Comments Template on EIOPA-CP-16-005 Consultation Paper on the request to EIOPA for further technical advice on the identification and calibration of other infrastructure investment risk categories i.e. infrastructure corporates		Deadline 16.May.2016 23:59 CET
Company name:	FTTH Council Europe	
Disclosure of comments:	EIOPA will make all comments available on its website, except where respondents specifically request that their comments remain confidential. Please indicate if your comments on this CP should be treated as confidential, by deleting the word Public in the column to the right and by inserting the word Confidential.	Public
	Please follow the instructions for filling in the template: ⇨ Do **not** change the numbering in column "Reference". ⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph, keep the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below. ○ If your comment refers to multiple paragraphs, please insert your comment at the first relevant paragraph and mention in your comment to which other paragraphs this also applies. ○ If your comment refers to sub-bullets/sub-paragraphs, please indicate this in the comment itself. **Please send the completed template to CP-16-005@eiopa.europa.eu, in MSWord Format, (our IT tool does not allow processing of any other formats).** The paragraph numbers below correspond to Consultation Paper No. EIOPA-CP-16-005.	
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Question 2.	(a) In the view of the FTTH Council Europe, historical price data of telecom securities (presumably mostly incumbent operators and cablecos) are not a good proxy for telecom infrastructure in general. While we do not disagree with the derived result (ie. similar or even higher risk) we believe that this is merely the reflection of vertically integrated business models (content, services (even IT services), network operations and infrastructure), high leverage (in the case of cablecos) and agressive and short-sighted M&A strategies. The risk assessment should therefore be	

seen as a reflection of the past, suffering from rearview mirror and selection bias effects. The risk assessment does not adequately take into consideration the profound effect of the invention and implementation of the Internet Protocol which has technically enabled the separation of services from the network. This has given rise to so-called Over-The-Top (OTT) business models. Examples are: Messaging services such as WhatsApp replacing SMS or Video Streaming services such as Netflix which have put pressure on the (IP)TV offering of cablecos and incumbent operators. In short, the analysis does not reflect the changes in the communications sector value chain. Most importantly, it would induce negative spill-over effects on companies that have developed a more focussed, wholesale-driven and infrastructure-based business model. (see (b) for examples)

(b) From our standpoint, a more granular analysis of business models is necessary. This is also evidenced by recent trends in the industry. These have been triggered by two developments: 1) The introduction of the Internet Protocol (see above), and 2) the growing demand for for higher data transmission speeds (both downlink, ie. to the subscriber, and uplink, e.g. into the cloud) with better quality of services (latency in particular). The latter is of particular importance to the Internet of Things (IoT). With regard to 2), we stress that this renders legacy copper networks ineffective to cope with existing and future service requirements. Hence, we believe that there are segments within the communications industry that feature infrastructure characteristics:

(i) Mobile tower companies: US-listed companies such as Crown Castle (ISIN US2282V1017) are treated as Real Estate Investment Trusts (REITs). In Europe, integrated operators have recognised the potential for a value release: Telecom Italia decided to spin off its tower business (Inwit: ISIN IT0005090300). Also Telefonica decided to put a number of infrastructure assets (mobile towers, fibre optic networks) in a separate company called Telxius (not (yet) listed).

(ii) Data Center companies: Likewise, some companies in the US are treated as REITs (examples: Digital Realty Trust ISIN US2538681030, Equinix ISIN US29444U5020, CoreSite Realty ISIN US21870Q1058)

(iii) Wholesale Network Operators: Examples are UK-based Openreach (a BT subsdidiary) which is functionally separated. The same applies to Skanova, the subsidiary of TeliaSonera. In the case of Openreach, the UK regulator attributes a lower WACC to Openreach compared to BT, its mother company. This illustrates that the regulator ascribes a better risk profile to the network operation. In a similar vein,

	we have witnessed the spin-off of Windstream´s network operations in a separately listed company (CS&L, ISIN US20341J1043) and the first voluntary structural separation of an incumbent in the Czech Republic (the network company is now privately held while the services part has remained listed (ISIN CZ0009093209)). Likewise, we note that Italian utility Enel has announced to deploy a wholesale fibre broadband network in Italy. UK-based CityFibre (ISIN GB00BH581H10) has announced to build out more fibre networks in select cities in the UK. Another very interesting example is New Zealand based Chorus (ISIN NZCNUE0001S2), a wholesale access provider separated from the New Zealand incumbent. The Chorus example shows that volatility in the share depends on a number of factors: the business model (wholesale access) but also regulation. The Chorus share only recovered after the regulator introduced higher regulated prices. We also note that the regulator announced to introduce regulated-asset-base (RAB) regulation thereby abandoning price controls. Thus, a network infrastructure company will be treated similary to a water utility, for example. We think that granular analysis will necessitate a through analysis of he business model, the number and credit risk of wholesale customers and, last but not least, the regulatory system. This is something that cannot be inferred from regression analysis.	
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