AIFI

Italian Private Equity, Venture Capital and Private Debt Association

Response to the ECB Consultation "*Draft recast Regulation on investment funds statistics*"

About the Association

AIFI is the association representing private equity, venture capital and private debt fund managers active in the Italian market. These fund managers typically invest in non-listed companies in different stages of development pursuing objectives of growth through different strategies including internationalization, acquisitions, strengthening of corporate governance and sustainability features. Furthermore, AIFI gathers an important network of institutions, institutional investors and professionals interested in the development of the industry. Moreover, the association carries out institutional and advocacy activities by participating in legislative and institutional processes and maintaining an ongoing dialogue with national and international authorities with the aim of establishing a favorable framework.

Private capital funds

Private capital funds are typically closed-ended alternative investments funds (AIFs) reserved to professional investors. They constitute an important instrument to facilitate the **flow of capital towards the entrepreneurial fabric**. Therefore, these funds are effective in supporting the real economy and pursuing sustainable and digitalization objectives that are among the main goals set by the European Union. AIFs, although controlled by an asset management company, remain independent at an organizational and financial level. The **valorization of human resources** is a key element in private capital investments: a recent research conducted by AIFI and Mindful Capital Partners[1] shows that private equity backed companies registered an 8% employment growth compared to the year of the investment – 34% if only SMEs are considered. Moreover, for companies divested between 2013 and 2021 the employment rate increased by 41%.
When elaborating the relevant legislative framework, it is important to take into account the peculiar characteristics of private capital funds:

- they are **closed-ended** with a **long-term** investment horizon, constituted for a period of time which is typically ten years. Unlike liquid assets, this implies the necessity of specific methodologies to assess the performance during the life of the fund;
- they are **illiquid**, which means that normally the whole amount of capital is conferred at the moment of the constitution of the fund and the redemption is allowed in accordance with specific, periodic deadlines;
- they **do not use leverage**, so they do not borrow more than the capital conferred at the moment of the constitution of the fund.

Internationally, private capital funds are usually participated – 70% – by institutional investors (pension funds, insurance companies, banks, sovereign wealth funds, funds of funds, etc.…), and for the remaining 30% by family offices and entrepreneurs. Therefore, the main investors involved have either a certain experience and competence regarding

[1] AIFI-Mindful Capital Partner (link).

financial instruments or adequate financial resources and professional requirements (high net worth individuals).

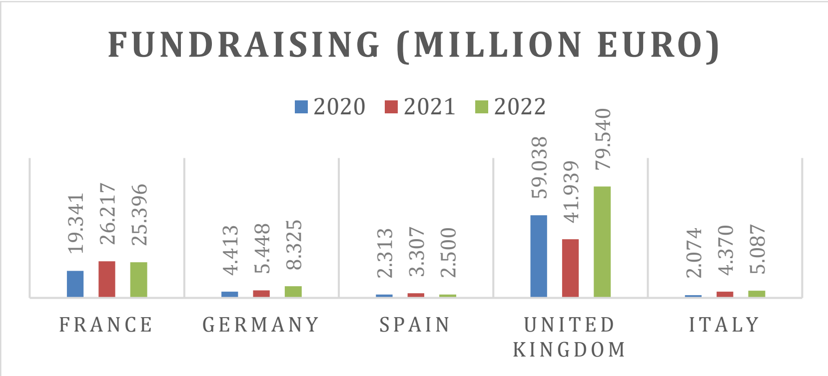
The relevance of private capital funds in the national ecosystem

