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LONG TERM INVESTORS

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On behalf of the Public Affairs Executive (PAE) of the EUROPEAN PRIVATE EQUITY AND VENTURE CAPITAL INDUSTRY

Response to Commission consultation on the revision of the Solvency II Delegated Acts

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Invest Europe, the association representing both private equity fund managers and investors in the asset class such as insurers, has long been in favour of reviewing the Solvency II risk-weights for unlisted equity. The current calibration does not appropriately capture the real risk of investing in long-term, closed-end private equity funds, and therefore inappropriately disincentivises insurers from investing in the asset class.

In light of this, we regret the Commission fails to take this opportunity to reconsider the current risk calibration for investments in equity funds. The Solvency II approach remains fundamentally inappropriate for insurers gaining exposure to this asset class by building a portfolio of funds, as it does not take into account the benefits of diversification and the expertise of the fund manager. We therefore hope the Commission will, as part of the upcoming review of the Solvency II Directive, move away from a method based on a look-through to the individual underlying companies. We nonetheless appreciate the clarification made to Article 168 that, for assessing whether a fund is leveraged, the exposure of the AIF should be calculated in accordance with the commitment method.

As long-term investors, our members welcome the creation of a new category of long-term equity investments subject to a reduced shock of 22% in Article 171a. However, this Article will exclude investments made via fund structures (principally because funds are not always "companies" under national law). Given there is no economic or policy reason to justify the exclusion of investments through funds from the scope of this Article, modifying the proposal to include a clear reference to collective investment undertakings would be essential from our point of view. Excluding investments via funds from the new category would run counter to the overall objective of the Capital Markets Union project and would undermine its specific efforts to boost venture capital in Europe such as the new VentureEU fund-of-fund programme and the revised EuVECA framework.

In addition, the proposed average holding period excludes from the scope investments that are widely recognised as long-term by insurers, do not have redemptions rights and are not affected by short-term volatility. Nearly all private equity fund investments would on average fall outside the proposed 12-year period as insurers will typically commit capital to the fund for a period of 10 years. It is also important to stress that only the <u>expected</u> average period of investment <u>in the</u>

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fund (and not in underlying companies) will be appropriate to determine the length of the investors' assets commitment, given the insurer will have stakes in the fund and not in the companies in which the fund invests.

Moreover, we believe that there is no justification to restrict this category to companies based in the EEA from a prudential perspective. A reference to OECD countries, as is currently the case for the infrastructure categories, would be far more appropriate. In order for the provisions to be legally sound, the Commission should also determine whether the *fund* the insurer has invested is also subject to this geographic criterion (by inserting a reference to the fund in this paragraph).

Finally, the underlying objectives of the ring-fencing condition should be spelled out. They should only ensure there is a distinction between the subset of equity investments, where all assets are intended to be held until the liquidation of the fund, and the rest of the insurers' portfolio. The Commission should make it clear that investments in a private equity fund would meet the conditions to be deemed ring-fenced provided investments are made through special purpose vehicles for managing private equity investments.

Contact

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About the PAE

The Public Affairs Executive (PAE) consists of representatives from the venture capital, mid-market and large buyout parts of the private equity industry, as well as institutional investors and representatives of national private equity associations (NVCAs). The PAE represents the views of this industry in EU-level public affairs and aims to improve the understanding of its activities and its importance for the European economy.

About Invest Europe

Invest Europe is the association representing Europe's private equity, venture capital and infrastructure sectors, as well as their investors.

Our members take a long-term approach to investing in privately held companies, from start-ups to established firms. They inject not only capital but dynamism, innovation and expertise. This commitment helps deliver strong and sustainable growth, resulting in healthy returns for Europe's leading pension funds and insurers, to the benefit of the millions of European citizens who depend on them.

Invest Europe aims to make a constructive contribution to policy affecting private capital investment in Europe. We provide information to the public on our members' role in the economy. Our research provides the most authoritative source of data on trends and developments in our industry.

Invest Europe is the guardian of the industry's professional standards, demanding accountability, good governance and transparency from our members.

Invest Europe is a non-profit organisation with 25 employees in Brussels, Belgium.

For more information please visit www.investeurope.eu.