

## WORKING PAPER PRESENTATION

### Multi-Level Agency Costs in Private Equity

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via Zoom

#### ABSTRACT

Private equity investing and the relationship between the general partner (GP) and the limited partners (LPs) are plagued with the risk of agency costs, so the markets have developed several mechanisms to align the incentives of the funds and the investors, most importantly through disclosure and limited partnership agreements. However, such agreements do not always deal with the most important agency conflicts. This may support the case for more specific regulation. From the fund's perspective, there are also other relationships that affect its internal dynamics. The first is the need for interest alignment between the fund (and the GP) and the managers of the portfolio companies. The other ones are the risk of financial agency costs and the risk of strategic creditor actions. All of these are governed primarily by contracts. In this paper, I evaluate the game-theoretical framework based on the analysis of the GP-LP investment-effort relationship supported by the game-structure of the other relationships. I argue that in most cases the LPs are able to solve the GP effort maximisation problem making a part of fund regulation unnecessary. However, private ordering may not work if the level of undisclosed private benefits cannot be determined ex ante, in case of 'missing markets' or in cases of high fund leverage. I will propose in the paper certain regulatory refinements that are likely to make a national fund regulation more competitive.

#### ABOUT THE SPEAKER



Mika completed his Masters degree at the University of Helsinki, and his M.Jur(Distinction) as well as his M.St at the University of Oxford. He completed his DPhil in Oxford in 2020.

Mika has extensive experience, on partner level, of M&A, corporate and financial transactions law and has worked for a number of years in European cross-border arrangements. He has been ranked throughout 2011–2019 as a leading Banking and Finance and M&A lawyer by Chambers Global and Europe, IFLR1000 and Legal 500. He has advised private equity and hedge funds, financial institutions and corporates in numerous financial and corporate transactions and is a specialist in structuring and negotiating several types of cross-border arrangements. Mika is also engaged in the work of combining financial law and regulation with game theory and computer science. He has been an associate editor of the Oxford Business Law Blog. He has also earlier acted as the Co-governor of the Oxford Financial Law Discussion Group.

*This event is by invitation only. For enquiries, please email [cbfl@nus.edu.sg](mailto:cbfl@nus.edu.sg).*

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