Comments Template on EIOPA-CP-15-003 Discussion Paper on Infrastructure Investments by Insurers		Deadline 26.April.2015 23:59 CET
Company name:	Standard Life PLC	
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.	Confidential
	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-15-003@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-15-003.	
Reference	**Comment**	
Question 1	The structure of some infrastructure investments could potentially fall within the Solvency II classification of a 'securitisation'. We note that Recital 92 of the Solvency II Delegated Acts states that "An exposure that creates a direct payment obligation for a transaction or scheme used to finance or operate physical assets should not be considered an exposure to a securitisation, even if the transaction or scheme has payment obligations of different seniority." Given that infrastructure investment will typically be in relation to the financing or operating of physical (infrastructure) assets,	

	it would be helpful for this derogation to be explicitly covered in the Solvency II framework.	
Question 2	A number of reports are available (including 'Moody's report: Default and Recovery Rates for Project Finance Bank Loans, 1983-2013') which show that the recovery rate of infrastructure debt assets is generally more favourable than other assets, including, for example, (uncollateralised) corporate bonds. This would suggest that infrastructure debt can support a lower spread risk calibration than would be implied from corporate bonds.	
Question 3	Infrastructure debt investments can be suitable investments for insurers backing long-term liability cashflows, such as annuity business. Insurers will typically invest in debt assets over a long time horizon and often with the intention of holding the assets to maturity, as part of matching their asset and liability cashflows. Matching is encouraged within the Solvency II framework and it is recognised that insurers holding assets to maturity are naturally not exposed to spread risk over the term of their investment. Insurers can therefore benefit from investing in illiquid long-term assets, such as infrastructure debt, as part of a portfolio of assets to match their liabilities. Insurers are already required to assess, monitor and manage their liquidity requirements and resources and this will form part of firms' risk management policies and procedures, as well as being assessed in their ORSA. The liquidity requirements of insurers' asset portfolios will be considered and reviewed as part of their ongoing liquidity management activities.	
Question 4		
Question 5	The Basel II definition of Project Finance is a good definition of 'Project Finance'. There needs to be additional action that takes this definition further so that it becomes Project Finance used to finance Infrastructure Assets. 'Infrastructure Assets' also requires a more specific definition. We suggest a definition that includes essentiality, monopolistic tendencies, clarification on high barriers to entry and predictability of revenues.	
Question 6		
Question 7	A combination of subparagraphs a, b and c seem most appropriate. Subparagraph (a) provides the characteristics expected to be seen from the asset, subparagraph (b) provides a range of functions and subparagraph (c) focusses on the stability and predictability of the revenues. Certainty of revenues can be created through contractual arrangements or through essentiality or lack of alternatives.	

Comments Template on EIOPA-CP-15-003 Discussion Paper on Infrastructure Investments by Insurers		Deadline 26.April.2015 23:59 CET
Question 8	Our business has created a wide definition of infrastructure and set out sectors and geographies where we wouldn't wish to be involved. We then utilise an internal ratings system that more clearly defines what we can and cannot do. That is to say, it creates a minimum rating requirement which can only be achieved if identifiable sections of subparagraphs a, b and c are met.	
Question 9		
Question 10	We do not believe it would be useful to exclude whole sectors (eg ports), which are essential infrastructure.	
Question 11		
Question 12	We believe that the most effective criteria are ratings (internal or external) and in-house definitions. The in-house definition could also encompass sections of subparagraphs a, b and c in Q7 above	
Question 13	Annex 6 of Basel II is a good starting point. These criteria should form the basis of any risk rating model for Infrastructure or Project Finance; there would have to be criteria on how the risk rating models map back to Annex 6.	
Question 14		
Question 15	Applying and mapping these to ratings agencies is a good start – there should be a level of consistency between annex 6 and ratings.	
Question 16		
Question 17	The described criterion covers everything one would expect.	
Question 18	We believe that the criteria are described well enough and should be ascribed where assets meet the broad infrastructure definition, e.g. essentiality, monopolistic etc.	
Question 19	We do not believe that the respective aim could be achieved with other criteria. We do, however, urge a consistency between Basel II, CRD IV, Solvency II etc. – regulators should not create an unlevel playing field between operators.	
Question 20	Mechanisms that allow risk mitigation in construction, e.g. bonding, contractual, careful analysis, careful control of payments and construction phase and close on-going monitoring. Credit enhancement or guarantee mechanisms can help but at a cost and could be avoided with proper internal due diligence and management by the firm.	
Question 21	We believe that the requirements should provide sufficient comfort to mitigate losses and potential losses under stressed scenarios. As referenced in previous questions, this should feedback through	

