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| | **Comments Template on EIOPA-CP-15-004**<br>**Consultation Paper on**<br>**the Call for Advice from the European Commission on the identification and calibration of infrastructure investment risk categories** | **Deadline**<br>**09.August.2015**<br>**23:59 CET** |
| Company name: | German Insurance Association (GDV) | |
| Disclosure of comments: | EIOPA will make all comments available on its website, except where respondents specifically request that their comments remain confidential.<br>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:<br>⇨ Do **not** change the numbering in column "Reference".<br>⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph, keep the row empty.<br>⇨ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below.<br>o 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.<br>o If your comment refers to sub-bullets/sub-paragraphs, please indicate this in the comment itself.<br>**Please send the completed template to CP-15-004@eiopa.europa.eu, in MSWord Format, (our IT tool does not allow processing of any other formats).**<br>The paragraph numbers below correspond to Consultation Paper No. EIOPA-CP-15-004. | |
| **Reference** | **Comment** | |
| General comments | We welcome the fact that EIOPA's proposals on appropriate capital requirements for infrastructure investments relate to debt and equity investments. We share EIOPA's view that the current treatment of infrastructure debt and equity investments in the standard formula is too conservative. The proposals are a step in the right direction. However, we **consider the proposed improvements to be very limited** since in our view capital charges in particular for unlisted equity investments in infrastructure are still too high. Moreover, the additional qualitative requirements regarding risk management (section 7) especially requesting additional strees tests contradict the envisaged improvements. Key positions are<br>• We welcome that EIOPA takes a **broad definition of infrastructure**. The set of criteria appear to be suitable to eliminate infrastructure investments where lower risk charges are not appropriate. However the definition of infrastructure and the set of criteria need some further refinements. In particular **more flexibility is needed in the area of criteria**, since otherwise | |

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| | many suitable projects would not qualify for preferential regulatory treatment.<br>• We believe that a **distinction between listed and unlisted equity infrastructure** investments is crucial. Listed infrastructure equities could remain in the type 1 category. However, leaving unlisted equity investments in infrastructure in the equity risk sub-module means that its characteristics are not properly reflected. In our view only a **separate market risk sub-module** with for example 20 per cent capital charge would appropriately reflect the particularites of this asset class: predictable cash flows which are independent from fluctuations at equity markets and only minor or no correlation to other asset classes.<br>• The **improvements for infrastructure debt in the spread risk module are too limited** and do not sufficiently reflect higher recovery rates as compared to corporate bonds and the existence of risk mitigation pools that reduce the loss given default.<br>• **For infrastructure debt the preferred solution is a treatment under the counterparty default risk module** as type 2 in order to adequately reflect the strong recovery rates and long-term character of infrastructure investments.<br>• **Additional qualitative requirements** relating to investments in infrastructure projects **should be very limited**. We believe there is only little need and justification for these requirements. Furthermore, there is the risk, that the higher qualitative requirements will undermine potential benefits due to high complexity and costs. This would contradict political will and efforts to improve the conditions for infrastructure investments.<br>• Given appropriate internal assessments, we believe that the advice should consider **internal ratings** equivalent to the External Credit Assessment Institutions (ECAI) rating. | |
| Section 1.1. | **We share EIOPA's view that Infrastructure investments show a better risk profile than the current treatment in the standard formula** of these investments indicates. Since the segment of infrastructure is quite inhomogeneous a set of definitions would be most adequate to identify those investments and categorise them. Non-listed infrastrucuture projects generally have not so much in common with equities. At least a very low correlation for infrastructure projects to all other standard investements if not zero should be considered. | |
| Section 1.2. | | |
| Section 1.3. | | |
| Section 1.4. | | |
| Section 1.5. | We support EIOPA's reconsideration of the calibration of Infrastructure equity investments only | |

