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**Online Submission to the European Securities & Markets Authority:**

**ESMA Consultation Paper on Implementing Measures on the Alternative Investment Fund Managers Directive. General Operating Conditions: Possible Implementing Measures on Additional Own Funds and Professional Indemnity Insurance ("PII")**

British Airways Pension Investment Management Limited has been investing in private equity and venture capital funds ("PE funds") on behalf of the two British Airways Pension Schemes for many years. Our private equity portfolio currently comprises commitments to almost 100 PE funds.

Further to our submission on 28 July in which we raised our concerns as an investor in relation to the ability for ex-ante control to be exercised by depositaries over private equity funds, we would also like to raise our concerns in relation to the proposed measures concerning the provision of additional own funds and PII.

Our concern over requiring AIFMs (or GPs as we think of them in private equity) to hold a significant sum of money in a cash deposit is that for investors in private equity funds (the LPs) our greatest protection against the GP not acting in our best interest is to have the GP invest in the fund alongside us. LPs have worked hard over the years (and successfully) to encourage GPs to increase the amount of money they invest alongside us. If they were required to put aside a large cash amount, then this will only discourage them from investing in the private equity fund (and indeed reduce their ability to invest). This would significantly impair a currently strong mechanism we LPs have for ensuring the GP's interests and ours are aligned.

We understand that the proposed scope of the PII policies, which would be the alternative to additional own funds, is far wider than has been usual in the UK market where such policies are the norm for GPs. We are concerned that the consequence will either be that the insurance industry will not be able to write the sort of policy envisaged and so force GPs to go down the additional own funds route. Alternatively, if the insurance industry does agree to widen the scope of its current PII policies, the cost of such a policy would be extremely high. In private equity, it is common practice that the cost of PII is borne by the fund (i.e. the LPs), therefore this cost would act to reduce our returns. In practical terms, we do not see that our position would actually be any better protected for this increased cost.

While we appreciate professional negligence is an issue which should not be ignored, we strongly feel the current practice in the UK market provides more than adequate protection for the risk LPs face in private equity. The proposals outlined in the Consultation Paper are potentially quite harmful for investors in private equity funds and we strongly urge you to reconsider these in light of the protection measures already in operation in the private equity industry. We would be happy to provide further clarification of our concern if this would be helpful.

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