	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Name of Company:	ACOFI Gestion	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
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Reference	**Comment**	
General Comment	This answer to EIOPA's call for comment was jointly elaborated by French asset managers who developed a strong expertise on RGLA financing, managing approximately € 1 billion of public sector loan funds. **Acofi Gestion** ACOFI is an independent financial services group founded in 1990 and is majority-owned by its managers. ACOFI designs investment products and solutions matching the expectations of large investors. Its initiatives primarily cover real assets and direct lending to the economy, in four key areas: corporate real estate, infrastructure, specialised financing of industrial companies, and the public sector. ACOFI Gestion is an AIFM investment manager, approved by the AMF since 1997 and managing over EUR 2 billion across 15 vehicles, loan funds, real asset funds and funds of funds. At the end of 2014, ACOFI formed a long term strategic	

partnership with La Française (Crédit Mutuel Nord Europe group). This partnership initially saw Groupe La Française acquiring a 20% stake in ACOFI Gestion (indirectly through a 2A holding company) and the merging of real estate debt teams and funds at ACOFI Gestion.
ACOFI is involved in professional workgroup discussions like AFG.

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Rivage Investment

Rivage Investment is an alternative portfolio management and advisory firm, with expertise in European infrastructure debt, private debt and listed equities. It was founded in 2010 and currently manages circa €3 billion of assets, on behalf of over 30 European institutional investors.
Rivage Investment has developed a specific product offering dedicated to French public sector debt. Current investors in this strategy are large European insurance companies.
The public sector debt funds' investment strategy consists in building up a diversified portfolio of Euro-denominated senior loans and debt securities that are representative of loans granted to, or debt securities issued by, local authorities and other public sector entities satisfying specific eligibility and diversification criteria.
We currently invest in loans granted to local and regional governments (regions, departments, municipalities, intermunicipal groupings), public hospitals, public social housing offices and any other type of public sector entities. The geographical focus is limited to France. All investments are denominated in Euros and bear a fixed or floating rate of interest. The investment style of the public sector debt funds is essentially "buy-and-hold", although investments may be divested for legitimate reasons, such as a regulatory change, an increased level of credit risk or the fund's liquidation.

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	Regional Governments and Local Authorities (RGLAs) differ in federal states, such as Germany, and centralized states, such as France. We will answer this request for comments with a specific focus on Local Authorities in France, where no Regional Governments exist. We would like to point out the fact that, whereas in a federal state the constitution prevents the central government from controlling Local Authorities and therefore puts a specific risk on these Local Authorities, in a centralized state, while the constitution protects local autonomy, it nevertheless compels the central government to ensure that Local Authorities fullfil their obligations. Within the French public law framework, the concept of Local Authorities includes not only local authorities (*collectivités territoriales*) as defined by the constitution[1] (i.e., regions, departments, municipalities, local authorities with a special status and overseas local authorities), but also intermunicipal groupings (*établissements publics de coopération intercommunale or EPCIs*), as well as public institutions that are linked to and dependent on them (é*tablissements publics* l*ocaux or EPLs*) pursuant to the doctrine of the Conseil d'Etat[2]. Special status local authorities, EPCIs and EPLs are subject to the same institutional framework as municipalities, departments and regions. In addition, some of them have specific revenue-raising powers, such as : - intermunicipal groupings with revenue-raising powers (é*tablissements publics de coopération intercommunale (EPCI) à fiscalité propre*), such as *métropoles, communautés urbaines, communautés d'agglomération* and *communautés de communes* ; - territorial public institutions (é*tablissements publics territoriaux* or EPTs)[3] ; and - special status local authorities (e.g., Métropole de Lyon, Collectivité Territoriale de Corse). We strongly believe that the core principles that drove the drafting of the Solvency II and CRR directives should apply to the treatment of guaranteed exposures and exposures to RGLAs: - A look-through approach should drive the treatment of guaranteed exposures; - Positionning all stakeholders on a level playing field requires an alignment of the treatment of exposures to RGLAs and other public sector entities in both the CRR and Solvency II regulations; - Exposures to RGLAs satisfying the criteria set forth in Article 109a(2)(a) of the Solvency II directive shall be treated as exposures to the central government;	

