<table>
<tr><td colspan="2">Comments Template on EIOPA-CP-15-003
Discussion Paper on
Infrastructure Investments by Insurers</td><td>Deadline
26.April.2015
23:59 CET</td></tr>
<tr><td>Company name:</td><td colspan="2">AMICE</td></tr>
<tr><td>Disclosure of comments:</td><td>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.</td><td>Public</td></tr>
<tr><td></td><td colspan="2">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.
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The paragraph numbers below correspond to Consultation Paper No. EIOPA-CP-15-003.</td></tr>
<tr><td>Reference</td><td colspan="2">Comment</td></tr>
<tr><td>Question 1</td><td>Question 1 - Q1: What elements in the Solvency II framework might prevent insurers from investing in infrastructure (other than capital requirements)? How could they be adapted while preserving the same level of policyholder protection?

An inappropriate calibration of infrastructure assets will restrain investments in long term assets such as infrastructure. The level or volatility of prices of infrastructure assets allows for a lower calibration</td><td></td></tr>
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	be consistent with a VaR 99,5% confidence level over a one-year period.	
Question 2	Question 2 - Which infrastructure investments (debt/equity, rated/unrated, credit rating, sectors, geographies, revenue-schemes, etc.) have a different risk profile than implied by the standard formula treatment and what is the evidence? The evidence comes from a Moody's study published in March 2015 (Default and Recovery Rates for Project Finance Bank Loans, 1983-2013 and Infrastructure Default and Recovery Rates, 1993-2014) that show default rates equivalent to BBB/BAA corporate debt and recovery rates of more than 80%.	
Question 3	Question 3 – How relevant is liquidity for infrastructure investments by insurers? Liquidity problems are important and we acknowledge that liquidity problems can arise with some investment assets. However, we believe that liquidity considerations have been taken into account in Solvency II. Additionally, most elements of the policy outflow can readily be predicted, so insurers can arrange their hold-to-maturity assets to cover their long-term liabilities.	
Question 4	Question 4 - How could the criteria for debt with and without an ECAI rating differ and what is the rationale? Most of the infrastructure assets are unrated. Firms should use their own internal credit assessment to reduce their reliance on rating agencies. However, it could be regarded as disproportionate to require users of the standard formula to develop their own internal credit assessments for infrastructure investment exposures.	
Question 5	Question 5 - Do you think that the definition of project finance from Basel II and/or the definition of specialised lending exposures as laid down in Article 147 (8) CRR could be used? Why (not)? No comments.	
Question 6	Question 6 - Are there any other definitions of project finance in existing legislation which could be	

	used? No comments.	
Question 7	Question 7 - Which is your preferred option and why (pros and cons)? We would favor a wide and broad definition of infrastructure assets. Infrastructure investment can be gathered into two main stages of development : - **Greenfield investments** are projects involving the construction and subsequent operations of a new infrastructure asset (construction of a new airport, road, wind farm etc.). Greenfield assets typically involve higher risk as they include design and construction risk on top of operating risk with yield generation over the long term, when the construction phase is over. - **Brownfield investments** refer to existing mature cash flow generating assets which require development, maintenance and/or operation. They offer early yield generation provided that an adequate financial structure is put in place. In the broader context, infrastructure assets refer to the system of public works in a country, state or region including roads, utility lines and publics buildings which can be used for performing long term capital activities which provides essential services to the public. **Essentially infrastructure assets are commonly classified along four main lines** : - **Transport**, - **Utilities and Telecommunications,** - **Energy,** - **Public Infrastructure.** Some of the characteristics of the assets may differ. Indeed, infrastructure assets could be: - Linked to GDP Growth (airport, toll roads…). - Non-correlated from the economic activity: renewable energy generation. - Under an availability scheme: PPP.	

Question 8	Question 8 - Could you provide a comprehensive and precise definition of infrastructure based on your preferred option? "Infrastructure" means a long term, capital intensive undertaking the purpose of which is to **design, build, finance, operate, manage, renovate, develop** or utilize certain assets, facilities, equipment, systems, networks or part thereof to provide services that are essential for the **development, improvement or** maintenance of societal **and economic** functions, health, safety, security, economic or social well-being of the **community**. Infrastructure assets are not always used by retailers or exclusively public infrastructure but may also be private infrastructure having an indirect function for the population. The "project finance" concept shall be used carefully as if used in its strict sense would include greenfield infrastructure only. Most of brownfield investments are not based on strict project finance, structuring; there are for instance people employed by the company to operate the infrastructure (e.g. motorway concession, utilities); an exposure may also include a portfolio of various infrastructures. The purpose of the exposure should be considered at the time of the investment and not at its creation only; Investment in infrastructure equity is also characterised by strong governance rights.	
Question 9	Question 9 - Are there any legal definitions of infrastructure (investments) in existing legislation which could be of use? No comments.	
Question 10	Question 10 - In some infrastructure sectors the vast majority of projects do not offer stable revenues and/or have considerable technological risk. What could these sectors be legislation which	

