 matters in their long-term decision making.

Since the Guidelines were last refreshed in 2014, the UK Companies (Miscellaneous Reporting) Regulations 2018 have been published which extend reporting requirements around employees and employee engagement, suppliers, customers and other business relationships. It should be noted that all portfolio companies would fall under at least some of these requirements.

The social landscape is fast evolving, catalysed by an increase in social related regulation both in the EU and UK. The inherent interconnectedness of these two operating jurisdictions will result in reporting obligations impacting certain UK companies in the future as well as driving regulatory change in the UK.

BVCA assessment
Based on information gathered from the most recent PERG report, the majority of companies achieved a good or excellent standard on employee disclosures, while only around half of companies reviewed produced good or excellent standard disclosures on social, community and human rights issues. PERG has identified that information on employees and social, community and human rights are key disclosure requirements in need of improvement, given that employees are essential for nearly all businesses. It is vital that portfolio companies are able to articulate the importance of their employees. Which is reinforced by these disclosures.

The Wates Principles and Code are more prescriptive on how companies should incorporate stakeholder feedback into decision making than the Companies (Miscellaneous Reporting) Regulations 2018 and the Companies Act requirements (including those in the Guidelines). Additionally, there are a series of regulatory changes coming in the short term (like UK SRS, CSRD, the European Sustainability Reporting Standards (ESRS) specifically ESRS S1: Own workforce and ESRS S2: Workers in value chain, ESRS S3: Affected communities and ESRS S4: Consumers and end user and CSDDD) which could further increase the requirements for employee and other social stakeholder disclosures and policies by companies.

Additional disclosures around employees and other stakeholders could help portfolio companies outline their approach to social matters, which could drive organisation behavioural change and improve companies' reputations, thereby driving value. When updating the employees and other stakeholders' disclosure, it is important to consider that all companies subject to the Guidelines likely fall within the scope of the Companies Act requirements, though these are not explicitly mentioned in the current Guidelines.

Adding the Wates Principles or applying the Code to meet FTSE 250 requirements could enhance the existing Companies Act reporting requirements, particularly in terms of stakeholder engagement and decision-making activities. Both options would provide a more comprehensive framework for reporting, thus improving transparency and accountability. However, being more comprehensive approaches, the Wates Principles and the Code will likely require greater resources and may be more burdensome when compared with the value gained, especially for smaller companies. There is, therefore, a need for a balanced approach to ensure the Guidelines remain proportionate.

Options for extending trends and factors disclosures to include additional disclosures about employees and other stakeholders		
Add Companies Act requirements	**Add the Wates Principles**	**Apply the Code to meet FTSE 250 requirements**
- The Companies (Miscellaneous Reporting) Regulations 2018 requires companies in scope to include information about engagement with employees and engagement with suppliers, customers and others within the Directors' Report. - The same regulation requires a s172 statement in the Strategic Report which describes how directors have complied with their duty to promote the success of the company for the benefit of its members whilst having regard to other stakeholders.	Principle 6 requires the Board to demonstrate how it has effectively engaged with material stakeholders through dialogue and how the feedback from these discussions has impacted decision-making.	Code Provision 5 further states that 'the board should understand the views of the company's other key stakeholders and describe in the annual report how their interests and the matters set out in s172 of the Companies Act 2006 have been considered in board discussions and decision-making. The board should keep engagement mechanisms under review so that they remain effective.

Summary
The current requirements under the Guidelines ensure that portfolio companies disclose information about employees, their related policies and their effectiveness. This level of transparency is crucial as it highlights the importance of employees within the business context. However, the BVCA assessment shows that while many companies meet the standards for employee disclosures, there is room for improvement in sharing detailed information that can drive meaningful engagement and transparency. Enhancing these disclosures can better enable other stakeholders to understand the company's commitment to its workforce and overall business health. Furthermore, integrating the Companies Act requirements, specifically the s172(1) statement, into the Guidelines would enhance employee and stakeholder disclosures by ensuring that companies systematically consider and report how their decisions impact various stakeholders, including employees. This addition would provide a more structured approach to transparency and accountability, reinforcing the importance of employees in strategic decision-making processes. It would also align the Guidelines with existing legal requirements, promoting a cohesive reporting framework that is comprehensive and reflective of contemporary corporate governance practices.

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Questions
Q14. In what way/s (if any) do you consider the current requirements are sufficiently enabling the sharing of information that is vital to this and other stakeholder groups?
Q15. In what way/s (if any) would adding the Companies Act requirements sufficiently enhance this area of disclosure?

4.3.7 Strategy and business model (see page 31 to of the Benchmarking report)

Current requirements under the Guidelines [4c.iv.a & b Strategy and business model]

The report should clearly articulate how the business intends to achieve its objectives and must include a description of the business model.