	- Exposures to public law entities placed under the direct supervision of the central government, as it is the case in a centralized State such as France, should be treated as exposures to the central government. [1] Article 72 of the French constitution : "*Les collectivités territoriales de la République sont les communes, les départements, les régions, les collectivités à statut particulier et les collectivités d'outre-mer régies par l'article 74. Toute autre collectivité territoriale est créée par la loi, le cas échéant en lieu et place d'une ou de plusieurs collectivités mentionnées au présent alinéa*." [2] Conseil d'Etat, Report on Public Institutions, 15 October 2009, which states that a public institution (*établissement public*) is necessarily linked to and dependent on (the French term used is *rattaché*) either the central government or a local authority, of which such public institution is merely the continuation. [3] 11 EPTs were created on 01/01/2016, in connection with the creation of the Métropole du Grand Paris. They are intermunicipal groupings and have replaced the EPCIs with revenue-raising powers formerly located in the Grand Paris area. They have specific revenue-raising powers (such as *cotisation foncière des entreprises*, *taxe d'enlèvement des ordures ménagères*, etc.).	
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Q3.2	*On what conditions or under which circumstances should the recognition of guarantees under Solvency II be modified? Are there any missing elements?* In our opinion, the recognition of guarantees for purposes of the spread risk sub-module should be modified in the following way: - exposures in the form of bonds and loans fully, unconditionally and irrevocably guaranteed by a RGLA assimilated to the central government of a Member State should attract a risk factor stress of 0%, provided the guarantee meets the requirements set out in Article 215; - for exposures in the form of bonds and loans fully, unconditionally and irrevocably guaranteed by an entity that is neither a RGLA assimilated to the central government of a Member State nor listed in points (a) to (d) of paragraph 2 of Article 180, the risk factor stress should be determined based on the lower of the credit quality step of the borrower and the credit quality step of the guarantor, provided the guarantee meets the requirements set out in Article 215. This approach would still be, in our opinion, rather conservative given that the actual credit risk borne by a lender on guaranteed exposures is lower than a direct exposure to either the borrower or the guarantor. In addition, partial guarantees should be recognized for purposes of both the spread risk sub-module and the counterparty risk module, with no minimum threshold (see our answers to Q3.3 and Q3.5 below for further details).	
Q3.3	*Should the risk mitigating effect of a partial guarantee be recognised in the SCR standard formula calculations (for example by defining a "minimum guarantee level") assuming that the partial guarantee is unconditional, irrevocable and meets all the other relevant requirements set out above?* **A valid guarantee should be accounted for in proportion to the risk mitigation it provides to the lender.** A guarantee, once triggered, results in a direct claim against the guarantor. The fact that the guarantee is only covering part of the exposure does not modify this principle. It thus seems perfectly justified to recognize the risk mitigating effect of a partial guarantee in the SCR standard formula calculations, up to the amount guaranteed, as long as the guarantee is unconditional, irrevocable and meets all the other relevant requirements. **We do not believe that a minimum guarantee threshold should apply.** Indeed, the rationale outlined	

| | above applies regardless of the proportion of the exposure benefiting from the guarantee. In addition, the level playing field principle requires to treat partial guarantees in the same way for the banking and insurance sectors. There is no minimum guarantee threshold applicable in the banking regulations.

In the context of French Local Authorities, it is common for several guarantors to intervene in the same operation: for instance, a department will guarantee 80% of a loan to finance social housing and will require the remaining 20% of guarantee to be provided by the municipality(ies) where this social housing infrastructure is located. We feel that recognizing the risk mitigation effect of partial guarantees in this context, and with no minimum threshold, would adequately reflect the true nature of the lender's credit exposure.

What are the costs associated with "splitting" an exposure into a guaranteed and a non-guaranteed part for the purpose of the capital requirement calculation?

Our comments below only refer to the spread risk sub-module of the SCR standard formula calculation.

The calculation is straightforward and already possible in the AMPERE format reportings. Investors are already facing a similar situation when they calculate their SCR Spread on exposures with different stress factors (borrowers assimilated to the central government, borrowers not assimilated to the central government, whether rated or unrated). The following example shows how the calculation would be performed.

Example of SCR Spread calculation for an exposure with a duration of 5.92 years:
• SCR Spread for a RGLA assimilated to the central government: 0%
• SCR Spread for an unrated entity: 16.56%
• Assuming a guarantee provided 80% by a RGLA assimilated to the central government and 20% by an unrated entity not assimilated to the central government, the SCR Spread would be calculated as follows: (80% x 0%) + (20% x 16.56%) = 20% x 16.56% = 3.31% | |
| Q3.4 | *Provide information on the current amounts of exposures guaranteed by a third party and of exposures to Regional Governments and Local Authorities (LOCAL AUTHORITIES)*

As of 2014, the total debt outstanding of French local public administrations (*administrations publiques* | |

locales) was €190bn, of which €63bn came from cities, €23bn from EPCIs with revenue-raising powers, €34bn from departments and €22bn from regions[4].

