Comments Template on EIOPA-CP-15-003 Discussion Paper on Infrastructure Investments by Insurers		Deadline 26.April.2015 23:59 CET
Company name:	European Private Equity and Venture Capital Association (EPCA)	
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	Please follow the instructions for filling in the template: ⇨ Do **not** change the numbering in column "Reference". ⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph, keep the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below. ○ If your comment refers to multiple paragraphs, please insert your comment at the first relevant paragraph and mention in your comment to which other paragraphs this also applies. ○ If your comment refers to sub-bullets/sub-paragraphs, please indicate this in the comment itself. **Please send the completed template to CP-15-003@eiopa.europa.eu, in MSWord Format, (our IT tool does not allow processing of any other formats).** The paragraph numbers below correspond to Consultation Paper No. EIOPA-CP-15-003.	
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Question 7	**Introduction** The European Private Equity and Venture Capital Association (EVCA) welcomes the opportunity to respond to EIOPA consultation on infrastructure investments by insurers. The EVCA's membership covers all private equity activity, from early-stage venture capital through to large private equity firms and funds investing in infrastructure. Our members also include institutional investors, such as pension funds and insurance companies, who are a key source of long-term financing in Europe and who invest in private equity, venture capital and infrastructure funds. We represent 650 member firms and 500 affiliate members. Our infrastructure members provide much-needed capital for some of Europe's most important infrastructure companies and developments, helping to fund energy, transport facilities, networks and other essential building blocks for the future. That investment also provides stable long-term and predictable returns for the pensions and savings of millions of Europeans. Infrastructure has a relatively low correlation with other asset classes and offers protection against inflation and economic cyclicality. More importantly, yields are also steady and have good long-term visibility. Generally, infrastructure funds share many of the characteristics of private equity funds in terms of the fundamentals of the fund structure and the relationship between investors (limited partners) and fund managers (general partners). However infrastructure funds will invest only in companies engaged in the operation of infrastructure and the provision of services in this area, and may also have an even longer investment horizon. Infrastructure fund managers usually make equity investments in private, un-listed companies running infrastructure projects (typically during its operational phase), which have, or have the prospect of, strong, reliable, protected cash flows and significant opportunities for value creation. They take a long term investment approach, often holding investments for a 10-15 year period and generally invest in large,	

brownfield field projects. However in some cases they also make investments in greenfield projects.

Although infrastructure fund managers make investments solely into infrastructure they may diversify the fund's exposures by investing in the full range of different types of regulated and unregulated infrastructure assets. These include gas and electricity networks, transport infrastructures such as toll roads, bridges, tunnels, railways, airports, ports and parking facilities as well as renewable energy assets.

Comments

Given the positive role that infrastructure investments, including investments via infrastructure funds, can play in helping to boost growth and jobs in Europe, the EVCA welcomes EIOPA's efforts to explore the possibility to introduce a specific standard formula treatment for infrastructure investments and ensure a more risk-sensitive treatment of the asset class.

However, in considering the consultation paper we felt that EIOPA had not been sufficiently clear about some of the key concepts. In some cases the paper talks about "infrastructure projects" while in others it refers more broadly to "infrastructure", without providing any indication of whether these two concepts are synonymous.

As a consequence it is difficult to appreciate the intended scope of the consultation and to asses what types of investment in the infrastructure domain EIOPA may consider as eligible for specific treatment under the Solvency II standard formula.

The paper does not provide clarity on whether EIOPA see infrastructure in its broadest context, encompassing the entire economic life of the asset and including *both* the *construction* phase *and* the subsequent *operational* phase. Without such clarity the EVCA is not in a position to properly assess the potential implications of EIOPA's different proposals nor to offer a clear answer to the specific questions that have been posed.

In our view it is important to recognise that the provision of infrastructure services requires both the construction of the physical assets and their subsequent operation. Separate economic entities may be responsible for each of these, but both are necessary for the end-user to be able to benefit from the *service* that is the ultimate purpose of the infrastructure in question. Investment in the operation of infrastructure can lead to a higher quality service, to more efficient use of the physical asset, and to economies.

Any discussion about how to develop Europe's infrastructure, and the role of institutional investors such as insurance companies in this, needs to take account of these two dimensions and of the existence of a range of different financing options (including via fund structures) by which capital can be put to work.

Insurers' exposure to infrastructure can therefore take many forms and we believe that any definition should not focus solely on direct investments in infrastructure projects but should also take into account other investment vehicles, including infrastructure funds.

Given that infrastructure investments via fund structure can share some similar characteristics as direct infrastructure investments and can have equally important role to play in providing facilities to the public as well as in boosting the EU economy they should be able to benefit from the same specific treatment under Solvency II framework.

Moreover, if it were decided that infrastructure funds should fall under the definition of "infrastructure" determined for the purpose of Solvency II framework, the market-consistent approach should not be limited to a pure mark-to-market valuation for this type of investments as this is not always appropriate, or indeed technically correct. It is necessary to ensure that a reasonable approach to valuing investment in infrastructure is taken within the framework of a market consistent approach. When valuing assets which are not marketable it is normal to modify the approach in order to maintain the integrity of the valuation methodology.

Conclusion

We regret that EIOPA's paper does not provide sufficient clarity on the intended scope of the consultation. It is difficult to asses what type of infrastructure investments EIOPA intended to capture by the consultation and as a consequence we are not in a position to offer a clear answer to EIOPA's specific questions.

	Nonetheless, we encourage EIOPA to recognise that the provision of infrastructure services requires both the *construction* phase and the subsequent *operational* phase. Consequently, we strongly recommend that any EU debate on how to define *"infrastructure"* needs to take account of the two abovementioned dimensions and of the existence of a range of different investment vehicle, including infrastructure funds. Given that infrastructure investments via fund structure and direct infrastructure investments may share similar characteristics and play equally important role in providing much needed capital for companies in Europe, we think they both should be considered as eligible for the specific treatment under Solvency II framework. We would be keen to engage with EIOPA in order to further explain the view of the EVCA's infrastructure members and provide necessary information on infrastructure funds to assist in ensuring that EIOPA's suggestions do not have any potential adverse consequences for the EVCA members.	
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