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| | regarding listed equity. **For listed equity we support the reduced risk charge 30 - 39 per cent.** However, we believe that the low correlation between unlisted infrastructure equity and other equity should be taken into account. The EIOPA proposal unfortunately lacks any explicit recognition of lower volatilities and diversification that unlisted infrastructure equity bring to insurers' investment portfolios. We acknowledge the difficulties in finding a valid data base for unlisted equity. But we don't believe that listed equities can be used as a proxy to calibrate the risk capital charge for infrastructure unlisted equity. While a perfect data base is always difficult to find, in our view already existing evidence supports a significantly different regulatory treatment for listed vs. unlisted equity.<br><br>**We are concerned about the additional requirements for risk management** e.g. stress tests. We acknowledge that sound risk analysis and controlling of infrastructure investments is crucial. However, with regard to the prudent person principle, these requirements **do not seem necessary since appropriate risk analysis is already covered by pillar 2 of Solvency II.** Additional requirements could cause significantly higher costs and ultimately contradict the political objective facilitating the long term financing of infrastructure development. Therefore the impact of new requirements and whether they are really necessary should be carefully considered.<br><br>**For infrastructure debt the preferred solution is a treatment under the counterparty default risk module** in order to adequately reflect the strong recovery rates and long-term character of infrastructure investments.<br><br>**We support EIOPA's suggestion that infrastructure debt investments without an ECAI rating may still qualify for a refined standard formula treatment.** We consider this issue as important since infrastructure debt investments are typically unrated. We support EIOPA's suggestion to **treat qualifying unrated infrastructure debt investments with credit quality step 3.** Moreover we suggest to **allow for internal credit assessments** in the classification of these investments given the utilised in-house rating methodology is compliant with Solvency II requirements as well as the use of non-ECAI ratings.<br><br>Within the asset class of qualifying infrastructure, **strong guarantees by RGLA should also benefit from a specific prudential treatment.** Due to their lower risk, qualifying infrastructure guaranteed by | |

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| | RGLA should be treated as central government exposures. | |
| Section 2.1. | | |
| Section 2.2. | | |
| Section 2.3. | | |
| Section 2.3.1. | **We share EIOPA's view of the Moody's study that the recovery rates of infrastructure debt investments are significantly higher as compared to corporate bonds.** Similar to EIOPA we see a difference in the recovery rates depending on the status of the project (construction vs. operational phase). Especially in the operational phase recovery rates of about 80 per cent + seem absolutly plausible. | |
| Section 2.3.2. | | |
| Section 2.3.3. | | |
| Section 2.4. | | |
| Section 2.4.1. | | |
| Section 2.4.2. | | |
| Section 2.5. | | |
| Section 2.5.1. | | |
| Section 2.5.2. | Chart 2 and 3 provide evidence that the uncertainty / default probability is significantly higher in the construction or ramp-up phase. Based on this we **suggest to repeat the rating of debt investments – at least once the project enters its operational phase.** In this phase the relative risk loading should decrease as compared to the start of the respective project. | |
| Section 2.5.3. | | |
| Section 3.1. | **We agree that corporate entities engaging in infrastructure activities should not be covered by the Solvency II standard formula.** Corporate entities exhibit corporate risk, which has a different profile compared to infrastructure assets. For example, while infrastructure investments have a static behaviour (i.e. there is nearly no change over time), corporates aim to grow and therefore bet on new developments and take on board higher risks. On the other hand following a careful risk analysis some infrastructure corporates could qualify for an infrastructure asset under certain circumstances (e.g. corporates with thte majority of their business activities with providing infrastructure services and | |