We estimate the total amount of debt outstanding guaranteed by French Local Authorities (including EPCIs with revenue-raising powers) at €160bn, of which more than 75% are dedicated to the financing of social housing construction and refurbishment (Source: Acofi's estimates based on reports from USH (Union Sociale pour l'Habitat) and Caisse des Dépôts).

As of today, we can only provide empirical evidence in order to illustrate with data the exposure guaranteed by French Local Authorities.

The examples are based :
- on a sample of 3 regions, out of 13;
- on a sample of 5 departements, out of 96;
- on a sample of EPCIs with revenue-raising powers;
- on a sample of municipalities

Example 1: loans guaranteed by French departments, 2015

n°	Name	Inhabitants	Indebtness	Guaranteed loans	of which related to social housing
59	Nord	2 587 128	1 399 573 356 €	151 100 000 €	121 333 300 €
09	Ariège	152 366	5 605 214 €	99 902 977 €	77 798 830 €
17	Charente-Maritime	628 733	415 548 301 €	147 559 068 €	102 558 460 €
93	Seine Saint Denis	1 538 726	1 475 737 010 €	45 938 187 €	45 866 425 €
13	Bouches-du-Rhône	1 984 784	639 305 981 €	1 125 298 762 €	1 033 373 635 €
	Total	**6 891 737**	**3 935 769 862 €**	**1 569 798 993 €**	**1 380 930 651 €**

Source : Comptes Administratifs 2015

These 5 departements totalized 6.9m inhabitants (that is, 10% of French population) in 2015, with an indebtedness of €3.9bn amounting to 10.8% of the total debt for all departements and 2.7% of the total

debt for all French Local Authorities (of which departements represent 25%).

In 2015, the amount of guaranteed loans (€1.6bn for the 5 departements mentioned above) included €1.4bn (88%) of loans related to social housing.

Example 2: loans guaranteed by French regions, 2015

Name	Inhabitants	Operating revenues	Guaranteed loans	of which related to social housing
Centre Val de Loire	2 635 080	906 264 000 €	0 €	0 €
Occitanie	5 730 753	2 048 000 000 €	81 920 000 €	81 920 000 €
Normandie	3 324 789	1 272 225 301 €	101 780 000 €	101 780 000 €
Total	**11 690 622**	**4 226 485 301 €**	**183 700 000 €**	**183 700 000 €**

Source : Rivage Investment, Acofi

Example 3: loans guaranteed by French EPCIs with revenue-raising powers, 2015

Name	Inhabitants	Operating revenues	Guaranteed loans	of which related to social housing
Métropole Nice Côte d’Azur	544 651	681 276 000 €	- €	- €
CA Nîmes Métropole	245 222	176 390 000 €	220 488 000 €	205 053 840 €
CA Chambéry Métropole	129 010	118 606 000 €	300 073 000 €	294 071 540 €
Rennes Métropole	432 841	481 807 000 €	1 093 702 000 €	476 988 930 €
Nantes Métropole	619 172	781 259 000 €	2 875 033 000 €	2 673 780 690 €
Toulouse Métropole	738 142	680 011 000 €	1 666 027 000 €	1 366 142 140 €
Lorient Agglo	205 748	185 278 000 €	279 770 000 €	279 770 000 €
Total	**2 914 786**	**3 104 627 000 €**	**6 435 093 000 €**	**5 295 807 140 €**

Source : Rivage Investment, Acofi

Example 4: Loans guaranteed by French municipalities

Name	Inhabitants	Operating revenues	Guaranteed loans	of which related to social housing
City of Grenoble	161 071	266 282 000 €	276 933 000 €	171 698 460 €
City of Tours	138 323	201 750 000 €	361 133 000 €	332 242 360 €
City of Créteil	90 590	145 141 000 €	291 733 000 €	204 213 100 €
City of Orléans	117 991	188 166 000 €	210 746 000 €	191 778 860 €
City of Antibes	76 770	162 017 000 €	34 024 000 €	32 663 040 €
Total	**584 745**	**963 356 000 €**	**1 174 569 000 €**	**932 595 820 €**

Source : Rivage Investment, Acofi

It should be noted that the legal framework that allows Local Authorities to issue guarantees is very constrained in France. Law n° 88-13 of 5 January 1988 (loi Galland) establishes several prudential ratios for Local Authorities (including EPCIs), including a cap on the overall amount of guarantees issued relative to operating revenues. Another interesting aspect of this law is the prohibition of guarantees in favor of entities experiencing financial difficulties. Furthermore, French public law imposes a vote of the Local Authority's deliberating body since the activation of the guarantee may result in an increase in taxes levied by the Local Authority. In other words, the French public law framework provides systematic controls on resource allocation to ensure that Local Authorities are able to meet their obligations and possibly to raise taxes in order to do so.