Current landscape/future developments

There is no specific requirement for companies to disclose the purpose, values and culture of a business. However, in explaining how they meet the principles of leadership and business purpose from the Code, FTSE 250 companies have been able to demonstrate connectivity between these elements, the business model and strategy.

BVCA assessment

The Guidelines are focussed on strategy and business model disclosures. They do not have specific requirements for disclosures relating to the purpose, values and culture of a company or how this is aligned to its strategy and business model. They therefore differ from some other corporate governance frameworks. Given that some industry stakeholders continue to ask questions on the business strategy and stewardship used by private equity firms, there may be a lack of transparency in this area. The Guidelines should help inform stakeholders of the value and positive impact of private equity ownership of businesses.

Applying the Wates Principles would focus on the alignment of strategy and business model with purpose, values and culture and add a further dimension to the disclosures. Applying the Code may be an additional burden a relatively for minor gain.

While setting out some key points on the board strategy might be in line with expectations on companies set by Wates, not all companies will necessarily consider purpose and value concepts as core disclosures. We recognise that some companies will also feel from reporting in detail on purpose, values, strategy and ensuring that is aligned to the Code (as listed FTSE 250 companies do) is unnecessarily burdensome. However, these types of disclosures could align with other aspects of annual reporting such as s172 and also can be useful if/when preparing for an Initial Public Offering.

Options for extending strategy and business model requirements to include purpose, values and culture		
No change to the Guidelines	**Add the Wates Principles**	**Apply the Code to meet FTSE 250 requirements**
Companies Act: Strategic Report s414C(8)(a-b) requires quoted companies to provide a description of the company's strategy and business model. This disclosure requirement is included within the Guidelines.	The guidance for Principle 1 of the Wates Principles notes that an effective board develops and promotes the purpose of a company and ensures that its values, strategy and culture align with that	- Principle B of the Code: 'The board should establish the company's purpose, values and strategy and satisfy itself that these and its culture are aligned.' While there is no direct requirement for companies to disclose their purpose and values, listed companies usually disclose their purpose statements and values to

	purpose. In addition, an effective board will develop a strategy and business model to generate long-term sustainable value.	demonstrate how they have applied Principle B. - Provision 1 of the Code: 'The board should assess the basis on which the company generates and preserves value over the long-term. It should describe in the annual report how opportunities and risks to the future success of the business have been considered and addressed, the sustainability of the company's business model and how its governance contributes to the delivery of its strategy.'

Summary
There is increasing interest in understanding not only a company's overarching strategy and business model, but its broader purpose, values and culture. These elements can be seen as integral to the long-term success and resilience of a company and may be important to a range of stakeholders including new recruits to investors. However, not all companies will have a developed strategy that is ready to disclose, particularly for companies undergoing considerable change.
Questions
Q16. How should the scope of strategy and business model disclosure be expanded to include areas such as purpose, values, and culture? Specifically, what aspects align best with existing disclosure practices, where might the most significant challenges and burdens arise, and in which areas can the greatest value be generated?
Q17. Of the options in the table above which align most closely to your current reporting?

4.3.8 Diversity disclosures (see pages 21, 22, 38, 40 of the Benchmarking report)

Current requirements under the Guidelines

The strategic report must include a breakdown at the end of the financial year to show the number of males and females who were directors of the (parent) company, the number of people of each sex who were senior managers of the company (other than those already identified as directors) and the number of people of each sex who were employees of the company. The 2014 updated Guidelines allow the portfolio company to apply their own definition of the role of a senior manager.

Current landscape/future developments

Since the Guidelines were last refreshed in 2014, the UK Gender Pay Gap Information reporting was introduced which requires companies in scope to report on their gender pay gap. Separately, disclosure requirements of a company's Diversity, Equity & Inclusion (DE&I) objectives and targets have also increased over recent years. FTSE 250 companies are held to targets set by the FTSE Women Leaders' and Parker Reviews and Listing Rules diversity targets introduced in April 2022 for both gender and ethnic representation. In addition, FTSE 250 companies often go above regulatory minimum reporting requirements, to voluntarily report on their gender pay gap and policies on human rights in their annual reports.

BVCA assessment

There is an increasing emphasis on diversity reporting for companies, driven by frameworks like the Wates Principles and the Code. This highlights the need for the Guidelines to consider more comprehensive reporting. With less than half of companies currently meeting high reporting

standards, there is an opportunity to make the Guidelines more effective, ensuring that requirements increase transparency that is valuable for the reader without unnecessarily increasing the reporting burden for portfolio companies. Enhanced diversity reporting offers benefits such as improved reputation and risk management and, although the Guidelines require additional reporting around diversity compared with most private companies, they do not cover ethnicity, diversity policies or diversity targets.

Additional disclosures on gender and ethnic diversity could help portfolio companies outline their approach to DE&I, helping create value by catalysing organisation behavioural change, improving a companies' reputation, attracting talent and improving exit value.