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| | corporates operating an energy grid). The delineation between such "infrastructure corporates" and project financings in the narrow sense requires very strong internal risk and modelling capacities with an adequate internal risk assessment approach. | |
| Section 3.2. | | |
| Section 3.2.1. | | |
| Section 3.2.2. | | |
| Section 3.2.3. | Infrastructure debt investments are in many cases not rated by ECAI. **In order to reduce overreliance on external ratings in line with CRA III we suggest to allow for internal ratings in the classification of these investments as well.** Especially small/medium size projects usually have no rating but contain low risks. Especially in these cases the use of **non-ECAI ratings** should be allowed for as well.<br><br>**We are concerned by the limitation of the credit risk approach to CQS2 and 3, which is too restrictive and not reflective of actual credit behaviour of infrastructure for higher CQSs.** The infrastructure debt instruments with high credit quality, ie CQS 0 and 1, should also be considered for better treatment than corporate bonds with the same CQS. | |
| Section 3.3. | **More flexibility is needed in the area of criteria**, since otherwise many suitable projects with low risks would not qualify for preferential regulatory treatment. The criteria identified by EIOPA **should be merely indicators.** It should be made clear that infrastructure projects that **meet certain criteria, but not all of them, should still be eligible.** Otherwise the number of projects meeting all criteria is likely to be very limited, rendering the entire exercise obsolete. Risk management and internal assessment requirements (pillar 2) already take into account such assessments of investments on a regular basis. In addition, insurance companies should be given a certain amount of leeway in assessing whether a specific project qualifies for a more favourable treatment. Alternatively the number of criteria has to be reduced materially.<br><br>We believe that insurers would define certain **trigger events** to repeat risk assessments in the course of the project. Given that a sound risk governance is established and the requirements are fulfilled, **internal model entities** should be allowed to make use of an investment-specific treatment of these investments. | |

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| Section 3.3.1. | We welcome EIOPA's approach to take a **broad definition for Infrastructure with suitable criteria** to eliminate infrastructure investments where lower risk charges are not appropriate. However, we think that certain **definitions are not clear enough:**<br><br>The explanations of **"essential"** as well as **"public services"** in defining **"infrastructure assets"** raise questions which assets would fall into this definition. We see the risk that low risk projects with predictable low volatile cash flows and high credit quality of the off-taker are excluded from tailored treatment. In this context we would disagree with the exclusion of e.g. a power plant providing electricity to a single factory from the scope of the infrastructure definition, because the risk profile of such a utility is quite similar to other eligible projects falling under the scope of the Infrastructure definition (1.71). Generally we believe that infrastructure assets which "support essential public services" are **only one indicator amongst others for a low risk profile.** A low risk profile could also be achieved, if there are a number of private off-takers with high credit ratings. In our view, it is more important to have a reliable cash flow stream than the type of infrastructure service provided.<br><br>Furthermore, we recommend the refinement of **"subject to limited competition"** because it is **not an exclusive description of an infrastructure project** (e.g. schools, hospitals etc.). In order not to exclude suitable infrastructure investments the "limited competition" **should not be a compulsory application condition.** It should be clarified, that it **doesn't mean monopolies or oligopolies** but rather inelastic demand or long-term contracts/licenses or minimum purchase regulations. Infrastructure facilities are usually not – or only to a small degree – subject to market competition, since their services are difficult to replace. The condition referring to competition should be reworded as **"not subject to full competition".**<br><br>The proposed definition for **"Infrastructure project entity"** is too restrictive because the degree of control given to lenders will depend on the prevailing market conditions at the time the loan was enxtended. Requirement to meet either a) or b) should be sufficient.<br><br>Further, it should be clarified, that infrastructure financing does **not require the physical ownership** of the mentioned structures, systems and networks, but also for example the **concession** to operate them. | |

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| Section 3.3.2. | We welcome the approach to define characteristics of relatively low risk infrastructure insvestments, which do not relate to specific categories of investment objects, but are rather based on a list of general criteria. The set of criteria is necessary in order to identify low risk infrastructure investments. **Regarding the number and precise detail of criteria it should be ensured that the list is practical and not too burdensome and eligible investments are not excluded due to higher levels of complexity.** There is a need for greater flexibility within the criteria, meaning that not all criteria have to be met in order to qualify for preferential treatment. | |
| Section 3.3.2.1. | | |
| Section 3.3.2.2. | Regarding the **Advice on "Predictability of cash flows"** we would like to emphasise that **the focus should be rather on predictability and not on stability**. The criteria should be a long dated investment with a high degree of predictability regarding cash flows. Stability of cash flows can vary according to the seasoning of the project but within expectations. A stable cash flow is therefore positive but should not be a requirement. The requirement should also not be necessarily met by all cash flows, a **majority** (2/3) of regulated or locked-in cash flows should also qualify for a tailored treatment. It is important that the requirements on predictability of cash flows remain non-cumulative.<br><br>The assessment of the predictability of cash flows should **not be limited to investments with an ECAI rating** but also **include internal ratings** as a result of companies' own credit assessments. Non-existence of an ECAI rating is not indicative of low quality. Unrated debt should be included in the analysis next to rated debt. Excluding unrated debt would be unjustified from a risk perspective and reduce the number of eligible investments significantly. Moreover, **limiting preferential treatment to investments with external ratings would contradict the intention of the rating regulation CRA III** (**Regulation 462/2013**) since CRA III intends to reduce companies' dependence on external credit ratings. If a public or non-public credit rating by a recognised credit rating agency exists than the external rating should be used together with an internal assessment where appropriate. In case an external rating by a recognised agency does not exist (which will quite often be the case) then only the investor's own credit assessment should be used. Moreover, a requirement for an off-taker ECAI rating with CQS of at least 3 seems too restrictive. We suggest instead an off-taker ECAI rating with **CQS of at least 4.**<br><br>We do not consider it necessary to separately mention the **forecastability of weather conditions** | |

