Comments Template on EIOPA-CP-15-004 **Consultation Paper on** **the Call for Advice from the European Commission on the identification and calibration of infrastructure investment risk categories**		**Deadline** **09.August.2015** **23:59 CET**
Company name:	European Private Equity and Venture Capital Association (EVCA)	
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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-15-004@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-15-004.	
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Section 3.1.	I. **Introduction** The European Private Equity and Venture Capital Association (EVCA) welcomes the opportunity to respond to EIOPA's consultation on its advice on the identification and calibration of infrastructure investment risk categories. 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.

II. Comments

The EVCA appreciates EIOPA's willingness and efforts to explore the possibility of introducing a specific standard formula treatment for infrastructure investments and ensure a more risk-sensitive treatment of the asset class.

We think however that it is important to stress again that insurers' exposure to infrastructure can take different forms. Most relevant is that while some insurers undertake direct, project by project investing, they also typically gain exposure to these projects indirectly via unlisted infrastructure funds. For some insurers such funds are the main (or even only) route through which investment in infrastructure projects is made. Although the underlying assets may be the same, gaining exposure through funds (and more specifically through a portfolio of funds) will represent a lower risk to the investor compared with investing directly in individual projects.

Consequently, any EU definition of infrastructure for the purposes of solvency requirements should not focus solely on direct investments in infrastructure projects but should also take into account indirect investment in projects through infrastructure funds. These funds have an equally important role in the investment strategy of investors and are the vehicles through which significant amounts of capital are channelled into infrastructure projects to build the necessary facilities for the public and to boost the EU economy. The specific treatment of infrastructure under Solvency II framework ought to be able to reflect the reality of how investors invest in it.

There is a second issue to consider in the definition of “infrastructure investments”. Although EIOPA’s advice to the European Commission focuses on debt and equity investments, the proposed criteria for the identification of eligible "infrastructure investments” appears to restrict the scope of infrastructure only to “infrastructure project finance" and excludes, without a convincing rationale, all corporate entities engaged in infrastructure operational activities.

As a consequence, all equity investments in entities which do not qualify as “infrastructure project entities”, including equity stakes in typical investee companies of an infrastructure fund (toll roads, gas grids, ports, etc.) and in turn in the infrastructure funds themselves, would not be captured by the proposed definition. In turn the infrastructure funds themselves, which provide the finance for these projects will be excluded.

There is no reason to differentiate between investments in the construction phase and operational phase, or indeed between direct investments in these situations and indirect investment in these projects. The underlying assets make equivalent contributions to the delivery of a service to end-users as investment in the construction of (new) physical assets. Infrastructure should be seen in its broadest context, ensuring that operating companies and the infrastructure funds that invest in them are captured by the definition alongside the direct investment in the construction phase of an infrastructure project.

III. Possible solution

One option to facilitate the much-needed provision of funding to infrastructure via infrastructure funds is to include these unlisted vehicles in the definition of infrastructure and to therefore enlarge the scope of the definition of infrastructure investments beyond "infrastructure project finance", as explicitly considered by EIOPA itself in paragraph 1.52 and 1.53 of the current consultation paper.

It would be appropriate for investment at both the construction and operational phases of an infrastructure project to be included in the definition (whether that investment be directly in a specific project, or indirectly in a number of projects via a portfolio of funds, each of which invest in a number of infrastructure projects).

We would recommend EIOPA extends the specific treatment for infrastructure under Solvency II to closed–end and not significantly leveraged alternative investment funds (AIFs), which make investments exclusively/predominantly in infrastructure assets and the companies operating them, as defined in EIOPA's advice. This would simply reflect the reality that many investors invest in these defined infrastructure assets both directly and indirectly. We would further recommend that EIOPA included projects at the operational phase of their life in the definition of infrastructures assets.

This would broaden the scope of infrastructure investments that could qualify for the specific standard formula treatment but only in the sense that it would ensure that those insurers who choose to invest in infrastructure via the less risky route of infrastructure funds are not penalized by higher capital charge compared to those who have direct infrastructure investments. Prudential regulation should not differentiate between direct investment and investment via a fund structure unless there is clear evidence to justify a difference in treatment, such as the lower risk of investing via a well-diversified portfolio of funds. It would also ensure that the anomaly was not created in which the treatment of investment in infrastructure assets in the construction and operational phases of their life were treated differently: there would not seem to be a huge benefit of investing to build an infrastructure project, if there were then no investment to enable the facility to operate.

	IV. Conclusion We welcome the recognition that insurers could be an important source of funds for infrastructure investments as their long-term nature makes them highly suitable for their risk profile and we appreciate EIOPA's efforts to develop a separate asset class under the Solvency II framework. We regret however that EIOPA's proposed definition of infrastructure is in fact restricted to direct debt and equity investments in infrastructure projects at the construction phase and does not provide sufficient flexibility to cover either investment in projects during the operational phase or indirect investment in the funds which provide the finance for these projects. We therefore encourage EIOPA to reconsider its approach and take account of the existence of a range of different investment routes, including infrastructure funds. We stand ready to engage with EIOPA and to provide further information on this subject.	
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