

Comments Template on EIOPA-CP-16-005 Consultation Paper on the request to EIOPA for further technical advice on the identification and calibration of other infrastructure investment risk categories i.e. infrastructure corporates		Deadline 16.May.2016 23:59 CET
Company name:	Vahta d.o.o.	
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<p>Please follow the instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ <u>Do not change the numbering</u> in column "Reference". ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below. <ul style="list-style-type: none"> ○ 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. <p>Please send the completed template to CP-16-005@eiopa.europa.eu, in MSWord Format, (our IT tool does not allow processing of any other formats).</p> <p>The paragraph numbers below correspond to Consultation Paper No. EIOPA-CP-16-005.</p>		
Reference	Comment	
General comments		
Section 1.1.		
Section 1.2.	1.26 In addition to removing the restriction for SPVs, particular measures should be introduced on how to consider specific types of financing sources SPVs might have. In the balance sheets of these companies we can find specific financing sources, like mezzanine, senior debt, or special arrangements of bond financing, that have the nature of quasi-equity. This means that usually, for the	

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	period of infrastructure build-out phase and for the initial take-up period, this financing sources behave as equity (they bear the business risk, and usually do not demand for return in this initial period). We propose that for the risk evaluations of the SPVs, this financing sources are calculated as equity, provided there is a clear strategy of their development afterwards. If not, the SPVs might be handicapped if compared to other infrastructural projects.	
Section 1.3.		
Section 1.4.		
Section 1.5.		
Section 2.		
Section 3.	<p>1.28 It should be noted, at list for some types of infrastructure, and more specifically those directly serving a big number of end users with services that are of vital importance for normal physical and social life on every day basis(like water, sewage, electricity, telecommunications, waste collection and similar) the risk of churn (a user disconnecting from the infrastructure service) is practically zero. This makes a big difference if compared to other types of infrastructure (like ports and highways), where choice of use between different infrastructures is possible.</p> <p>1.29 It should be noted, that not only "Infrastructure provides a relatively low credit risk alternative to government bonds.", but we should look deeper. The issue is, that if the analysis is done properly, the infrastructure bond in a specific country could not be riskier than the country's government bond! Let's go a bit deeper: what do governments do with the money they get from the government bond emission? Two things: they build infrastructure, or they finance the operating deficit (public wages, social transfers and similar). When governments build infrastructure, the government bond bears two risks, the government/country risk and the infrastructure risk. (in case of using the gov.bonds for financing the operative deficit, the risk is even higher, as money is invested in a non directly productive asset). Investing directly in infrastructure (SPVs bonds for example) for sure jumps on layer of risk (public sector/country related), and the resulting risk must be lower!</p> <p>1.31 This is so (and we are aware of the problem) because there are few historical series of data that can be used for analysis. Moreover, many of the available data is hampered by the fact, that the results from the past are not splitted between the effect/ris/result of infrastructure itself, and other activities the infrastructure operators have made. For example, for the telecommunication sector, practically all the operators that can produce relevant data on the market are vertically integrated,</p>	

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	<p>this means that in the same company, infrastructure and end user services are managed, and public data about their performance (and their volatility) cannot be directly applied as "infrastructure only". Perhaps the only industry that should be able to produce appropriate data for analysis of infrastructure are the electric infrastructure operators. Due to EU regulations, in most of the MS the energy distribution sector has been split into infrastructure companies and electricity trading companies (end users can choose the trader of their choice, independently on who is their infrastructure supplier). An analysis of their performance should give a better estimate of how stable in terms of risk and performance the infrastructure really is.</p>	
Section 4.	<p>1.36 Generally, more diversified sources of revenue would lead to less risk, but you must take into account also the fact that large infrastructural companies with diversified infrastructure might loose the focus from a specific infrastructure and/or shift their business interest to those infrastructures/countries that grant them more revenue, neglecting thus the rest.</p> <p>1.37 The building risk is something to be added in the initial phase of an infrastructural project. However, the fact that big infrastructural companies handle this risk better than SPVs cannot be states as true without deeper analysis. An SPV can, for example, employ skilled project managers that would mitigate this risk, where on the other hand, big companies (because of their "established operations" tend to be less responsive in the introduction of new technological solutions that make the project more convenient or more reliable. Handling the procurement process from a higher layer of hierarchy would also lead to less efficient conditions.</p> <p>1.39 Take care, there is not "meaningful market data on the risk characteristics of infrastructure corporates, which is discussed in the Chapters that follow."!! The data available is very seldomly related to infrastructure only!</p>	
Section 5.1.		
Section 5.2.	<p>1.41 For evaluation of infrastructural projects, it's totally inappropriate to use a "12_month volatility of basic own funds measured based on market values", although this is required by the Directive! Infrastructure has life expectancy from 30 to 50 years.</p> <p>1.41 By doing so „Therefore, it is considered to be most appropriate to focus the analysis as far as possible on the prices of traded equities and bonds.“, you might miss the point. It's not true, that the most appropriate is to focus on the analysis as proposed! It's the most convenient, because the data is at hand (although the available data is hampered by the other operations big corporation have, beside their core business). Going the easiest way should not be proclaimed as most appropriate!</p>	