Adopting the Wates Principles and explaining the application of Principle 2 would enhance disclosure and transparency regarding the board's diversity policy. Applying the Code to meet FTSE 250 requirements would ensure clear and transparent diversity policies, allowing stakeholders to monitor and assess diversity progress within a company, including at the board level, while linking these efforts to strategy and objectives.

Options for additional disclosures around Diversity Policy			
No change to the Guidelines	**Add the Wates Principles**	**Apply the DTR to meet listed company requirements**	**Apply the Code to meet FTSE 250 requirements**
There is no requirement to disclose the board diversity policy within the Guidelines. There are no specific private company requirements around board diversity policy (see next table for diversity targets).	The guidance for Principle 2 suggests that a policy on diversity and inclusion aligned to company strategy should support appointments to the board and succession planning.	DTR 7.2.8AR requires listed companies to disclose their Board diversity policy, its objectives and progress against these objectives during the year. The diversity policy applied to the remuneration, audit and nomination committees should also be explained.	Code Provision 23 requires a description of the policy on diversity and inclusion, its objectives and linkage to company strategy, how it has been implemented and progress on achieving the objectives.
Questions follow next table			

Options for additional disclosures around Diversity Targets		
No change to the Guidelines	**Add the Wates Principles**	**Apply the LR to meet FTSE 250 requirements**
Whilst not a requirement, the FTSE Women Leaders' Review and Parker Review set voluntary gender and ethnic representation targets respectively. These targets are applicable for the 50 largest private companies and their progress is	The guidance with Principle 2 notes that a Company' diversity policy should also consider targets and aspirations promoted by Government and industry initiatives or expert reviews.	In addition to Companies Act requirements around the breakdown of the sex of the members of the board, senior management and employees in the Strategic Report (included in the Guidelines), the gender balance of those in senior management and their direct reports is required by Code Provision 23. Listed companies are also required to disclose information on the sex or gender identity and ethnic diversity of the board, senior board positions and executive management in a

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disclosed in annual reports.		standardised table format according to the FCA LR. Listed companies are required to have a statement in their annual financial report setting out whether the company has met specific board diversity targets on a 'comply or explain' basis, as at a chosen reference date within their accounting period and, if they have not met the targets, why not. (FCA LR 9.8.6.9-11) The FTSE Women Leaders' and Parker Reviews outline voluntary gender and ethnic representation targets respectively for FTSE 350 companies and large private.

Summary
The above assessment highlights opportunities to create value from greater transparency in this area, especially compared to FTSE 250 companies, which often exceed regulatory requirements by including detailed reports on diversity policies, targets and the relevance of these disclosures to their overall strategy. There is an increasing requirement for organisations to provide more detailed information on DE&I with metrics and the relevance of these disclosures to an organisation's overall strategy. This is very apparent when comparing the current requirement to FTSE 250 companies. However, disclosure needs to focus on metrics that are meaningful and relevant to an organisation.
Questions
Q18. When considering diversity, equity and inclusion in portfolio companies: a. How do the options provided align with current portfolio company diversity, equity and inclusion disclosures? b. What are your short, medium and long term plans for disclosures of this nature and any challenges you foresee which could prohibit increased disclosures?

4.3.9 Further portfolio company reporting (see pages 15 to 21 to of the Benchmarking report)

Current requirements under the Guidelines

There are further areas of governance relevant to portfolio companies but not included in the Guidelines.

BVCA assessment

Since the Guidelines were last refreshed in 2014, the UK Companies (Miscellaneous Reporting) Regulations 2018 were published and extend reporting requirements to large private companies to include explanations of the corporate governance framework they have applied. Some large portfolio companies would fall under these requirements.

There are several areas of additional requirements in FTSE 250 reporting, particularly around governance frameworks, external auditors, remuneration and board evaluation. These requirements are designed to improve good governance in listed companies and may not have the same degree of applicability to private equity and portfolio companies.

Additional disclosure around these matters could improve the standard of a company's governance, thereby attracting talent and maintaining appropriate regulatory intervention. The Guidelines therefore could be updated to include the UK Companies (Miscellaneous Reporting) Regulations 2018 requirements around corporate governance framework to all portfolio companies, regardless of

whether they are currently in scope. We do not currently propose to include additional disclosure around remuneration or external auditors. Quoted company shareholders require this information when voting at shareholder meetings, which is not applicable for portfolio companies.

