<table>
<tr><td colspan="2">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</td><td>Deadline
16.May.2016
23:59 CET</td></tr>
<tr><td>Company name:</td><td colspan="2">EIOPA Occupational Pensions Stakeholder Group (OPSG)</td></tr>
<tr><td>Disclosure of comments:</td><td>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.</td><td>Public</td></tr>
<tr><td></td><td colspan="2">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-16-005@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-16-005.</td></tr>
<tr><td>Reference</td><td colspan="2">Comment</td></tr>
<tr><td>General comments</td><td>The OPSG acknowledges that this consultation addresses the treatment of infrastructure corporates in Solvency II, the prudential framework for insurance and reinsurance undertakings. It is, therefore, not directly relevant to IORPs, which are subject to the IORP directive. That being said, the OPSG would like to take the opportunity to contribute to EIOPA's consultation in this field, as the ongoing discussion on infrastructure investments may also be relevant to IORPs, for example in the context of</td><td></td></tr>
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risk assessment work.

The OPSG welcomes the efforts of EIOPA to define and identify infrastructure corporates as a separate risk catgory in the Solvency II framework. This comes as a follow-up to the work already done on the identification of infrastructure project finance back in 2015, when, informed by EIOPA's advice, the European Commission amended the Solvency II Delegated Act in a number of areas, including the identification of infrastructure corporates and ELTIFs as separate risk categories with a tailored approach.

In the context of the current EIOPA consultation, there are two areas on which the OPSG would like to share further thoughts.

Firstly, on the identification of infrastructure as a separate asset class.

- The OPSG supports the mandate given by the European Commission to EIOPA already in 2015, aimed at identifying infrastructure as a separate asset class. Both insurers and pension funds are significant investors in infrastructure, for at least the following reasons: infrastructure assets have interesting long-term and often illiquid investment profiles that suit their liabilities; infrastructure assets are little correlated to other assets so they bring diversification to their portfolios; infrastructure assets bring additional investment yields, which are very valuable for fulfilling their commitments to policyholders and pensioners.
- Against this background, the OPSG supports the identification of infrastructure as a separate and distinct asset class. At the same time, it recognises that in practice infrastructure can take the form of either infrastructure projects or infrastructure corporates so any definition aimed at covering infrastructure in general should be able to incorporate all types of investment vehicles.
- The OPSG understands that the previous EIOPA advice only focused on infrastructure projects so it is sensible at this stage to investigate, in line with the EC call for advice, the inclusion of infrastructure corporates in the infrastructure asset class. The OPSG supports such an extension of scope, in order to achieve a complete definition of infrastructure that does not

leave out part of the infrastructure spectrum. This way, it also avoids that regulation creates incentives for a specific investment vehicle simply because of the limited scope of a definition.

Secondly, on the issue of a tailored capital treatment of infrastructure in Solvency II or in the risk assessment framework for IORPs.

- The OPSG believes that, once infrastructure has been identified and defined as a separate asset class with very specific risk profile and characteristics, it makes perfect sense to investigate a tailored prudential treatment for this asset class. This makes obvious sense in the case of infrastructure, where there is academic evidence that this asset class often exhibits significantly lower risks compared to other equity/corporate debt risks*. In fact, the previous EIOPA advice, focused on infrastructure project finance, brought significant evidence suggesting that infrastructure assets as a whole may represent lower risk compared to other assets. However, for the sake of simplicity, an IORP should have the option to subsummize infrastructure investments under a suitable other asset class if a separate recognition in its risk assessment would become too burdensome for it or if the portion of infrastructure assets within its asset allocation is not significant.
- In addition, the previous EIOPA advice included an explicit recognition of the fact that, when investing in infrastructure, insurers are only partially exposed to market/liquidity risk, and are in fact largely exposed to credit/default risks of these assets. The OPSG believes that this consideration equally applied to IORPs. It derives from the ability of both insurers and IORPs to buy these assets with a long-term, buy-and-hold perspective. The same argument applies to a range of assets held by both insurers and pension funds and should be recognised when calibrating regulatory requirements for these investors.
- The OPSG understands that in the current consultation EIOPA no longer recognises the actual exposure to default risk and is in fact focused on measuring solely the risk emerging from an exposure to the full market volatility of an artificial portfolio of infrastructure corporates that are listed. The OPSG does not support this approach, and the reasons for this include:
    - It is not justified to measure the risk of a long-term investor based fully on a short-term behaviour of financial markets.
    - It is not justified to ignore the actual risk exposure of an investor that has the ability to

	buy and hold an asset. ◦ It is not justified to measure risk based on a theoretical portfolio of listed infrastructure entities, given that in practice many infrastructure corporates in which institutional investors invest are in fact unlisted. ◦ EIOPA does not bring any proof that infrastructure corporates are more risky than infrastructure project finance (which was already calibrated in 2015, and did reflect default risk and not only market risk). • The OPSG believes therefore that, once the definition ensures that the risk profile of infrastructure corporates is similar to the one of infrastructure projects, this is enough of a justification to apply the same capital treatment to both and thus avoid an approach that is not reflective of the actual risks that investors face when deciding to buy these assets. *A few relevant studies on infrastructure include: • Moody's (2015) study on "Infrastructure Default and Recovery Rates, 1983-2014" has shown lower probabilities of defaults (PD) and LGD statistics and lower rating volatility for all rating classes, including Aaa and Aa. • A study by Blanc-Brude/Whittaker (2015) , notes that the Private Finance Initiative (PFI) portfolio, composed of securities listed on the London Stock Exchange, predominantly exhibits higher returns than the market, with much lower drawdown and tail risks and very little, or no, correlation with the market. • A study by Bitsch, Buchner and Kaserer (2010) shows that for unlisted infrastructure equity there is a lower risk of default than for other equities as well as a higher return. • A JP Morgan Asset Management study (Global Real Assets (2013): A case for Core Infrastructure) notes that unlisted infrastructure equities are nearly uncorrelated with both listed infrastructure and global equity. Historical correlation is only 0.1 between private infrastructure and global equities.	
Section 1.1.		

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