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| | (obviously related to renewable energy investments) as an additional requirement. This requirement is not sector-specific. Change formulation to "reasonably in line", as one never can exactly forecast. | |
| Section 3.3.2.3. | It is unclear which **termination clauses** would improve the quality of the project. Change formulation in 1.: 'The infrastructure assets and infrastructure project entity are governed by a robust contractual framework *which is consistent with best practice standards (like NEC3 contracts for construction projects)* and also includes strong termination clauses' | |
| Section 3.3.3. | Credit quality requirement should be **extended to credit quality step 4** subject to the investing insurance company provides of the capability to monitor and manage such investments. | |
| Section 3.3.4. | | |
| Section 3.3.4.1. | We believe that the **restriction to EEA and OECD countries is generally a reasonable approach.** Non-EEA and non-OECD jurisdictions should only be considered as long as the political risk is mitigated e g. by **guarantees of an multinational organisations or via credit insurance.**<br><br>The definition of a **stable and predictable political and legal environment** should be removed. We believe that the **requirement** that there should be a low risk of specific changes to law, regulatory actions or the imposition of exceptional taxes **may be challenging to prove in practice.** In any case, companies are always assessing via their risk management and pillar 2 the valuation of their assets based on their allocation, their investment policies and their strategies. Projects should always be assessed on a case-by-case basis. | |
| Section 3.3.4.2. | The **strength of the sponsor** may be irrelevant to the project's quality and stability. For instance, in brownfield projects the quality of the sponsor will not be relevant. Further, other mechanisms exist than those listed in c) of the definition of a strong sponsor that will ensure that the sponsor is sufficiently aligned with the equity investor in completing the project.<br><br>We are **concerned by requirement 4.a in the advice on structural requirements that the sponsor has a "*very strong track record and relevant country and sector experience*".** This would make it hard to support a sponsor's early ventures into a new market and so in any case would need to be changed to: "*~~very~~ strong track record and relevant ~~country and sector~~ experience".* | |

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| | **Similarly, we believe that requirement 4.b on the *"high financial standing"* of the sponsor is unnecessarily restrictive.** Most equity fund sponsors don't have much in the way of financial standing, as only a few building contractors are rated, let alone investment grade. These entities can be accommodated by commensurately stronger security packages / structuring. Their ability and the incentive on them to work through difficulties should be considered. | |
| Section 3.3.4.3. | | |
| Section 3.3.4.4. | **The high number of requirements** regarding construction risk, in particular regarding risk transfer and completion **increases the complexity**.<br><br>**Monitoring and managing of risks should be carried out by investors and cannot be outsourced to the assetmanager** The insurance will independently form its opinion, but it can of course receive support in the form of eg technical advice from a third party. Therefore point 2.d of the advice on construction risk should be refined as follows:<br>*„d.when assessing whether the conditions in points a) to c) are met insurance and reinsurance undertakings shall use independent from the assetmanager ~~thirdparty~~ technical and legal expertise.*"<br><br>**Point 2 (a) of the definition of a suitable construction company should be removed.** There are other contractual arrangements with construction companies than fixed-price/date, certain turn-key contracts that adequately transfer risk and create incentives for the construction company to deliver a project on time and within the applicable specifications.<br><br>**Fixed-price date-certain turn-key construction engineering and procurement contracts are not the only contractual framework for effectively mitigating construction risk.** There are also more differentiated penalty/incentive schemes (cf. NEC3 contracts) which incentivise the right behaviour, while simultaneously avoiding excessive interface problems as in the case of a fixed-price, fixed-date contract which incentivize risk transfer to subcontractors. Therefore, a) should be supplemented by: 'the infrastructure project entity enters into a fixed-price date-certain turnkey construction engineering and procurement contract with a realistic time horizon and estimate of costs **or** an incentive and risk-sharing mechanism which is based on a detailed bottom-up cost analysis and has adequate risk contingencies | |
| Section 3.3.4.5. | The **transfer of operating risks to an operating company should not be a pre-requisite.** For | |