	could be of use? We would not favour any approach by which some sectors are excluded from the definition of infrastructure according to Solvency II. We suggest that only criteria is set out.	
Question 11	Question 11 - Are there any other sources of criteria that EIOPA should consider, in addition to those used in Basel II and CRR? No comments.	
Question 12	Question 12 - Which are the most effective criteria and/or characteristics for identifying infrastructure investments with a different risk profile than implied by the standard formula treatment? What is the evidence for their effectiveness? No comments.	
Question 13	Question 13 - Are the criteria in Basel II and the specification regarding factors to determine risk weights developed by the EBA for the Regulatory Technical Standard a good starting point? We believe that the insurance sector should rather develop their own criteria.	
Question 14	Question 14 - Do you have any comments on the usefulness of individual criteria in the Basel II list? No comments.	
Question 15	Question 15 - Do you have any proposals for how the Basel II criteria that are relatively high level could be further specified? No comments.	
Question 16	Question 16 -Are you aware of any criteria to determine either the quality of project finance in general or specifically of infrastructure project finance in legal texts that could be useful (e.g. transpositions of the Basel II criteria in non-European jurisdictions)? No comments.	

Question 17	Question 17 - How effective are the described other criteria in eliminating infrastructure investments for which a different treatment in the standard formula is not justified and what is the evidence? We support the suggested criteria relating to political risk, structural requirements and construction risk. However, the other risks, revenue risk, financial structure, operational risks should be removed from the list.	
Question 18	Question 18 - How could the criteria be described as precisely as possible? No comments.	
Question 19	Question 19 - Could the respective aim be achieved with other criteria (please describe them as precisely as possible)? What is the evidence? No comments.	
Question 20	Question 20 - What mechanisms allow a sufficient mitigation of the risks associated with the construction and ramp-up period? Engineering, procurement and construction (EPC) contracts and Guarantees from the public sector.	
Question 21	Question 21 - What are the requirements that these risk mitigants have to meet? Please define them. No comments.	
Question 22	Question 22 - One mechanism to mitigate the risks before the operational phase is a credit enhancement or a guarantee provided by public bodies. What would be the criteria to ensure that these mechanisms – potentially in interaction with others – provide a sufficient level of protection? No comments.	
Question 23	Question 23 - What is your view on the proposals set out in the Annex? What could be suitable thresholds and how could they be derived? We believe that revenue risk should not be taken into account when defining an infrastructure asset	

	for Solvency II purposes.	
Question 24	Question 24 - Do you have alternative proposals for how to measure low revenue risk and what is the evidence that it is effective? See answer above (Q23).	
Question 25	Question 25 - What are other contractual arrangements than those in the Annex with low revenue risk? How could this be assessed with a criterion? See answer above (Q23).	
Question 26	Question 26 - What kind of non-public off-taker would have a sufficiently low risk of default? How could this be assessed (criterion)? See answer above (Q23).	
Question 27	Question 27 - What would be suitable ratios available to investors to measure the financial risk? We believe that financial risk should not be taken into account when defining an infrastructure asset for Solvency II purposes.	
Question 28	Question 28 - What would be a suitable minimum level for the ratios (e.g. corresponding to “investment grade”)? What is the source and evidence for this level? See answer above (Q27).	
Question 29	Question 29 - What would be the arguments for also making non-senior debt eligible? No comments.	
Question 30	Question 30 - Is it necessary to limit the refinancing risk in infrastructure projects (please provide evidence) and what are suitable criteria? No, given the very long life of many infrastructure assets.	

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Question 31	Question 31 - What significance does prepayment risk have and what would be a suitable criterion to limit it? Prepayment risk should not be considered among the suitable criterion to limit it.	
Question 32	Question 32 - How could a condition "proven technology and designs" be made operational? We believe that this condition should not be part of the definition of infrastructure asset for Solvency II purposes.	
Question 33	Question 33 - How could criteria that are difficult to validate (such as those described above) be incorporated into the framework? See answer above (Q32).	
Question 34	Question 34 - Do you have any other suggestions besides those described below for how to derive alternative risk charges? What is the evidence? We support the proposal by which infrastructure equities will be split between listed infrastructure equities and unlisted infrastructure equities. We also support the proposal to treat infrastructure debt under the counterparty default risk module.	•
Question 35	Question 35 - How would requirements for partial internal models need to be adapted so that they are suitable for infrastructure projects without reducing the level of policyholder protection? We understand that the mandate of the European Commission is limited to the Standard Formula.	
Question 36	Question 36 - What are potential sources for reliable cash flow data on infrastructure projects in a sufficient quantity? No comments.	
Question 37	Question 37 - How can historical cash flow data be transformed into an equity risk charge that reflects changes in market prices?	