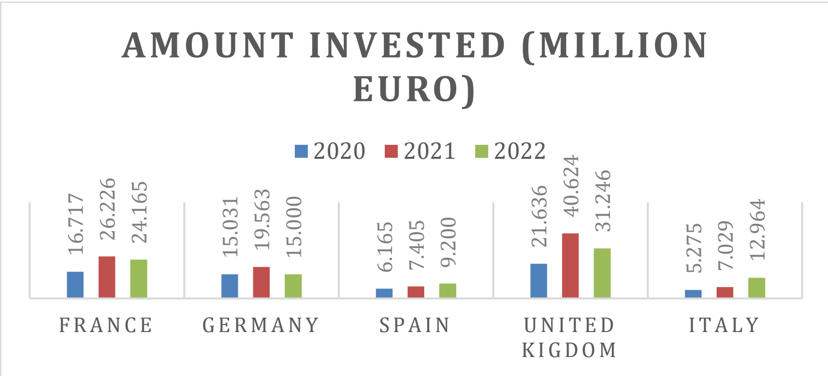
Private equity, venture capital and private debt funds constitute a limited part of the whole **collective asset management** business in Italy: the Bank of Italy (Italy's NCB) estimates that their total assets under management amount at EUR 36 billion, representing only 6% of the total collective asset management and only a quarter of the overall closed-ended Italian AIFs, where the majority is still prerogative of real estate.
The comparison with open-ended funds is unequal too, considering that their total assets are estimated at EUR 236 billion.[2]
In sight of these data, it is evident the necessity to further stimulate the growth of the private capital sector, that could be slowed by the implementation of a non-suitable and burdensome legislative framework.

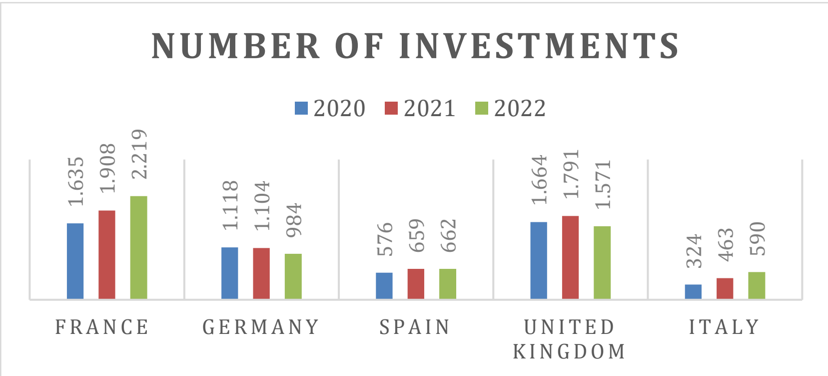
International comparison

From a comparison with other European countries, it emerged that the investments of Italian private capital provide a small **contribution to the national economy**. As a matter of fact, in 2022 they constitute only the 0,357% of the Italian GDP, with a little increase from the previous year (0,290%), but still below the European average (0,623%).[3] In terms of comparison, those investments represent 1,08% of the French GDP and 1,8% of the UK GDP. Regarding the **fundraising** activity, in 2022 Italian funds raised – considering the resources from both the national and the international market – more than EUR 5 billion, reaching EUR 12 billion with the inclusion of international GPs with a stable basis in Italy. The national component of fundraising is only EUR 2 billion.[4]
Italian data on **investments**[5] and **fundraising** are lower than other European countries like France, Germany, UK.[6] In 2022 in France were made 2,219 investments, for a total amount of EUR 24 billion; in UK 1,571 investments for a total amount of EUR 15 billion; Spain was the only country where investments were close to Italy (662 investments for a total amount of EUR 9 billion), compared with the 590 investments realized in Italy, for a total amount of almost EUR 13 billion. Fundraising followed the same trend: in 2022, in Italy the total funds raised amounted at EUR 5 billion, in France more than EUR 25 billion, in Germany more than EUR 8 billion and the UK more than EUR 79 billion. Only in Spain the fundraising was lower than Italy, with a total amount slightly higher than EUR 2 billion. The trend of the last three years has been constant, with the Italian data always lower than the others, and with a growth clearly lagging behind the European average.

[2] Bank of Italy, *Annual report for 2022* (link).
[3] Source: Invest Europe.
[4] Source: AIFI.
[5] Number of investments refers to the number of target companies.
[6] Source: Invest Europe for European data, AIFI-PwC for Italy.







When analyzing the participation of **institutional investors**, it is important to underline that, notwithstanding the growing interests showed in recent years by pension funds and insurance companies, the fundraising data in Italy are still lower than other European countries. For example, in 2022 in France the insurance sector invested EUR 5 billion in private capital while only EUR 400 million in Italy.[7] The same goes for pension funds: in France in 2022 pension funds invested almost EUR 3 billion, while in Italy around EUR 731 million.

