Unit of account

Key Points

- **Equity investment**: with infrastructure companies, 'equity' should include shareholder-provided debt or quasi-equity.
- **Debt investment:** senior term loans and bonds are the most relevant infrastructure debt instruments.

The **unit of account** is the level of aggregation at which an asset is recognised for the purpose of the valuation exercise, that is, whether assets are valued in aggregate or at the individual-instrument level.

The choice of unit of account should reflect **effective ownership and control rights**, so that instruments can be aggregated consistent with the financial, legal, and economic reality that fair value is meant to represent.

Explicit unit of account guidance is absent from IFRS 13 or ASC 820. Still, the choice of unit of account should be congruent with how market participants would transact, that is, either purchase or sell an entire or a large share of the investment or transact instrument by instrument.

In the case of unlisted infrastructure investments, firms and their debt are exchanged in transactions involving few buyers and sellers, usually exchanging large controlling stakes. Our analysis of the global investable private infrastructure sector confirms that the immense majority of secondary unlisted infrastructure transactions are made by a single buyer and a single seller (median values) and relate to stakes between 70% (mean) and 100% (median) of the firm's equity capital. This is especially the case in very active markets such as the UK, the US or the European Union.

Thus, is is useful to differentiate between three different units of accounts, corresponding to three types of transactions for investors in unlisted infrastructure: broad equity, mezzanine debt and senior debt.

- **Whole unlisted infrastructure equity - WIE:** for the purpose of valuing the equity investment in unlisted infrastructure companies, equity (including so-called pin-point equity) can be aggregated with quasi-equity stakes like shareholder loans, which may represent the largest part of the capital investment made by the firm's owners.
- **Senior private infrastructure debt - SID**: for the purpose of valuing private infrastructure senior debt, individual credit instruments, loans or bonds, are considered as investible assets. Revolving and other credit facilities are not considered.
- **Junior private infrastructure debt - JID**: junior or so-called mezzanine debt instruments that are neither quasi-equity nor debt instruments with a senior claim on the firm's free cash flows are not aggregated and can be valued separately.

For the purpose of building broad market indices of unlisted infrastructure investments, **EDHEC*infra* produces fair-value estimates for WIE and SID investments only.**