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| | example, many projects conduct the operation of the project through their own staff, thereby increasing their control over the operation of the project, and, more importantly, achieving a certain degree of autonomy from third party operators. For larger projects, such as for instance an energy grid, suitable third party operators may simply not be available.<br><br>The **project company should not be forced to outsource all material O&M obligations** to a third party provider, if it provides of sufficient O&M track record (requirements as described in c) for external operating company). | |
| Section 3.3.4.6. | | |
| Section 4.1. | | |
| Section 4.2. | | |
| Section 4.2.1. | We share EIOPA’s view that for infrastructure debt investments **the spread risk can be reduced** as it largely results from the illiquidity of these investments. The consultation paper proposes **two alternatives for the treatment in the spread risk module** - the liquidity approach and the credit risk approach in section 4. The comparison of both alternatives shows that the **liquidity approach** leads to only minimal improvements for infrastructure debt with high credit quality. The **credit risk approach** leads to more significant improvements for investments with lower credit quality and seems more appropriate. Due to the fact that a high percentage of infrastructure debt have lower credit quality, the credit risk approach would entail bigger improvements than the liquidity approach.<br><br>In relation to EIOPA’s calibration of the liquidity approach, there is no reason to assume a 10 per cent probability of sale. **We are critical of the proposed requirement that the insurer must demonstrate that it can hold the instrument to maturity** (no. 2 advice liquidity approach). We believe that while in most cases insurers will be willing and able to hold their long-term investments to maturity there is **no need and justification** for an explicit requirement. **Due to their predictable long-term liabilities, insurance companies are able to invest in a relatively large portion of illiquid assets.** For this reason insurers are exposed to liquidity risks to a much lesser extent than for example banks. Solvency II encourages insurers to match assets and liabilities. Matching assets and liabilities allows insurers to avoid exposure to forced sales of assets and also allows insurers to hold the assets that they acquire throughout the lifetime of these assets. The existence of illiquidity premiums further improves insurers’ portfolio performance. **Moreover, the risk management requirements of** | |

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| | **Solvency II already ask insurers to reflect on liquidity risks in their written policy on risk management and in their ORSA reports.** Any further requirements in order to address liquidity risk are not necessary. For insurers’ investments under Solvency II the prudent person principle applies, which ensures adequate framework conditions for investment decision-making to serve the interests of policyholders. | |
| Section 4.2.2. | | |
| Section 4.2.3. | | |
| Section 4.2.4. | The advice states that infrastructure assets are normally illiquid and the probability of a forced sale of these assets should be very limited and could be zero if the entity has other liquid corporate bonds. Indeed, if the liquidity approach is chosen for the calibration the ability to avoid forced sales should be recognised in the **calibration for the liquidity approach with 0 per cent probability of sale (compare with table 6 in paragraph 1.146.) instead of 10 per cent** as assumed in the advice (compare with table 7 in paragraph 1.148.). | |
| Section 4.2.4.1. | | |
| Section 4.2.4.2. | | |
| Section 4.2.4.3. | | |
| Section 4.2.4.4. | | |
| Section 4.2.4.5. | | |
| Section 4.2.5. | | |
| Section 4.2.5.1. | Infrastructure assets with high credit quality, i.e. **CQS 0 and 1, should also be admissible for a tailored treatment** under the credit risk method. These assets show better credit performance than corporates as well. This view is underlined by various evidence such as Moody’s (2015) “Infrastructure Default and Recovery Rates, 1983-2014”. | |
| Section 4.2.5.2. | | |
| Section 4.2.5.3. | | |
| Section 4.2.5.4. | | |
| Section 4.3. | | |