Options for disclosures around corporate governance framework		
Add Companies Act requirements	**Add the Wates Principles**	**Apply the Code to meet FTSE 250 requirements**
The Companies (Miscellaneous Reporting) Regulations 2018 (SI 2018/860): Statement of Corporate Governance Arrangements calls for an explanation of the corporate governance arrangements applied by the Company. It currently applies to UK registered companies with >2,000 global employees and/or turnover more than £200m and a balance sheet of £2bn+.	In reporting on their application of the Wates Principles, portfolio companies will be able to describe their approach to corporate governance across the six Wates principles.	1. UK premium listed companies are required to apply the Code and explain to shareholders how the Code principles have been applied and the level of compliance with the Code provisions. (LR 9.8.6R (5-6)) 2. All UK listed companies are required to state the Code they are subject to or voluntarily applying. (DTR 7.2.2R and DTR 7.2.3R)
Questions follow next table		

Options for disclosures around board evaluations		
No change to the Guidelines	**Add the Wates Principles**	**Apply the Code to meet FTSE 250 requirements**
There are no board evaluation requirements in the Guidelines or via the Companies Act.	The guidance which supports Principle 2 suggests that regular evaluation of the board can help individual directors to contribute effectively and highlight the strengths and weaknesses of the board as a whole.	1. Code Provision 21 requires an annual formal and rigorous evaluation of the performance of the board, its committees, the chair and the individual directors. FTSE 350 companies are required to have an externally facilitated board evaluation every 3 years. 2. Code Provision 23 requires a description of the how the board evaluation was conducted, the nature and extent of an external evaluator's contact with the board and individual directors and the outcomes and actions taken and how it has or will influence board composition.

Summary
Disclosure in this area has fallen behind FTSE 250 companies. There may be limited value in only adopting the Companies Act requirements, while the Code could improve the reputation of a

company's governance, thereby attracting talent. However, PERG is focused on proportionate amendment. The Wates Principles might be the best approach allowing more flexibility while avoiding what may be perceived as a box-ticking exercise.
Questions
Q19. Given the already close relationship and alignment between the portfolio company and the private equity firm, how could the Guidelines be enhanced to require additional information around governance frameworks and board evaluation, as these requirements are designed to improve and influence good governance (and not transparency) in listed companies?
Q20. Should the requirement around the corporate governance framework simply aim to catch up with the Companies Act?

5. The private equity firm website disclosure requirements [Section 7 of Part V]

5.1 Current requirements

Currently, a private equity firm in scope is required to publish an annual review accessible on its website or ensure regular updating of its website to communicate:

- A description of the way in which the FCA-authorised entity fits into the firm of which it is a part with an indication of the firm's history and investment approach, including investment holding periods, where possible illustrated with case studies.
- A commitment to conform to the Guidelines on a comply or explain basis and to promote conformity on the part of the portfolio companies owned by its fund or funds.
- An indication of the leadership of the UK element of the firm, identifying the most senior members of the management or advisory team and confirmation that arrangements are in place to deal appropriately with conflicts of interest, in particular where it has a corporate advisory capability alongside its fiduciary responsibility for management of the fund or funds.
- A description of UK portfolio companies in the private equity firm's portfolio.
- A categorisation of the limited partners in the fund or funds that invest or have a designated capability to invest in companies that would be UK portfolio companies for the purposes of these Guidelines, indicating separately a geographic breakdown between UK and overseas sources and a breakdown by type of investor, typically including pension funds, insurance companies, corporate investors, funds of funds, banks, government agencies, sovereign wealth funds, family offices, endowments of academic and other institutions, private individuals and others.

The review of private equity firms' disclosures considers:

- the extent to which firms complied with the separate criteria; and
- the accessibility of the information and the clarity of their commitment to the Guidelines

5.2 Recent compliance and findings

Each year, PERG reviews the website of each in scope private equity member firm for compliance with these requirements. Compliance remains at 100%, with all BVCA members including appropriate disclosures on their websites. This has been the case since 2015.

Findings are, however, consistently mixed and there are weaknesses with the Guidelines in their current form. For example, it is not stipulated where the report should be on a website, and this can mean that the disclosures are hard to find. This is not in line with the aims of the Guidelines around transparency as it is really important that the information is easily accessible to any visitor to the website.

The detail included in annual reports and/or websites is often varied, with some firms opting for succinct statements to ensure compliance and others providing extended information on strategy and detailed case studies. Reasons vary as to why this is; however, we believe it is because the requirements are unclear and outdated. The disclosures that are most difficult to find are the statement of investment holding periods and confirmation that arrangements are in place to deal with conflicts of interests. We continue to see "boilerplate" statements which reference the long-term nature of the investments in portfolio companies. Finally, the conflicts of interest policy requirement is somewhat outdated as private equity firms are regulated and so this is implicit in their compliance with, for example, FCA regulations.

5.3 BVCA assessment

For many of private equity firms that operate across Europe or globally, their UK business and UK investments may only be a (smaller) part of their overall business and investment portfolio. In many cases, website disclosures will largely be driven by firm wide considerations, rather than specific UK considerations. This can be difficult for a private equity firm to navigate and it is therefore important to take into account when considering amendments to the website disclosures. An understanding of level of alignment could help to anticipate expected compliance and additional burden for an in scope private equity firm.

