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*newsletter*

This newsletter provides a summary of FS07/3. Please see the section 'Who should read this paper?' to see if FS07/3 is relevant to you.

Financial Services Authority

# Private equity: a discussion of risk and regulatory engagement

Feedback on DP06/6

## Why are we issuing the Feedback Statement?

This Feedback Statement (FS) reports on the comments we received in response to Discussion Paper (DP) 06/6, 'Private equity: a discussion of risk and regulatory engagement' and our responses to them. We also set out our proposed next steps to achieve a proportionate level of regulatory engagement with private equity markets.

## Who should read this paper?

This paper is addressed to investment managers and advisers, leveraged finance providers, participants in the syndicated debt markets, wider market participants, commentators and analysts.

It is also explicitly addressed to the Treasury, the Bank of England, the European Commission, Central Banks and other regulatory organisations around the world.

## What is the background to this?

In 2006 we conducted a wide-ranging review of the UK private equity market to determine the optimal level and form of regulatory engagement. We communicated the findings of this review in DP06/6 to:

- stimulate informed discussion among public policy makers and industry participants about the development of the private equity market;
- clarify our current assessment of the risks posed by the private equity market to our statutory objectives;
- inform key stakeholders about actions to mitigate these risks that are already in place at both a domestic and global level – highlighting the significant variation in national regulatory regimes;
- identify further proportionate risk mitigation steps we could consider taking; and
- ask for views from stakeholders that would help us reach a conclusion on whether these steps merit further consideration.

## How is this paper set out?

In DP 06/06 we set out seven risks to our statutory objectives that we had identified during our thematic review of private equity markets. We set out seven questions around these risks and the regulatory approach we proposed in response. This FS has been structured around those questions:

- Chapter 1 provides an executive summary on the key areas of the statement;
- Chapter 2 gives an overview of responses, discusses a number of key themes and outlines our regulatory remit in the context of the wider market;
- Chapter 3 summarises detailed responses to the specific questions raised in DP06/6; and
- Annex 1 provides a list of respondents to DP 06/6 excluding those who asked for their responses to remain confidential.

## What happens next?

We have already created an alternative investments centre of expertise which is responsible for the relationship management of higher impact private equity and hedge fund managers. This has been generally well received by the firms concerned and we anticipate further benefits to our regulatory approach as the team becomes fully established.

The FS outlines a further set of measures that we will be implementing, including:

- enhancing financial reporting requirements for private equity firms;
- regularly surveying leveraged lending and distribution;
- engaging in a targeted fact-finding exercise to understand the issues and risks inherent in dealing with financial distress and default in a heavily traded corporate name; and
- undertaking further thematic work regarding identifying and mitigating conflicts of interest within private equity markets.

This Feedback Statement reports on the main issues arising from DP06/6,  
*Private equity: a discussion of risk and regulatory engagement.*

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## How can I get the full paper?

You can download the full Feedback Statement from:  
[www.fsa.gov.uk/pages/Library/Policy/DP/2007/fs07\\_03.shtml](http://www.fsa.gov.uk/pages/Library/Policy/DP/2007/fs07_03.shtml)

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