11. Consultation paper on advice on investments in infrastructure corporates

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Summary / agenda

Issue

- Further Call for Advice from COM on the Solvency II treatment of investments in corporates that engage in infrastructure activities

Actions asked from IRSG

- To consider the issues and provide any initial views, prior to preparing a formal response to the consultation paper

Follow up

- 4 week public consultation
- EIOPA aims to prepare final advice by end of June

Background

- On 29 September 2015 EIOPA advised for a differentiated treatment for infrastructure investments via project financing
- Amendment to the Solvency II Delegated Regulation which has now come into force
- On 14 October 2015 COM requested further advice from EIOPA on infrastructure corporates
- EIOPA issued a Call for Evidence in November/December 2015

Topics covered by the latest Call for Advice

- Identifying suitable infrastructure corporates with a “better” risk profile (qualifying criteria)

- SCR standard formula calibration (quantitative evidence)

- Risk management requirements (no “new” requirements)

Scope of the Call for Advice

- There have been two main aspects to EIOPA’s analysis:

  - Reviewing the scope of the infrastructure project asset class to cover “project like corporates”

  - Analysing the available evidence for corporates in general

Further analysis of "Infrastructure project" asset class

- Some changes are considered to be reasonable to the qualifying criteria for *infrastructure projects* whilst providing for *an equivalent level of risk*:
  - o Remove the restriction to SPV financing
  - o Allow some alternative security arrangements

Analysis of equity prices of infrastructure corporates

- The result of analysis of listed infrastructure corporates indicates that the *current SCR could be reduced but is higher than the risk charge for infrastructure projects*

- In the absence of publicly available data on unlisted infrastructure assets, the data on listed entities is considered to be an appropriate proxy

Analysis of spreads of infrastructure corporate bonds

- Spreads of infrastructure corporate bonds selected *were significantly less volatile* than those of non-infrastructure corporate bonds used for comparison.

- However, it is *not yet possible to conclude* on whether the spread risk of infrastructure corporate debt *differs from the one implied by the standard formula*

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Thank you and questions