Questions
Q21. We would welcome views on the current website disclosure requirements. In particular, we would welcome views on potential difficulties with the requirements for updating website information, including on the practicalities of updating a website and on the specific requirements noted in Section 4.1.
Q22. How do current and the proposed options (given below) align with a private equity firm's general website disclosure strategy?

5.4 Proposals to amend the requirements

This section should be read alongside the Benchmarking Report and Section 7 of Part V of the Guidelines.

It is set out as follows:
- Investment approach (5.4.1)
- UK element of the firm (5.4.2)
- Description of UK portfolio companies (5.4.3)
- Categorisation of limited partners (5.4.4)

5.4.1 Investment approach (see page 36 of the Benchmarking report)

Current requirements under the Guidelines
Private equity firms must disclose details of their history and investment approach, including investment holding periods, where possible illustrated with case studies.

BVCA assessment
The Guidelines go beyond AIM (Alternative Investment Market) investment company requirements and listed asset manager requirements for the description of investments. PERG noted that compliance with the disclosure requirements around investment holding periods is basic, with "boilerplate" statements only referencing "the long-term nature" of the investment in portfolio companies.

These requirements are intended to help improve the understanding of the private equity industry, but they may not be achieving their intended purpose. Improved disclosures and understanding of a firm's investment process may help improve its reputation with management teams at prospective investee companies and attract talent.

To improve the disclosure around hold periods, the Guidelines could be updated to include:
- Disclosures requirements around the details of realised and partially realised UK investments – describing how long these assets were held for before being realised.
- A template for the completion of case studies, to support existing requirements.
- Reconfirmation of the stakeholder value of complying with the hold periods disclosure requirements.

To improve the understanding of investment approach, the Guidelines could be updated to include references to:

- The approach to value creation – how the firm achieves the growth ambitions for portfolio companies and/or
- High level KPIs – how the firm measures success for their portfolio companies and/or
- ESG factors in investments – how the firm considers ESG factors when making investment decisions.

Questions
Q23. In respect to investment approach disclosures, of the above options, which, if any, align with your current website disclosure? What would be complementary and beneficial to add to enhance disclosures on investment approach?

5.4.2 UK element of the firm (see page 34 of the Benchmarking report)

Current requirements under the Guidelines

Private equity firms must disclose details of the leadership of the UK element of the firm, identifying the most senior members of the management or advisory team and confirmation that arrangements are in place to deal appropriately with conflicts of interest, in particular where it has a corporate advisory capability alongside its fiduciary responsibility for management of the fund or funds.

BVCA assessment

PERG noted that "the conflicts of interest policy requirement is somewhat outdated as private equity firms are regulated and so this is typically a requirement by their regulator (for example, the FCA). These requirements are intended to help to improve the understanding of the private equity industry and may not be currently sufficient. The descriptions of UK leadership teams however do help identify key personnel at the firms responsible for UK operations.

To improve this requirement the disclosure could be updated:

- To remove references to the arrangements in place to deal with conflicts of interest from the Guidelines.
- To provide a description of how the private equity firm is addressing and enhancing social value for their workforce.
- To include references to industry diversity targets and initiatives e.g. Level 20, Out Investors, 10,000 Interns Foundation.

Questions
Q24. Regarding the UK Element of the PE Firm disclosures: a. Is the conflicts of interest policy disclosure beneficial? b. Would any of the further descriptions noted above help to improve the understanding of the private equity firm?

5.4.3 Description of UK portfolio companies (see page 26 & 36 of the Benchmarking report)

Current requirements under the Guidelines

Private equity firms must provide a description of their UK portfolio companies. UK asset managers with >£5bn assets under management now must report under TCFD recommendations at a product level and may push down some of these requirements to portfolio companies.

BVCA assessment

The Guidelines go beyond AIM investment company requirements and listed asset manager requirements for the description of investments. These requirements are intended to help improve the understanding of the private equity industry in the UK and its contribution to the UK economy.

The Guidelines could be amended to highlight key areas of contribution to the UK economy through the private equity website disclosure requirements – going beyond a basic description of the portfolio of assets. Additional disclosures around employees and social contribution and environmental matters could help create value by improving a company's reputation, with the benefits this brings. Collecting and driving change based on social and environmental matters reported at the portfolio level can also be used to evidence a company's ESG credentials and how ESG considerations have been factored into an organisations strategy, decision making and operations. This may reduce the likelihood that ESG due diligence will result in a price adjustment and help evidence a consistent equity story to secure value at exit. Tracking these metrics can also improve operational efficiency and identify issues for early resolution.