	No comments.	
Question 38	Question 38 - Which listed equities could be a good proxy for equity investments with a different risk profile than implied by the standard formula treatment and what is the evidence that the risks are similar? We would suggest that listed infrastructure assets are regarded as type 1 equity sub-module and unlisted infrastructure equity receive a lower capital charge (22%).	
Question 39	Question 39 - Can you provide any data regarding proxies? No comments.	
Question 40	Question 40 - What is the evidence that a segment of infrastructure project equity has a risk profile that is similar to type 1 equities? No comments.	
Question 41	Question 41 - Is there evidence for a lower correlation between the value of certain infrastructure equities and other risks within the standard formula in a stress period? How could this be reflected (data inputs, calculations in detail)? There is evidence from the Moody’s study for debt infrastructure. See Moody’s Annual Default Study: Corporate Default and Recovery Rates, 1920-2013, published in February 2014 See Moody’s Special Comment: Syndicated Bank Loans: 2008 Default Review and 2009 Outlook, published in March 2009	
Question 42	Question 42 - What evidence is available on spreads for project bonds in general and infrastructure project bonds in particular? No comments.	
Question 43	Question 43 - Is there evidence that movements in the spreads of infrastructure corporates differ	

	from those of normal corporates with the same rating? The studies available do indicate that spreads of infrastructure corporates differ from normal corporates with the same rating (JP Morgan Study 2013).	
Question 44	Question 44 - Is there evidence that infrastructure corporate debt (or a suitable subset) can be used as a proxy for infrastructure project debt with a different risk profile than implied by the standard formula treatment? Available data indicates that infrastructure debt should be treated in the counterparty default risk module.	
Question 45	Question 45 - Describe in detail (data, calculations) how an adjustment factor could be derived. No comments.	
Question 46	Question 46 - What conditions could ensure that insurers are in a position to hold the infrastructure investments to maturity? We do not think that additional conditions should be added. In any case, it is in the interest of insurers to find assets that can macht their long-term liabilities thereby holding these assets until maturity.	
Question 47	Question 47 - What is the rationale to apply an adjustment factor for infrastructure debt but not for other (illiquid) debt investments like SME loans? Calibration of SME loans might have to be reviewed as they share some common features with illiquid infrastructure assets.	
Question 48	Question 48 - What is the rationale to cover infrastructure debt in the counterparty default risk module while other exposures like SME loans or rated corporates are allocated to the spread risk sub-module? We believe that SME loans should rather be covered in the counterparty default risk module.	

Question 49	Question 49 - How could a counterparty default risk charge for infrastructure project debt be derived (model, correlations, data)? We understand that data from Moody´s provides enough information about default and recovery rates for infrastructure assets. See Moody's Annual Default Study: Corporate Default and Recovery Rates, 1920-2013, published in February 2014 See Moody's Special Comment: Syndicated Bank Loans: 2008 Default Review and 2009 Outlook, published in March 2009	
Question 50	Question 50 - Would including infrastructure project debt in type 1 or type 2 (i.e. using the current calibration) reflect its risk profile? Treating infrastructure project debt in type 2 would be preferable.	
Question 51	Question 51 - How can a minimum quality for infrastructure debt without an ECAI rating be ensured? No comments.	
Question 52	Question 52 - Do you have any comments on the areas of attention that EIOPA is considering? Are there any other areas EIOPA should consider? We agree that investing in infrastructure assets would require significant expertise. However, the Solvency II framework contains strict requirements in terms of risk management. No additional requirements are therefore necessary.	
Question 53	Question 53 - Regarding the issue of due diligence specifically, do project sponsors provide financial models which can be used to evaluate the resilience of the project to severe downside stress scenarios? No comments.	
Question 54	Question 54 - Is there a kind of "industry standard" for financial models and would these models be subject to an audit? We do not think that such standard exists.	

Question 55	Question 55 - What would be relevant information for investors in offering documents (i.e. prospectus) or reporting? Is this information currently included? The European Financial Services Round Table provides some standardised infrastructure disclosure and reporting standards (http://www.efr.be/newsstory.aspx?pvs=ByabczhTEoIJ69ra6M26kw%3d%3d)	
Question 56	Question 56 - What would be the costs and benefits of introducing as a criterion for a specific infrastructure investments category the availability of a specified list of information? No comments.	
Question 57	Question 57 - Are there any existing or emerging standards regarding offering documents or reporting? The European Financial Services Round Table provides some standardised infrastructure disclosure and reporting standards (http://www.efr.be/newsstory.aspx?pvs=ByabczhTEoIJ69ra6M26kw%3d%3d)	
Question 58	Question 58 - What is the added value and what are the costs of requiring the provision of information according to certain standards? No comments.	
Question 59	Question 59 - What could be standardised elements for infrastructure investments in the specific category? What are the costs and benefits of requiring them? No comments.	

Question 60	Question 60 - How can standardisation of investor information and contractual elements contribute to a higher liquidity of infrastructure investments? No comments.	