<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">Long Term Infrastructure Investors Association (LTIIA)</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.
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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>We welcome EIOPA’s recommendation to extend the definition of qualifying infrastructure so that it also includes corporates, based on definitions similar to those adopted for infrastructure projects. Consistent with our earlier comments, we maintain that - since unlisted infrastructure equities exhibit lower (short-term) volatility than comparable listed infrastructure equities – it may be overconservative to calibrate equity risk charges based on the listed data only, whereas listed infrastructure equities only speak for minority of infrastructure equities’ investable universe.</td><td></td></tr>
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	We would consider it appropriate to apply the same 30% equity capital charge to qualifying infrastructure projects and qualifying infrastructure corporates, given that, with the current definitions, both groups are exposed to substantially the same risks.	
Section 1.1.		
Section 1.2.		
Section 1.3.		
Section 1.4.		
Section 1.5.		
Section 2.		
Section 3.		
Section 4.		
Section 5.1.		
Section 5.2.		
Question 1.	We think that the data used by EIOPA is representative of listed infrastructure corporates, but it is not representative of unlisted corporates, which comprise a significant part of investable infrastructure universe. Unlisted infrastructure features 'smoothing and lagging effect' similar to that since long recognized in unlisted real estate (see, for example, an overview in Geltner D, MacGregor BD and Schwann GM. *Appraisal Smoothing and Price Discovery in Real Estate Markets*, Urban Studies May 2003 40: 1047-1064). Comparing, over a long term, quarterly volatilities of (diversified) infrastructure funds to volatilies of listed infrastructure indicies with similar assets can provide further evidence as to risk profile differences between listed and unlisted infrastructure. Such data series, with 10 years duration or more, are available for Australian infrastructure. For example, one can compare volatilities of unlisted Australian funds of First State Investments (dating from 2001), Hastings (dating from 1996) and IFM (dating from 1996), on the one hand, and volatilies of UBS Australia Infrastrucure & Utilities or MSCI Australia Utilities, on the other hand. Proprietary research by our members, based on those data sets, shows that quarterly volatility of unlisted infrastructure is approximately half the volatility of	

	listed infrastructure. Due to data licensing restrictions, we are unable to share the research itself, but will be happy to provide to EIOPA all the technical information that is necessary for replicating it. While it is difficult to conduct a similar study with European data sets, because long performance series for European unlisted funds do not seem to be available at this time, we think that findings that are based on the Australian data are important enough in defending our view that the risk profile of listed infrastructure companies is not necessarily representative of the risk profile of unlisted companies.	
Section 5.3.		
Section 6.1.		
Section 6.2.		
Section 6.3.		
Section 6.4.	We encourage further analysis of the outcomes from EDHEC's work in arriving at EIOPA's final advice (Blanc-Brude F, Hasan M and Whittaker T, *Revenue and dividend payouts in privately held infrastructure investments: Evidence from 15 years of UK data*, Singapore: EDHEC-Risk Institute, 2016). Notwithstanding the limitations, the paper provides a clear quantitative evidence that infrastructure equities – whether in SPVs or in corporates – are featuring lower risk profile than equities in similar non-infrastructure firms.	
Section 6.5.		
Section 7.1.		
Section 7.2.		
Section 7.3.		
Section 7.4.		
Section 7.5.		
Section 8.1.		
Section 8.2.		
Question 2.	Yes, we generally agree with this assessment with respect to listed telecommunication companies,	

	given that they typically include content and service provisioning businesses, which cannot be qualified as infrastructure but materially affect overall performance of the asset. Telecommunication assets that can be qualified as infrastructure include mobile telecommunication towers and wired signal distribution networks (backbone cables, fiber-to-home, etc) that service providers are renting in return for a stable fee, often subject to long-term contracts. TDF (France) and portfolio of Communication Infrastructure Fund (the Netherlands) are examples of telecommunication infrastructure assets but both of them are unlisted as are most of other similar assets in this sector.	
Question 3.	Our members believe that majority of corporate infrastructure debt has an ECAI rating, however, is not uncommon for lenders in certain sectors not to require a rating assessment. For example, it is the case for port and terminal assets that are often credited by specialized banks. Since the criteria for debt without an ECAI rating have already been developed for project debt, we would suggest adopting those criteria to the context of corporates rather than imposing an ECAI rating for corporates as a qualification requirement.	
Section 8.3.		
Section 8.4.		
Question 4.	(a) Telecommunication infrastructure as set out in answering Question 2 above falls out of the draft definition. (b) The volume of telecommunication infrastructure is not significant at this time but may grow as telecommunication companies continue separating their infrastructure and service businesses. (c) We think the definition should be extended to include tests on predictability of cash flows similar to those used for infrastructure projects. The five-year test in the current definition can be problematic as it leads to exclusion of new enterprises and also of existing businesses post recent M&A activity. Also, we do not see why corporates operating in OECD should be excluded. Their exposure to country risk is similar to those with exposures to EEA only.	
Question 5.	No, we are not proposing additional criteria other than in connection with adjusting the definition as per the previous answer. We believe that criterion 3 (diversification of revenue) should be clarified to also exclude revenues which are availability-based or subject to take-or-pay contract – with the same rationale as stated in Sec 1.143.	
Section 9.1.		

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Section 9.2.		
Question 6.	Practical difficulties may arise in some situations – for example, when when ‘infrastructure’ and ‘non-infrastructure’ revenues are included in the same contract. It is, however, customary for infrastructure corporates to separate different types of revenue throught their managerial reporting to the extent sufficient for making infrastructure vs non-infrastructure distinction.	
Question 7.	According to S&P Global Ratings, the option 2 is more consistent with what one can see in transactions for infrastructure companies. That said, most of the companies rated by S&P, especially the ones rated above BBB-, would have a negative pledge clause that states (for the majority of cases) that: *As long as any of the notes remain outstanding, the Issuer will not create or permit to subsist any mortgage, charge, pledge, lien or other security interest upon the whole or any part of its assets, present or future, to secure any present or future Relevant Indebtedness incurred or guaranteed by it unless the Issuer’s obligations under the Notes, Receipts and Coupons are equally and rateably secured therewith*. In the link attached you will see the typical language used in the debt documentation for rated infrastructure companies (page 30). http://en.sites.vinci-autoroutes.com/en/page/asf-investors	
Section 9.3.		
Section 10.1.		
Question 8.	Yes, we believe that that same risk management requirements are appropriate for infrastructure SPVs and corporates.	
Section 10.2.		
Annex I		
Annex I Questions		
Annex III		
Annex IV		
Annex V		