Based on the foregoing, we believe that improving the prudential treatment of exposures guaranteed by RGLAs is unlikely to result in an increase in the amount of guarantees issued by French Local Authorities and undermine their creditworthiness.

Loan guarantees issued by Local Authorities are mostly relating to social housing, but also to essential equipment operations designed to develop territories. Local Authorities represent 65% to 70% of French

| | public investment. In 2015, Local Authorities' investments were funded as high as 97,7% by their own resources (excluding new borrowings)[5].

The Grand Paris development project, the application to the 2020 Olympic Games and the 2025 World Exposition organization are several projects that are likely to attract institutional investors. Maintaining the current treatment of guarantees under Solvency II could increase the conditions offered by institutional investors to finance these projects, without any economic justification.

[4] Source: INSEE & DGFiP. The remainder of the debt involves EPCIs without revenue-raising powers and other local public administrations such as local public institutions (*établissements publics locaux*), etc.
[5] Source : Rapport de l'Observatoire des Finances Locales 2016, page 26. | |
| Q3.5 | *How would you take the effect of a partial guarantee into account in the spread risk sub-module which depends on the modified duration and the credit quality step ?*

As previously mentioned in Q3.3, the calculation of the SCR Spread for a partially guaranteed exposure is straightforward and possible in the AMPERE format reportings. Assuming all conditions are met for the guarantee to be valid, the look-through approach is, in our opinion, the right way to recognize the risk mitigating effect of a guarantee.
The look-through approach implies to calculate the SCR Spread separately for the portion of the exposure benefiting from the guarantee and for the remainder of the exposure:
- for the non-guaranteed part, the SCR Spread is calculated according to the credit quality step of the borrower;
- for the guaranteed part, the SCR Spread should be calculated according to the lower of the credit quality step of the borrower and the credit quality step of the guarantor.

We also believe that exposures partially guaranteed by a RGLA assimilated to the central government of a Member State should attract a risk factor stress of 0% for the portion of the exposure benefiting from the partial guarantee, provided the guarantee meets the requirements set out in Article 215.

If there are several guarantors, the above calculations should be performed separately for each guarantor (for the corresponding portion of the exposure) and the results should then be summed up. | |

Example of a calculation for an exposure with a duration of 17.3 years

Modified Duration	17.3 years	
	Unrated debtor	Guarantor assimilated to the central government
Non-guaranteed loan		
Individual SCR Spread	26.26%	0%
Total **SCR Spread**	**26.26%**	
50%-guaranteed loan		
Individual SCR Spread	26.26%	0%
Total **SCR Spread**	**13.13%**	
100%-guaranteed loan		
Individual SCR Spread	26.26%	0%
Total **SCR Spread**	**0%**	

Q3.6

Q3.7

Please explain if insurance undertakings would decrease or increase their exposures to guarantees if your proposals were taken into account.

In our experience, insurance undertakings would increase their exposures to loans guaranteed by French Local Authorities if our proposals regarding the spread risk sub-module were taken into account.

Q3.8

Should the guarantees issued by RGLA be treated similarly as guarantees issued by the central government of the jurisdiction in which they are established also in the market risk module? Please explain your answer

Guarantees issued by French Local Authorities should, in our opinion, be treated in the same way as guarantees issued by the central government of France for purposes of the spread risk sub-module. Indeed, the rights of the lender and the procedure for enforcing the guarantee are the same, whether the guarantee is provided by the central government or by a Local Authority. One could even argue, as explained in more detail below, that lenders have more potential remedies to enforce their claim in the

case of guarantees issued by Local Authorities. Finally, given the institutional framework prevailing in France, the central government is ultimately responsible for the fulfillment by Local Authorities of their payment obligations : the French State has already been held liable for payments due but unpaid by a Local Authority[6].

Based on the above, we believe there is no rationale for differenciating these two types of guarantees from a credit risk perspective. Given that direct exposures to RGLAs assimilated to the central government of France attract a risk factor stress of 0%, we believe that exposures guaranteed by these entities should also attract a risk factor stress of 0%.