[7] Source: Invest Europe for European data, AIFI-PwC for Italy.

General comment on the consultation

The Association welcomes the will of the European Central Bank to better understand, at statistical level, the materiality and operational characteristics of mutual investment funds, also in light of the impacts this industry have on the measures on monetary policies. Nevertheless, since the private capital market in Italy constitutes just a little part of the whole asset management industry, we would like to present some general comments.

Firstly, we highlight the **low relevance, from a statistical point of view, of private capital funds**, regarding both the Italian market of mutual investment funds, and other European private capital markets. As a matter of fact, the European private capital market is led by few countries, namely France and UK: of the EUR 130 billion of euro of investments realized in 2022, EUR 104 billion stem from these two countries.
Therefore, as we presented earlier, the relevance of our market in respect of the overall statistical phenomenon is minimum.
Moreover, we would like to take the opportunity to point out another peculiarity of the Italian market - that differentiates it from the rest of Europe - regarding **valuation methodologies**. In fact, in Italy private equity and venture capital firms use a calculation methodology strictly connected to the size of the assets managed, not linked to market performances. This can be misleading and introduces a double reporting that increases the burden on GPs. Furthermore, the use of asset size does not represent the real market value of participations, especially regarding venture capital funds, and it has a double negative effect for investors:

- the devaluation in the investors' financial statements of their shares in Italian funds, even if market values are equal or higher than investments;
- the potential sale of share on the secondary market that would be subject to a strong reduction compared to the actual market value.

For this reason, Italian GPs usually undertake also a valuation in accordance with international guidelines, referred to the concept of **fair value**, that is more suitable with international standards and offers a better protection of Italian funds' investors. However, the adoption of this additional method represents a further complication of the information to provide in accordance with the statistical set requested, with the risk of being misleading.
Moreover, we underline the need to ensure a level playing field within the European Union not imposing requirements that could be too strict and burdensome especially for the weakest parts of the market. In this respect, we propose the application of a **proportional approach in terms of communication requirements and regulation**. Therefore, it is necessary to avoid the introduction of any element that could result in increasing the gap between European countries. As a consequence, we further highlight the need to properly cater the reporting obligations in accordance with the Regulation object of this consultation, firstly because of the limited size of Italian private capital players both at national and European level and secondly because of their low impact on the overall financial ecosystem.

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Regarding, in particular, the introduction of a **monthly reporting** requirement, it would not add any further and significant information since private capital GPs do not conduct internal evaluation every month. This is linked to the nature and characteristics of the investments, which are typically directed to non-listed enterprises. Therefore, the reporting timeline requested by the Regulation would not provide relevant data.

The Association suggests:

- an amendment to article 10, paragraphs 5 and 6, in order to **increase the derogation** that NCBs are entitled to grant, by ensuring the protection of the specificities of the single markets, especially for countries with markets characterized by a limited size;
- alternatively, the introduction, at article 10, of a **European quantitative threshold**, aimed at excluding closed-ended AIFs reserved to professional investors from a monthly reporting requirement. As an example, we suggest the threshold which identifies the so-called "*significant managers*", set at EUR 5 billion, from the *2019 Regulation of Bank of Italy implementing articles 4-undecies and 6, paragraphs 1, letters b) and c-bis) of TUF*. [8]

Proposed amendments to article 10, paragraphs 5 and 6

Main proposal

- 5. NCBs may grant derogations regarding statistical information ~~that is not security-by-security information~~ as specified in Annex I, Tables 1, 2, **3, 4 and 5** to non-UCITS IFs that are subject to national accounting rules that allow the valuation of their assets less frequently than monthly. Where NCBs grant such derogations, non-UCITS IFs shall report that statistical information in accordance with the frequency with which they are required to value their assets under national accounting rules, but as a minimum on an annual basis. ~~NCBs may not grant derogations to non-UCITS IFs with respect to statistical information that is not security-by-security information specified in Annex I, Table 4 and Table 5.~~
- ~~6. NCBs may grant derogations regarding security-by-security information to non-UCITS IFs that are subject to national accounting rules that allow the valuation of their assets less frequently than monthly. Where NCBs grant such derogations, non-UCITS IFs shall report security-by-security information specified in Annex I, Tables 3 and 4 in accordance with the frequency with which they are required to value their assets under national accounting rules, but as a minimum on an annual basis. NCBs may grant such derogations for the periods to which the statistical information relates up to and including December 2026.~~