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	<p>And then, most appropriate for whom?</p> <p>1.43 There is no evidence, that non listed infrastructure companies are more leveredged than the listed ones, so that should not be taken as a presumption.</p> <p>1.44 first point: Please bear in mind that in the telecommunication field, most big iperators have their infrastructure service's prices regulated in a way that they are limited in terms of return they can generate (LRIC BU, LRAIC BU or „retail minus“ models, according tot he EU regulations and BEREC). It's therefor technically wrong to evaluate the telco infrastrucure on the same level, as the issue the regulators are facing in this case ist he opposite than with other infrastructure (regulation not only sets the price, but sets the highest applicable price). One can therefor not argue that the operators don't make enough revenue, as they cannot do more.</p> <p>1.45 Despite „EIOPA is also not aware of better alternatives“, we propose a corrector. As analysed companies (multinational utilities) bear a lot of other risks (beside the infrastructural one), like the county risk, the financial risk, the investment risk (they build constantly somewhere, and the risk of failed investments is spread on their overall performance), there should be an indicator of „dinamism“. In terms of risk, the more dynamic a company is, the more it exposes it's activities to risk. A „dinamism“ indicator should therefor add or subtract from a generic risk evaluation, based on the specificity oft he case. However, evaluating as best those who are the most static in their sector might satisfy the financial calculations, but surely is not a sign of a long term business operation, which should also be pursued!</p>	
<p><i>Question 1.</i></p>	<p>We do not agree (arguments in the previous discussion). But we must appoint also that the question is stated in a very wrong manner. Starting from your position "<i>the data on listed entities analysed by EIOPA are an appropriate proxy</i>", based on explicitly stated lack of appropriate data, and making a question like the one you did (and inviting the others to provide data you don't have), cannot probably lead to anywhere else than into a confirmation of your thesis. You should ask another question first: In case of inappropriate/insufficient input data, should we use very aproximative data for risk evaluation? As speaking of risk, there is a too high risk in the use of aproximative data, that might hamper all the results.</p> <p>What we see in this document is a tendency to squeeze a problem into an existing methodology frame at any cost. As we are all aware that the results will be later used and have real world impact, we believe that the error that is being done for defining the procedure/methodology is too big to produce relevant results that reflect correct risks in the industry.</p>	

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Section 5.3.		
Section 6.1.	1.51 there is another issue that isn't being taken into account. Many of these utility companies that are being used as a sample have built their infrastructure as state owned companies. Many of them still are owned by the governments. In this case, the desired equity return is much different than it would be if the companies were truly private owned, as public owners regularly pursue other goals beside profit. This generates an additional risk (a politics one).	
Section 6.2.	1.61 Ypu have no telecommunication infrastructure in your evaluation model! You should consider that ithe telco industry is following the vertical separation effort, cutting the infrastructural part from the service part, mostly as two organisational units (wholesale and retail) within the same company, but also as two separate entities (see British Telecom and BT Openreach for example). There are also many pure infrastructure operators in Europe (see Axione or Stokab). 1.64 Using a price/return indicator to evaluate the risk of infrastructural companies is very wrong. If you were doing it in a spreadsheet, it would give you a "circular cell" warning. The infrastructure is something that has extremely long lifespan, and daily changes of share prices do not in any case reflect changes in the risk of the infrastructure itself. Perhaps the daily changes reflect all the remaining risks, and you should strip the daily changes off to have a real picture over the real infrastructural risk.	
Section 6.3.		
Section 6.4.	1.77 Could seem funny, but could it be that Solvency II rules should be adapted to influde a specifics like the infrastructural investments!?	
Section 6.5.		
Section 7.1.	1.88 Again, you missed the Telecommunication infrastructure.	
Section 7.2.		
Section 7.3.		
Section 7.4.		
Section 7.5.		
Section 8.1.		
Section 8.2.	1.121 "the risk for these entities is similar or even slightly higher than for corporates in general",	