The legal framework for issuing guarantees is set forth in articles L.2252-1 to L.2252-5 and D.1511-30 to D.1511-35 of the *Code Général des Collectivités Territoriales* (CGCT) for municipalities and EPCIs, articles L.3231-4 to L.3231-5 of the CGCT for departments and articles L.4253-1 to L.4253-2 of the CGCT for regions. The legal framework for guarantees issued by the central government is set forth in article 34 of the law n° 2001-692 relating to budget bills (LOLF) dated 01 August 2001.

For Local Authorities (including EPCIs), the guarantee is issued on a loan-by-loan basis and requires a vote by the guarantor's deliberating body. In most instances, the guarantee takes the form of an on-demand joint financial guarantee (*cautionnement solidaire à première demande*), for which the guarantor waives the benefit of discussion and the right to oppose its lack of financial resources to lenders.[7] As soon as the guarantee is activated by the lender, the lender's claim becomes immediately due and payable and hence becomes a "compulsory expense" (*dépense obligatoire*) of the Local Authority, pursuant to articles L.1612-15, L.2321-2-32°, L.3321-1 18°, and L.4321-1 9° of the CGCT. In such event, the lender is entitled to require the inclusion (*inscription*) of such expense in the Local Authority's budget if the Local Authority has failed to do so. If such expense has already been included in the budget but the Local Authority has failed to pay it, the lender is also entitled to require the central government representative (*préfet*) to give a payment instruction (*mandatement*) to the public accountant.[8]

Given this legal framework, a guarantee issued by a Local Authority will generally be executed almost immediately when the borrower defaults.

[6] Conseil d'Etat, 18 nov. 2005, n° 271898, Société fermière de Campoloro et autres. CEDH 26/09/2006 - Société

	Fermière de Campoloro et autres c. France - Requête no 57516/00. [7] Provisions of the French Civil Code relating to joint financial guarantees (*cautionnements solidaires*) apply unless provided otherwise in the deliberation issuing the guarantee and/or in the guarantee agreement. [8] Furthermore, there are constitutional principles in France that apply to every single layer of the administration, including the central government and Local Authorities. One of these principles, the "continuity of the State and public services" principle, makes the payment of debts mandatory. Along with budgetary control that forces Local Authorities to meet their payment obligations, a procedure of placement under supervision allows the central government to take control over a Local Authority in order to adjust a situation and meet its payment obligations. Besides, there is some empirical evidence of the central government's willingness to provide exceptional subsidies to municipalities experiencing severe financial difficulties. Similarly, when some Local Authorities have been in a difficult situation after having subscribed to loans with complex interest rate structures, the central government created a specific environment (including an emergency support fund and other support measures) through article 92 of Law no.2013-1278 of 29 December 2013. This ultimately allowed Local Authorities to meet their financial obligations.	
Q3.9	*How does the spread risk for exposures guaranteed by RGLAs differ from the spread risk for exposures guaranteed by the Central governments? Please provide supporting evidence.* In France, bonds issued or guaranteed by Local Authorities generally trade at a margin over OATs while loans generally trade at a margin over swaps. The bond market only represents a small proportion of the local authority debt market (approximately 7% of total outstanding debt[9]), which remains dominated by French banks. As investors tend to have a buy-and-hold strategy for this asset class, the secondary market, whether for bonds or loans, is rather illiquid. As a result, the credit spread for loans issued or guaranteed by Local Authorities tends to be rather stable, and mainly driven by the activity and competition on the primary banking market. The credit spread of bonds issued or guaranteed by Local Authorities tends to be more correlated to the OAT-swap spread and therefore slightly more volatile than the credit spread of loans. Given the illiquid nature of this market, it is rather difficult to compare the spread risk for exposures guaranteed by French Local Authorities to the spread risk for exposures guaranteed by the central government. It is easier compare the spread risk for exposures guaranteed by French Local Authorities to the spread risk for direct exposures to French Local Authorities. In this respect, we would argue that the spread risk for bonds and loans fully guaranteed by a Local Authority should be lower than the spread risk for direct exposures to such Local Authority.	