	ratings mechanisms.	
Question 22	It is our belief that credit enhancement and guarantees will help mitigate the risks at any stage. However, they come at a cost, as they can result in a lower level of diligence and can reduce yields to a level where risk/reward is no longer attractive. This is best used where funding would not otherwise be acceptable – again, goes back to due diligence and credit rating of the underlying risks.	
Question 23	Revenue risk is complicated by the wide definition of Infrastructure. For example, availability based payments should be low risk, provided the contractual ability to withhold these payments in the case of no availability or poor availability is clear and reasonable. Further protections are provided contractually with the ability to pass the risk down to a sub-contractor but the pass down benefit is then limited by a) reasonableness etc. of the contract and b) the quality and strength of the entity to whom the risk is passed down. Similarly, in the wind example, the price of electricity might be guaranteed but the assumptions might be over optimistic (P50 assumptions v P90 for example). Therefore, the guaranteed price by itself is of little benefit. The same applies to equity which will also be at risk or protected by the quality of underlying assumptions and quality of contracts and quality of pass-through entity.	
Question 24	Our alternative proposal is to be less prescriptive. This falls under the overall definition of infrastructure. Income should be predictable, stable and capable of withstanding significant downside scenarios. The ability of any single income stream to achieve these criteria should be considered on a case by case basis.	
Question 25		
Question 26	This question goes back to the essentiality of the project referenced in previous comments. A non-public off-taker would be in an acceptable position where failure of the off-taker would inevitably result in a new off-taker stepping in. Perhaps a project should not be capable of being rated higher than the off-taker.	
Question 27	Ratios would differ for a number of reasons. Non-public off-taker would require a higher equity which, in turn, should result in a higher DSCR. This doesn't make the project more attractive to debt or equity from a risk perspective. DSCR is traditionally the most suitable ratio but this might not always be the case; where there is property ownership or where debt doesn't amortise or only partially amortises or the project is funded short term and there is a project refinance risk incorporated within the structure.	
Question 28	The rating agencies have a ratio matrix – S&P, for example, requires >1.75 for an "aa" rating. The	

	result of their ratio analysis is whether a project reaches a given rating. It does not govern whether a project is classed as infrastructure or not.	
Question 29	The argument for making non-senior debt eligible would be to allow for debt structuring. An example would be a project that is geared 70% senior, 30% equity versus a project that is 15% "super-senior", 50% senior, 35% equity.	
Question 30	Refinancing risk might be appropriate for a project – a 20 year interest-only debt made for a 120 year concession-based project will have a refinancing risk and over the 20 year life of the debt, equity might get its money back plus a return. We propose that perhaps equity duration compared to debt term would be more appropriate.	
Question 31	We agree prepayment risk should be minimised where the instrument is being used to match liabilities. Illiquidity should not necessarily be penalised and can provide a benefit assuming that benefit is protected by way of contractual mechanisms, traditionally some form of make whole or modified make whole, providing a return for the lender that is commensurate with what they were expecting but also relative to returning capital early, with no future risk and ability to re-invest.	
Question 32	For proven technology and designs to be made a condition – there would need to be a number of similar projects where technology is proven in the significant majority of cases. It is possible that technology will benefit from a guarantee from a significant entity which then goes back to the off-taker risk discussed under Question 26.	
Question 33	We agree that institutions should have the ability of internally rating projects rather than reliance on external ratings. Achieving a minimum investment grade equivalent could then be appropriate.	
Question 34		
Question 35	Partial internal models might be one answer. However, it seems contrary to seeking conformity across infrastructure and establishing it as a recognised asset class. The internal models can be achieved through establishing and being able to demonstrate an in-house expertise and capability that can stand up to external challenge or, where the institution is not willing to invest in the required level of internal expertise, this could be achieved by employing an asset manager or institution that does possess that internal capability.	
Question 36		
Question 37		
Question 38		

	Comments Template on EIOPA-CP-15-003 Discussion Paper on Infrastructure Investments by Insurers	Deadline 26.April.2015 23:59 CET
Question 39		
Question 40		
Question 41		
Question 42	We have experienced similar difficulties in retrieving suitable data. The evidence we have is that pricing of infrastructure bonds is similar to (in direction of movement) but less volatile than (in amount of movement) to corporate debt. Although, as the consultation points out, this is distorted by the extent of monoline guarantees, the benefit of which fell away around 2008. We believe Project Bonds now provide a good proxy for price movement of illiquid project debt.	
Question 43		
Question 44	We believe there is limited evidence. The proxy(s) should be chosen on a case-by-case basis where there are broad similarities between quoted debt and unquoted infrastructure debt.	
Question 45	In a buy to hold, the book value could be used and capital calculations based on PDs and LGDs. This seems to be the process adopted by banks and the formula is applied against book value throughout.	
Question 46		
Question 47	The adjustment factor for Infrastructure would be based on the lower PDs and LGDs exhibited by the asset class. This is not something that SMEs, for example, exhibit. From a credit aspect, SMEs are very sensitive to economic downturns. Infrastructure should be significantly less sensitive to economic downturns.	
Question 48		
Question 49		
Question 50		
Question 51	Lenders should be capable of either establishing their own expertise in infrastructure as an asset class or employing other organisations who have done this and are able to manage assets for them in the same way that they would for other asset classes.	
Question 52		
Question 53		
Question 54	If financial models were too prescriptive, this could have the problem of trying to force round pegs into square holes – using a model that was not entirely appropriate for a particular case or set of circumstances. The insurer should be capable of understanding any financial model being lent	

	against. Alternatively, they should outsource their funding to parties that doe possess these capabilities.	
Question 55	Information should be provided regarding overall portfolio performance and any individual underperformances or issues. Underperformance or issues should include revenues, counterparties and rectifications together with the impact that individual performances are having on the performance of the overall portfolio. Impact of underperformance should also be considered, for example downgrade, revaluation, provision etc.	
Question 56	We would urge that criterion should avoid being too prescriptive – appropriateness should be capable of being considered on a case-by-case basis.	
Question 57		
Question 58		
Question 59	The disadvantage is recognised in the discussion paper. Infrastructure investments should respond to a particular definition to qualify.	
Question 60		