Press Release

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CREATING LASTING VALUE

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EVCA warns proposed new pension fund regulation could destroy investment in long-term growth

- Application of capital adequacy regulation to pension funds could increase systemic risk
- EVCA calls for a thorough and comprehensive impact assessment of full macro-economic implications of proposed regulation

In a response, submitted today to the European Insurance and Pensions Authority ("EIOPA"), on the proposed reform of the European pension fund system, EVCA warns of serious and significant unintended consequences, including a flight by pension funds from long-term growth asset classes such as infrastructure and private equity.

The current Institutions for Retirement Provision ("IORP") Directive covers the retirement provision of over 25% of the working population of the European Union. The European Commission is now proposing regulation for pension funds similar to the capital adequacy regulations that apply to the banking and insurance sectors.

Under Solvency II, insurers' solvency capital requirements are calibrated to correspond to the value at risk, marked to market, over a 12 month period. As a consequence, much of the focus is on the liquidity of investments rather than the capital at risk. If applied to pension funds, such requirements would have two highly undesirable effects: first, they would diminish pension funds' ability to be funded appropriately for pension liabilities as they fall due; second, they would significantly reduce the supply of investment available for capital projects and, through the private equity and venture capital funds in which pension funds invest, for investment in small to medium sized enterprises.

The exaggerated risk weightings applied to private equity investments, currently in place under insurance and banking regulation, serve to exacerbate the problem. In recent years, banks have sold €20bn of private equity portfolios at an estimated market discount of 15% to 20%. This will have resulted in a value erosion of €3bn to €4bn. Applying this to pension funds would, in the short-term, destroy enormous value for future pensioners and, in the long term, prevent pensioners benefitting from the value creation associated with growth asset classes.

Karsten Langer, EVCA Chairman, says: "In their efforts to minimise systemic risk, regulators are in danger of negating the stabilising effect of long-term investors in global financial markets and reducing the ability of institutions to invest in the real economy. The European Commission, by committing to reviewing the relationship between regulation of the banking and insurance sectors and investment in venture capital, has already taken the first steps to recognising the damaging effects of current capital adequacy-based regulation on economic growth. An impact assessment covering the full macro-economic implications of the review of the IORP Directive must be taken prior to issuing any proposals for reform."

EVCA provided its response to the European Commission's call for advice to EIOPA on the review of Directive 2003/41/EC. For the full call for advice please see https://eiopa.europa.eu/consultations/consultation-papers/index.html

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European Private Equity & Venture Capital Association

EVCA is the voice of European private equity and venture capital.

We promote and protect the interests of our more than 1,300 members, to ensure they can conduct their business effectively. EVCA engages policymakers and promotes the industry among key stakeholders, including institutional investors, entrepreneurs and employee representatives. EVCA develops professional standards, research reports and holds professional training and networking events. EVCA covers the whole range of private equity, from early-stage venture capital to the largest buyouts.

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