	[9] Source: Eurostat for 2015.	
Q3.10	*Are the differences between Solvency II and the banking regulation with regard to the treatment of exposures to RGLA justified, for example by differences in the business model of the two sectors or the determination of capital requirements?* **There is no fundamental difference in terms of business models between banks and insurance undertakings on the French public sector financing market.** Article 26 of the law n° 2001-692 relating to budget bills (LOLF) dated 01 August 2001 requires Local Authorities (including EPCIs) and public institutions that are linked to them (*établissements publics locaux or EPLs*) to deposit all their available funds with the French Treasury. As a result, banks may not offer day-to-day banking services to these entities, which provides a strong safeguard relative to other jurisdictions. The business model of banks is thus essentially to provide funding to Local Authorities, whether in the form of short-term credit lines or in the form of medium to long-term loans and to hold these investments until maturity (either directly on their balance sheet or through their covered bond programme). On the insurance side, insurance undertakings invest in bonds or loans issued by Local Authorities, looking for long-term risk-free investments. In this respect, Local Authorities differ from the central government mainly because they are often unrated entities and their debt instruments are less liquid. Insurance undertakings mostly adopt a “buy-and-hold” strategy for this asset class. The business model of banks with respect to Local Authorities is thus very similar to that of insurance undertakings. Consequently, we believe banks and insurance undertakings should be placed on a level playing field and exposures to RGLAs should be treated in the same way in the Solvency II and banking regulations in terms of capital requirements.	
Q3.11	*Should Solvency II incorporate the categorisation set out in Article 115 of the Capital Requirements Regulation, i.e. applying risk weights to exposures to RGLA based on the three cases: a) no special treatment, b) treatment as Central governments, c) intermediate treatment? If the answer is yes, please provide evidence that having three different treatments for exposures to RGLA is justified.* Based on the criteria set forth in Article 109a(2)(a) of the Solvency II directive, we believe that the following French Local Authorities should be added to the list of RGLAs assimilated to the central government of	

	France (as provided in the Commission Implementing Regulation (EU) n°2015/2011 dated 11/11/2015), because these entities have specific revenue-raising powers and are subject to the same institutional framework as municipalities, departments and regions, which are already included in the list: - EPCIs with revenue-raising powers (*établissements publics de coopération intercommunale à fiscalité propre)* ; - *établissements publics territoriaux* (EPT) ; - special status local authorities, such as Métropole de Lyon and Collectivité Territoriale de Corse. In addition, French public healthcare institutions (*établissements publics de santé* or EPS) are included in the list of public sector entities assimilated to the central government of France, as published by the ACPR[10]. Therefore, based on the level playing field principle, we believe exposures to these entities should also be treated as equivalent to the central government for purposes of the Solvency II directive. [10] This list is provided in Annex B1 of the "2016 notice relating to the calculation methodology for prudential ratios under CRDIV" dated 22 February 2017 (https://acpr.banque-france.fr/fileadmin/user_upload/acp/publications/registre-officiel/20170222_Notice_2016.pdf).	
Q3.12	What would be the impact of aligning the treatment of exposures to RGLAs in Solvency II to the treatment in the banking regulation? Would insurance and reinsurance undertakings change their investment strategy regarding RGLAs? Following the entry into force of the Solvency II directive, insurance undertakings began to actively take into account the SCR Spread in their investment strategies. **The current Solvency II framework creates a rather unfavorable prudential environment for exposures to RGLAs**. Firstly, guarantees issued by RGLAs are not recognized. Secondly, RGLAs not assimilated to the central government are treated as corporates and attract a high SCR Spread, especially given that the majority of RGLAs are not rated.[11] This situation limits the appetite of institutional investors for this asset class, and effectively means that the bulk of the financing is provided by banks. This also puts public banks in the position of lender of last resort when private banks are no longer willing or able to provide funding to RGLAs[12]. In our opinion, aligning the treatment of exposures to RGLAs under Solvency II to the treatment applicable for banks (and in particular the treatment of exposures fully or partially guaranteed by RGLAs) would cause	

	insurance undertakings to invest more in this asset class, provided the current treatment applicable to RGLAs listed in the Commission Implementing Regulation (EU) n°2015/2011 dated 11/11/2015 is maintained. This would in turn allow RGLAs to diversify their sources of funding and also reduce their funding costs due to an increased competition amongst potential investors/lenders. The same analysis holds true for exposures to other types of public sector entities that are currently treated more favorably under the banking regulations. For example, we know of at least two significant operations where the non-assimilation of public healthcare institutions (EPS) to the central government within the Solvency II framework (whereas such assimilation exists in the banking framework) deterred insurance undertakings from investing in these entities. [11] Exposures to unrated RGLAs currently attract a stress factor that is higher than the stress factor applicable to exposures to BBB-rated corporates. [12] This is what happened in France when Dexia collapsed.	
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	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
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