The Guidelines could be updated to encourage private equity firms:

- to demonstrate the social value they create by reporting on social metrics for their UK companies.
- to demonstrate the positive environmental impact they have by reporting on environmental metrics for their UK companies.

Options to add social metrics in the description of UK portfolio companies	
Add UK portfolio annual report metrics to the private equity fund website	**Add potential additional UK portfolio non-financial KPI metrics to the private equity fund website**
Summary of relevant requirements: • Location of UK workforce: the headquarter city / town, region and country • Size of UK workforce: The full-time equivalents/ number of total employees • Salary costs: The total annual salaries and wages expense • Social security bill: The total annual social security expense • Pensions bill: The total pensions and employer contributions expense • Gender diversity: The % of women on the board, the % of women in senior management roles and the % of women in the workforce overall.	**Summary of EDCI (ESG Data Convergence Initiative) metrics** • Work-related accidents: The total injuries, fatalities and days lost due to injury • Employee survey: The existence of an employee survey, how results are processed, evaluated, communicated and responded to • Workforce diversity: The % of underrepresented groups on the board and in senior management and the % of underrepresented groups in the workforce • Employee turnover: total and voluntary turnover • Net new hires: total new hires **Potential additional non-financial KPIs from other sources** • Diversity pay gap: gender, ethnicity and disability pay gap information • Salary costs: The median employee salary, the mean employee salary • Apprentices: number of apprentices employed • Learning and development: The total number of learning hours spent by employees
Questions follow next table	

Additional environmental metrics in the description of UK portfolio companies

Add UK portfolio annual report metrics to the private equity fund website	Add potential additional UK portfolio non-financial KPI metrics to the private equity fund website
Summary of relevant requirements: • GHG Emissions: total Scope 1 GHG emissions and total Scope 2 GHG emissions • Emissions intensity: total Scope 1 and 2 emissions over a measure of productivity • Emissions reduction: the year-on-year reduction in Scope 1 and 2 emissions, the total reduction in emissions in Scope 1 and 2 emissions since the private equity fund took ownership	**Summary of EDCI metrics** • GHG emissions: total scope 3 GHG emissions • Renewable energy: proportion of renewable energy used • Net zero: existence of a strategy, existence of a target, existence of a transition plan **Potential additional non-financial KPIs from other sources** • Emissions intensity: total emissions over a measure of productivity • Emissions reduction: the year-on-year reduction in total emissions, the reduction in total emissions since the private equity fund took ownership • Water usage: total amount of water used • Waste production: total waste produced; proportion of waste diverted from landfill • Carbon price: implicit cost of carbon built into scenarios and investment decisions • Offsets: proportion of emissions offset • Nature: existence of a nature/biodiversity policies, metrics recorded to track impact
Questions	
Q25. When describing the UK portfolio of a PE Firm: a. What value, could be created by disclosing additional environmental and social metrics for UK companies? b. Is your organisation or portfolio company management already collecting this information? In what ways, if any, would these disclosures result in additional effort for your organisation and portfolio companies? c. What key considerations would need to be taken into account to enable effective and meaningful disclosure of these metrics?	

5.4.4 Categorisation of limited partners (see page 35 of the Benchmarking report)

Current requirements under the Guidelines

Private equity firms must provide a breakdown of the limited partners by category for the funds that invest or have a designated capability to invest in companies that would be UK portfolio companies for the purposes of the Guidelines, indicating separately a geographic breakdown between UK and overseas sources of capital and a breakdown by type of investor, typically including pension funds, insurance companies, corporate investors, funds of funds, banks, government agencies, sovereign wealth funds, family offices, endowments of academic and other institutions, private individuals and others.

BVCA assessment

Investors in the private equity industry are wide ranging, including sovereign wealth funds, insurance companies and pension funds. This requirement was put in place to increase the transparency of the type of institution that make up these private equity investors, including their geography and type, so that external stakeholders could learn more about these investors and therefore the wider private capital industry.

There is the option to remove this disclosure requirement, as this information can be found in BVCA research reports, such as the Report on Investment Activity. This would remove what could be a burdensome requirement for members, given the potential number of investors they have in different geographies. To improve the disclosure, the Guidelines could be updated to include a reconfirmation of the stakeholder value of complying with the limited partner categorisation disclosure requirements.

Questions
Q26. Does the categorisation of limited partners provide the reader with enough valuable and insightful information when balanced with the effort required to produce the disclosures?

6. Timeline for implementation

PERG intends to be flexible in its approach to implementation and will support portfolio companies complying with the amended requirements. PERG will discuss individual cases with portfolio private equity firms and UK portfolio companies where a year's grace may be warranted e.g. if the acquisition occurred close to the accounting year end and the date on which the amendments are first implemented.