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	<p>Here the obvious error from not knowing the industry was made. You should not look at the aggregated data of the telecom industry, as it comprises two very different sub-industries. The first one is infrastructural service (whose risk is not and cannot be higher than any other industry, or it should be even lower, given the current demand for that infrastructure), the second is the service providing industry, which is much more risky (as global competition and new services are being invented every day).</p>	
<i>Question 2.</i>	<p>a) It's wrong to evaluate historic data to analyse telecom infrastructure risk, as historic data bears aggregated risks of infrastructure and services!</p> <p>b) Yes, of course, infrastructural part of the telecom industry is much different (and it's like half of the overall). The infrastructure's risk is much lower than the one of the service part.</p>	
<i>Question 3.</i>	<p>In the telecom sector, probably all of them have no ECAI rating. In terms of infrastructure, probably half of their overall turnover, less than half of their profit, and less than half of their risk should be accounted.</p>	
Section 8.3.	<p>1.128 "The criteria should ensure that the risk of the qualifying infrastructure investments is comparable to the entities which were used for the calibration." This requirement is a very restrictive one, and probably inappropriate. As already said, trying to squeeze any industry (telecom infrastructure for example) in a model that originally was made for others is not a methodologically correct way to proceed.</p>	
Section 8.4.	<p>1.132 The statement "which derives the vast majority of its revenues from owning, financing, developing, or operating infrastructure assets" is very problematic! Putting those companies who develop, finance and operate infrastructures in the same group mixes everything. It's true, every infrastructure must first be developed, then designed, then built, and then operated, but each and every phase is connected with a specific risk. This means that risk on the infrastructure changes during its lifetime. We usually separate at least two phases, the construction phase (involving development, design and building) and operational phase (which includes operation of infrastructure). The switching point between two phases is when the newly built infrastructure connects enough users to go over the break even point (at least with the operating expenses). We say the infrastructure project is mature then (as it does not bear the investment risk anymore). Mixing all phases together will bring confused results, but most importantly, will treat mature infrastructure project as more risky than they really are!</p> <p>„following lines of business:</p>	

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	<input type="checkbox"/> generation, transmission or distribution of electrical energy; <input type="checkbox"/> distribution or transmission of natural or petroleum gas; <input type="checkbox"/> provision of water, wastewater or recycling services; <input type="checkbox"/> transport networks or the operation of transport assets; <input type="checkbox"/> social infrastructure." Aware of the problems, we suggest telecom infrastructure should be involved too. 1.139 „The revenues shall be diversified in terms of activities, geographical location, or payers, unless the revenues are subject to a rate_of_return regulation.“ The request is conceptually wrong in case of special purpose vehicles, as this kind of infrastructural project are single infrastructure. They are not riskier for that! 1.141 Again, do not forget that the figures that are available are the result of a current regulatory system (which limits the prices) and are not fixed in time and are not the same (on the contrary, they are very diverse between member states) geographically.	
<i>Question 4.</i>	a) Yes, pure telecom infrastructure. b) Many billions of EUR at the EU level. c) Yes, this would harm the projects that are done via project financing procedures through a special purpose vehicle (such a company doesn't have a history).	
<i>Question 5.</i>	Yes, an important thing is forgotten: performance derives from people, mechanistic approach without evaluation of persons who lead is simpler to do, but wrong.	
Section 9.1.		
Section 9.2.		
<i>Question 6.</i>	There should be no problems in that.	
<i>Question 7.</i>		
Section 9.3.		
Section 10.1.		
<i>Question 8.</i>		
Section 10.2.		
Annex I		

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<i>Annex I Questions</i>		
Annex III		
Annex IV		
Annex V		