Alternative proposal

- 5. NCBs may grant derogations regarding statistical information ~~that is not security-by-security information~~ as specified in Annex I, Tables 1, 2, **3, 4 and 5** to non-UCITS IFs **whose asset under management is below 5 billion euro** and are

[8] Legislative Decree no. 58/1998 (link).

subject to national accounting rules that allow the valuation of their assets less frequently than monthly. Where NCBs grant such derogations, non-UCITS IFs shall report that statistical information in accordance with the frequency with which they are required to value their assets under national accounting rules, but as a minimum on an annual basis. ~~NCBs may not grant derogations to non-UCITS IFs with respect to statistical information that is not security-by-security information specified in Annex I, Table 4 and Table 5.~~

- ~~6. NCBs may grant derogations regarding security-by-security information to non-UCITS IFs that are subject to national accounting rules that allow the valuation of their assets less frequently than monthly. Where NCBs grant such derogations, non-UCITS IFs shall report security-by-security information specified in Annex I, Tables 3 and 4 in accordance with the frequency with which they are required to value their assets under national accounting rules, but as a minimum on an annual basis. NCBs may grant such derogations for the periods to which the statistical information relates up to and including December 2026.~~

Recital 14
Regarding recital 14 on the coordination with ESMA aimed at increasing the quality of information requested, we advocate for an **increased cooperation between national and European authorities**, and a centralization of information as not to burden GPs with the requirement to report data which are already disclosed under different legislations, like AIFMD (Directive 2011/61/EU), and to avoid double reporting. In fact, information on the balance sheet is already provided by AIFs in the annual report in accordance with AIFMD. In this sense, a further disclosure would be burdensome for closed-ended AIFs, considering that these data do not usually present relevant changes, and are less significant for the European authorities as well. In 2021 the European Commission, with a communication to other European institutions, expressed the necessity of a reporting standardization regarding supervisory activity, especially because of the increased number of information required, which enhanced the quality of the supervision, but also the costs for both the subject reporting the data and the institutions analyzing them. In fact, the costs connected to reporting requirements could add up to a total amount between EUR 4 and EUR 12 billion per year[9]. Therefore, the Commission aimed at harmonizing data requests and ensuring a higher efficiency of data sharing, also in light of the fact that different regulations require the same disclosures, leading to statistical overlaps. In this sense, AIFMD already requires AIFMs to report to the competent authority information regarding the AIFs as well as the investments undertaken on an annual basis, concerning eligible assets and associated risks. In particular:

- the strategy and the objectives of the fund;
- eligible assets;
- risks associated with the investment and risk management tools;

[9] Communication from the Commission to the European Parliament, the Council, the European economic and social committee and the Committee of the regions, "*Strategy on supervisory data in EU financial services*", 15.12.2021 (link).

- legal implications of the contract;
- personal information of the manager;
- fees and charges connected to the investment, and the valuation process of the AIF.

Furthermore, AIFMD imposes a reporting requirement to investors. Moreover, there are also national disclosures: in Italy, for example, AIFMs have to report their personal information to Bank of Italy in accordance to the G.I.A.V.A requirements. The legislative framework is already particularly burdensome, especially for closed-ended Italian AIFs, considering their size and their impact on the overall economic and financial ecosystem. At this purpose, a stronger cooperation between competent authorities would be pivotal, together with a better definition of reporting requirements. Concerning investment funds, within the 2021 review proposal of the AIFMD, the European Commission suggested to appoint ESMA to improve the data collection from AIFMs, following a technical assessment in collaboration with ECB and EIOPA. An enhanced cooperation between institutions and authorities could help reducing the burden on AIFMs, limiting the risk of duplications, making the supervisory activity more effective and specific.