Once the consultation period closes, PERG will publish a feedback statement in late Autumn/ early Winter. The feedback statement will present an overall assessment of the comments received during the public consultation and address the most relevant issues raised. There will be further engagement with members and other stakeholders following this. In January, the final amendments to the Guidelines alongside an amended Part V of the Guidelines will be published with the 17th Annual PERG Reports.

Further detail on the proposed project plan for implementing the amendments is set out below.

Portfolio Companies
PERG will monitor compliance this year and next as normal and therefore the changes will impact portfolio companies with accounting periods ending after 30 April 2025 (to be reviewed as part of the 2026 review).

Private equity firms
Amendments to private equity firm website disclosures will come into effect in 2025 and will be reviewed as part of the 2025 review and included in the eighteenth report.

6.1 The scope of PERG's review in 2024 and 2025

Any new disclosure requirements will therefore not apply to portfolio companies preparing annual reports that will be reviewed by PERG for its seventeenth or eighteenth reports. Any changes to the private capital firm website disclosure requirements will be required for the eighteenth report in 2025. PERG will review these disclosures in 2025.

Seventeenth report (2024)
The seventeenth report will be published in January 2025 and will cover accounting periods ending up to and including 30 April 2024 (process and review currently underway). The seventeenth report will include the publication of the amended Guidelines.

Eighteenth report (2025)
The eighteenth report will be published in January 2026 and will cover accounting periods ending up to and including 30 April 2025. As the eighteenth report will cover 2024 and some 2025 financial year end periods there will not have been sufficient time allowed for engagement and education. As such, we propose to not apply the disclosure requirements for portfolio companies for this report either. Portfolio companies may include the additional information for the eighteenth report if they wish and PERG will provide feedback.

6.2 The scope of the PERG's review in 2026

PERG will report on the compliance of portfolio companies with the amended Guidelines in January 2027, and this will cover portfolio companies that fall within the scope of the Guidelines between 1 January 2025 and 31 December 2025 and the portfolio company must meet the threshold criteria set out in Part V of the Guidelines (see appendix 2 below) as at 31 December 2025. PERG will monitor

compliance of the annual reports of covered portfolio companies with accounting years ending up to and including 30 April 2026.

Questions
Q27. Do you agree with the approach to implementing the new requirements? Is it clear and does it allow for enough time to educate and implement new requirements?
Q28. What further assistance should PERG and the BVCA offer firms following the refresh of the Guidelines?

Table 7.

Timetable for application of the amended Guidelines	2024 (17th annual report)				2025 (18th annual report)				2026 (19th annual report)				
	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2	Q3	Q4	
Initial engagement and consultation process				Ongoing discussion and support for private equity firms and portfolio companies									
Publish feedback statement													
Publish final amended Guidelines & education and engagement													
Population of portfolio companies covered by the amended Guidelines					Portfolio companies that are in scope or fall into scope in 2025 (reviewed in 2026)								
Accounting periods covered by the amended Guidelines							Periods ending after 30 April 2025 to periods ending 30 April 2026						
Private equity firms covered by the amended Guidelines													
Publication of PERG reports													19th report 2027

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7. Full list of questions

Scope of the Walker Guidelines

1. Does the current definition of a portfolio company appropriately capture large private equity investment activity? If not, would it be appropriate to continue using enterprise value or should other metrics (such as a revenue threshold) be considered in order to accurately capture relevant investment activity?
2. Do you agree that the definition of a private equity firm within the scope of the Guidelines accurately captures private equity firm activity and should remain the same? If not, how might you adjust the definition and why?
3. Should certain infrastructure assets be included in the Guidelines' scope?
4. Do the current review criteria set out in table 4 effectively identify private equity-like ownership of infrastructure assets that should be in scope of the Guidelines?
5. As there is a strong case for including companies that have grown into the current thresholds (for example, via buy and build growth strategies), should there be a mechanism to include those companies in the scope of the Guidelines? If so, how might the scope criteria change?
6. Should there be a mechanism to include those companies that have reduced in size? If so, how might the criteria change?

The narrative reporting requirements for portfolio companies [Section 4 of Part V]