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<tr><td>Section 4.3.1.</td><td></td><td></td></tr>
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<tr><td>Section 5.1.</td><td>For infrastructure debt our preferred solution is a treatment under the counterparty default risk module as type 2 in order to adequately reflect the strong recovery rates and long-term character of infrastructure investments. Due to their predictable long-term liabilities, insurance companies are able and willing to invest in a relatively large portion of illiquid assets. For this reason insurers are exposed to liquidity risks to a much lesser extent than for example banks and have the ability to avoid forced-sales.<br><br>Morerover, there is evidence that infrastructure investments react less (or even not at all) to general financial market movements due to their long-term nature and underlying exposures often with inelastic demand. There is also clear evidence that the risks of default and/or recovery rates of infrastructure investments exhibit better performances than those of corporates. Compared to corporate bonds, infrastructure debt shows much higher recovery rates: For example Moody’s 2015 report on Default and Recovery Rates for Project Finance Bank Loans, based on data from 1983 to 2013, showed ultimate recovery rates for infrastructure of 77 per cent while corporate bonds showed ultimate recoveries from 28 per cent (subordinated bonds) to 63.5 per cent for senior secured bonds.<br><br>An approach via the counterparty default risk module would allow the calibration of the capital requirement for infrastructure debt to reflect insurers ability to hold assets long-term as well as reflect higher recovery rates (as compared to corporate bonds) and the existence of risk mitigation tools (e.g. collateral) that significantly reduce the loss given default.</td><td></td></tr>
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<tr><td>Section 6.1.</td><td></td><td></td></tr>
<tr><td>Section 6.2.</td><td>Equity instruments are of great interest for insurers. The EIOPA advice – equity risk charge between 30 and 39 per cent - is based on a PFI-Portfolio of five companies listed at London Stock</td><td></td></tr>
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| | **Exchange which predominantly invest in social infrastructure**. We note, that the sample is very small and with its focus on social infrastructure most likely not representative of ongoing and planned infrastructure investments by insurers. EIOPA identified in its analysis of the PFI portfolio that infrastructure investments have higher returns than the market with much lower drawdowns, volatilities and tail risks as well as little or no correlation with the market. Therefore we **welcome EIOPA's proposal for listed equity.**<br><br>We believe that **a distinction between listed and unlisted equity is however crucial** (see as well comments in section 6.3). While listed infrastructures' characteristics are similar to global equity, the returns of **unlisted infrastructure exhibit much lower volatility and are nearly uncorrelated with both listed infrastructure and global equity.** Therefore, we don't believe that prices for listed equities should be used as a proxy to calibrate the risk capital charge for an individual unlisted infrastructure project. Especially the low correlation down to zero to other standard investments should be considered. Beside others a crucial parameter is the leverage ratio of the underlying project entity. **Listed indices are usually composed of entities with a rather high leverage ratio resulting in higher risk charges of these indices.** A leveraged infrastructure equity index usually overestimates the risk of moderately or even unleveraged infrastructure equity investments. Therefore the current treatment of unlisted infrastructure equity under Solvency II and in the EIOPA proposal is not seen as appropriate. We believe that the **PFI portfolio is only a very first step to better assess the riskiness of equity infrastructure investments** as compared to standard equity indices indicating a lower risk charge of infrastructure equity investments as compared to Type 1 equity. | |
| Section 6.2.1. | | |
| Section 6.2.2. | | |
| Section 6.2.3. | | |
| Section 6.3. | **We share EIOPA's view that infrastructure equity investments have higher returns and lower risks than other equity investments.** Therefore we would like to highlight the following key positions on the recalibration of infrastructure equity:<br><br>For **listed** infrastructure equities, we believes there is a high correlation with type 1 equities. Therefore we **agree with the prosposed risk charge between 30 and 39 per cent.** | |

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| | **A distinction between listed and unlisted equity infrastructure investment is however crucial**. While listed infrastructure equity characteristics are similar to other listed equity, the returns of unlisted equity infrastructure exhibit much lower volatility and are uncorrelated with both listed equity infrastructure and global equity.<br><br>**Unlisted infrastructure equities should therefore be captured under a new sub-module in the market risk, with a 20 per cent charge.** A **zero correlation** should be applied between the sub risk-module for infrastructure risk on one side and the sub risk-modules for equity risk, interest rate risk and other market risks on the other side. The following evidence supports such an approach:<br>• In the current Delegated Act (DA), equity investments of a strategic nature and long-term equity investments (covered by Article 304(1)(b) of the Directive) receive a 22 per cent charge in the SCR calculation. Infrastructure unlisted equity have similar characteristics (e.g. not subject to short-term trading, significantly less volatile, etc) and should therefore be treated similar.<br>• A study by Blanc-Brude/Whittaker (2015), partly reproduced in Annex V of the EIOPA draft advice notes that the PFI portfolio exhibits higher returns than the market, with much lower drawdown and tail risks and very little, or no correlation with the market.<br>• A JP Morgan Asset Management study (2013) notes that unlisted infrastructure equities are nearly uncorrelated with both listed infrastructure and global equity.<br>• A study by Bitsch, Buchner and Kaserer (2010) shows that for unlisted infrastructure equity there is lower risk of default than for other equities as well as a higher return.<br>• Unlisted infrastructure equity exhibits rather bond-like characteristics.<br>• Unlisted infrastructure equity is most often long term and not used for short-term trading, matching insurers' abaility to invest long-term and to avoid forced sales.<br>• The proposed definition and some criteria will result in infrastructure equity investments being a subset of equity investments with a higher quality.<br>• Since EIOPA advocates for a charge of 30 to 39 per cent based on prices of listed equities, this would justify a charge lower than 30 per cent for unlisted infrastructure equities. | |
| Section 7.1. | Additional **qualitative requirements relating to investments in infrastructure projects should be predominantly avoided.** We believe there is **no need and justification for these requirements** - like the stress testing of cash flows on a regular basis. With regard to the **already existing risk** | |

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| | **management requirements in Solvency II** and the prudent person principle these detailed requirements are not seen as necessary and appropriate. Moreover, the **complexity and costs involved** in conducting such stress tests – if at all possible due to lack of appropriate data - would in many cases outweigh the positive impact from an adjusted calibration. This would contradict the political will and efforts to improve the conditions for infrastructure investments. | |
| Section 7.2. | | |
| Section 7.3. | We believe there is **no justification for prescribing specific elements of risk management for infrastructure investments** as proposed in section 7 of the EIOPA advice. Insurance companies should be able to **validate themselves whether a project satisfies the qualifying criteria** because it is best placed to make this assessment (rather than having an independent validation confirm it). Otherwise, this would impose higher requirements on insurance companies than those that the second pillar of Solvency II is already calling for (where an insurance company needs to conduct its own assessment whether an investment satisfies the **prudent person principle**). | |
| Section 8. | As outlined in section 6.3 we believe it is advisable to reduce risk charges for infrastructure investments and to **introduce a separate sub-risk module of unlisted infrastructure equity investments.** The introduction of such an sub-module would enable EIOPA to stress the importance of Solvency II risk management requirements and alleviates a subsequent parameter adjustment, if necessary.<br><br>Within the asset class of qualifying infrastructure, **strong guarantees by RGLA should benefit from a specific prudential treatment.** Due to their lower risk, qualifying infrastructure guaranteed by RGLA should be treated as central government exposures.<br><br>We also recommend to extend the discussion to the **practicability of fund investments.** Especially the determination of capital requirements for funds which both invest in assets with higher risk return profiles and in assets with lower risk return profiles seems to be difficult and time-consuming in this approach. | |
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| | Comments Template on EIOPA-CP-15-004<br>Consultation Paper on<br>the Call for Advice from the European Commission on the identification and calibration of infrastructure investment risk categories | Deadline<br>09.August.2015<br>23:59 CET |
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