7. Why might a portfolio company not include a Statement of Compliance with the Guidelines and what can the BVCA and PERG do to increase compliance with this requirement?
8. How should the additional disclosure requirements around ownership structure and management activity be updated to request further information on the active management of companies - either through portfolio company disclosures or private equity firm website disclosures?
9. When considering disclosure requirements around board composition:
    a. Would additional disclosure of the types of committees, their activities and board appointments enhance transparency and understanding of how portfolio companies are managed, what role private equity plays in their management and how private equity provides stewardship and expertise to a portfolio company?
    b. Of the given options, which would be the most proportionate in striking the balance between accessible information and demonstrating value to the reader? Are there alternative options that would better strike this balance?
10. When it comes to risk management and disclosures:
    a. Would additional disclosure around these topics enhance transparency and understanding for external stakeholders?
    b. Of the given options, which would be the most proportionate and provide the most valuable information to the reader of the annual report? Which, if any, align with what portfolio companies already do?
11. How do the options set out in the tables above align with a portfolio company's current environmental reporting practices and disclosures, if at all? How do the options align with your short-, medium- or long-term aspirations for environmental reporting?
12. How could these options create value for your organisation and key stakeholders and why?
13. What challenges might portfolio companies face in implementing these options with a materiality and sector lens and why?
14. In what way/s (if any) do you consider the current requirements are sufficiently enabling the sharing of information that is vital to this and other stakeholder groups?
15. In what way/s (if any) would adding the Companies Act requirements sufficiently enhance this area of disclosure?
16. How should the scope of strategy and business model disclosure be expanded to include areas such as purpose, values, and culture? Specifically, what aspects align best with existing disclosure practices, where might the most significant challenges and burdens arise, and in which areas can the greatest value be generated?
17. Of the options in table above which aligns most closely to your current reporting?
18. When considering diversity, equity and inclusion in portfolio companies:

   a. How do the options provided align with current portfolio company diversity, equity and inclusion disclosures?
   b. What are your short, medium and long term plans for disclosures of this nature and any challenges you foresee which could prohibit increased disclosures of this nature?
19. Given the already close relationship and alignment between the portfolio company and the private equity firm, how could the Guidelines be amended to require additional information around governance frameworks and board evaluation, as these requirements are designed to improve and influence good governance (and not transparency) in listed companies?
20. Should the requirement around corporate governance framework simply catch up with the Companies Act?

The private equity firm website disclosure requirements [Section 7 of Part V]

21. We would welcome views on the current website disclosure requirements. In particular, we would welcome views on potential difficulties with updating website information required, including on the practicalities of updating a website and on the specific requirements noted in Section 4.1.
22. How do current and the proposed options (given below) align with a private equity firm's general disclosure strategy?
23. In respect to investment approach disclosures, of the above options, which, if any, align with your current website disclosure? What would be complementary and beneficial to add to enhance disclosures on investment approach?
24. Regarding the UK Element of the PE Firm disclosures:
   a. Is the conflicts of interest policy disclosure beneficial?
   b. Would any of the further descriptions noted above help to improve the understanding of the private equity firm?
25. When describing the UK portfolio of a PE Firm:
   a. What value, could be created by disclosing additional environmental and social metrics for UK companies?
   b. Is your organisation or portfolio company management already collecting this information? In what ways, if any, would these disclosures result in additional effort for your organisation and portfolio companies?
   c. What key considerations would need to be taken into account to enable effective and meaningful disclosure of these metrics?
26. Does the categorisation of limited partners provide the reader with enough valuable and insightful information when balanced with the effort required to produce the disclosures?

Timeline for implementation

27. Do you agree with the approach to implementing the new requirements based on the above table? Is it clear and does it allow for enough time to educate and implement new requirements?
28. What further assistance should PERG and the BVCA offer firms following the refresh of the Guidelines?

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Appendix 1 – Definitions and links to documents

The Guidelines or Walker Guidelines	Guidelines for Disclosure and Transparency in private equity, November 2007 Sir David Walker's final guidance following an independent review in disclosure and transparency in the private equity industry. The consultation document and guidelines are available here.
The Group	The Private Equity Reporting Group The Group was created in 2007 as an independent body to monitor the private equity industry's compliance with the Guidelines. Further detail on the membership of the Group is available here.
BVCA	The British Private Equity and Venture Capital Association.

Abbreviation	Meaning
FRC	Financial Reporting Council
FCA	Financial Conduct Authority
LR or FCA LR	Listing Rules
The Code	The UK Corporate Governance Code
DTR	The FCA Disclosure Guidance and Transparency Rules
s172	Section 172, Companies Act
DE&I	Diversity, Equity & Inclusion
AIM	Alternative Investment Market
TNFD	Task Force on Nature-Related Financial Disclosures
TPT	The Transition Plan Taskforce
UK (SRS)	Sustainability Reporting Standards
SECR	Streamlined Energy & Carbon Reporting
ISSB	International Sustainability Standards Board
GHG	Greenhouse Gas
CSRD	Corporate Sustainability Reporting Directive
CSDDD	Corporate Sustainability Due Diligence Directive
ESRS	European Sustainability Reporting Standards
TCFD	Task Force on Climate-Related Financial Disclosures (UK-based Companies Act legislation)
CFD	Climate-Related Financial Disclosures (UK-based Companies Act legislation)

Reports published by the PERG on its monitoring activities, the Q&A published in the Group's publication and the prior editions of the Good Practice Guide, prepared by PwC, are available on the Group's website accessible here.

Appendix 2 – Part V of the Guidelines

You can find Part V of the Guidelines here.