<u>Swiss Re</u> response to the FSB request for comments on its consultative document on: *Evaluation of the effects of financial regulatory reforms on infrastructure finance*

IF trends

1. Coverage: Does the document accurately describe the characteristics of IF provided by the financial system including the key participants and financing instruments? Is there any aspect of IF that merits additional analysis? Swiss Re is highly appreciative of the work the FSB has carried out on this important topic. We support the paper and consider the analysis thorough and extensive. At the same time, the role of long-term investors, such as insurers, as providers of long-term capital to finance infrastructure projects merits additional analysis and we encourage the FSB to extend this further. We provide further detailed comments in our response to the following questions. In addition, we are happy to discuss with FSB in person to share ideas in a collaborative and constructive manner.

2. Trends: Are the trends in IF presented in this report comprehensive? Are there other important trends that should be considered for inclusion? We encourage FSB to place more focus on the unchanged trend that infrastructure projects are primarily financed by banks through loans and not via capital markets. Unfortunately, many financing instruments have remained the same. The banking sector has become more active across the spectrum of infrastructure finance, picking-up most of the transactions where private sector financing was originally sought. The report does not focus enough on solutions to improve capital market access (e.g. through pooling of projects, securitization, etc). The low yield environment has led many investors into infrastructure assets, thereby compressing spreads. While demand for infrastructure assets remains strong, supply is scarce. These two factors have had a very strong effect on the volume and pricing of infrastructure activities over recent years. There is a lack of standardization in financial reporting and disclosure documentation. This angle is missing and it inhibits more supply and, in particular the tradability of infrastructure projects. A standardized debt documentation template (like the one from the European Financial Services Roundtable, available here: http://www.efr.be/documents/news/86.02.03.2015%20EFR%20Expanded%20on%20Infrastructure%202015.pdf) should be universally applied. This would support the deal flow and encourage more supply whilst also enabling more demand by more efficiently mobilizing private sector financing. Beyond the needed universal application of a standardized debt disclosure and reporting template, more public-private partnership (PPP) approaches should be considered and executed. Given the large debt overhang of many governments, more private sector funds need to be mobilized. A model PPP transaction of an advanced economy is needed to pave the way for more PPP infrastructure project approaches. In addition, multilateral development banks and regional development banks (including the EIB) should show more conditionality in their infrastructure lending practices. In particular, the multilateral development banks and regional development banks should only support projects that meet "best practices"/minimum standards for financial documentation and reporting, for example through the consistent application of the financial documentation template designed by the European Financial Services Roundtable mentioned above.

3. Project finance versus corporate finance: What have been the main factors that explain the recent growth in corporate relative to project finance in IF?

4. Search for yield: How important has the global search for yield been as a determinant of the growth in IF in recent years? Has search for yield behaviour been more apparent in specific sectors or regions? See our response to question 2 above
5. Trends for EF in AEs vs EMDEs: Has the trend in IF volumes been more muted in EMDEs than in AEs since the global financial crisis? If so, what are the main reasons for different trends across regions, and where (if anywhere) does financial regulation feature as a reason? AE lending has slightly increased as reflected by overall transaction volumes. Meanwhile, EMDE lending has remained subdued, mainly due to the lack of bankable projects.

Financial Regulations

6. Regulation vs other factors: How do the financial reforms rank relative to other factors (e.g. macroeconomic and financial conditions, political risks, institutional impediments) in terms of their influence on IF? See our response to question 2 above

7. Relevant reforms: Are Basel III and OTC derivatives market reforms the most relevant G20 reforms for IF? Which other reform is may also be relevant for the purposes of the evaluation? Please elaborate.

8. Transmission channels: Are there any major transmission channels in terms of the effects of financial regulation on IF that the evaluation has not considered? Not the what, but perhaps the how. Cumulative impact studies of the effect of transmission channels of financial regulation on IFs are missing.

Evaluation approach

9. Methodology: Is the analytical approach used to evaluate the effect of reforms appropriate? Are there other approaches to consider for this or future evaluations? See our response to question 8 above

10. Cost-benefit considerations: Do you have any comments on the approaches used in the report to assess the social costs and benefits of the reforms on IF? Are there other types of costs or benefits that should be considered by the evaluation? It would be helpful if FSB could provide an analytical framework for the cost-benefit analysis, complementing the qualitative assessment.

Effects of reforms

11. IF versus other types of finance: The evaluation's results suggest that financial reforms have not had a disproportionate effect on IF compared to other types of finance. Is this consistent with your view of the market? Unfortunately, many financing instruments have remained the same. The banking sector has become more active across the spectrum of infrastructure finance, picking-up most of the transactions where private sector financing was originally sought. In Europe in particular, most infrastructure projects are based on (syndicated) bank loans, while more projects in the US are funded with capital market instruments. The question is not only about financial regulation, but also about structural trends. With central banks gradually reducing

excess liquidity in the financial system and banking regulation fully applying, the banking sector will have less capacity to fund long-tenor infrastructure projects.

12. Effects of G20 reforms on EF volumes, spreads and maturities: For the G20 reforms covered in this report (particularly Basel III and OTC derivatives), is there any additional information to support (or contradict) the results on the effects of these reforms on volumes, spreads and maturities of IF?

13. Effects on EMDEs vs AEs: Is regulation having a differential effect on the provision of IF to EMDEs vs AEs - if so, how? Are there other differences in terms of regulatory' impact that should be considered by the evaluation? AE lending has slightly increased as reflected by overall transaction volumes. Meanwhile, EMDE lending has remained subdued, mainly due to the lack of bankable projects. Unfortunately, the supply of bankable infrastructure projects has remained relatively low, also in AE.

14. Effect on substitution of bank financing by other financing: Has there been a partial substitution of bank financing by market-based financing and if so to what extent have the reforms contributed to this trend? Is there other information on substitution that should be considered by the evaluation? Unfortunately, many financing instruments have remained the same. The banking sector has become more active across the spectrum of infrastructure finance, picking-up most of the transactions where private sector financing was originally sought. In Europe in particular, most infrastructure projects are based on (syndicated) bank loans, while more projects in the US are funded with capital market instruments.

15. Effects of G20 reforms on hedging of risks in IF transactions: Have the G20 reforms covered in this report (particularly Basel III and OTC derivatives) affected the availability or cost of hedging the risks (credit, interest rate, currency etc.) inherent in IF transactions - if so, how? In what ways do these effects differ for AEs vs EMDEs and why?

16. Effects of other reforms: G20 reforms that are at an earlier implementation stage as well as national and regional regulations that apply to insurers and pension funds have only been examined qualitatively. For these regulations, is there further relevant information about their impact on IF that should be considered by this evaluation?

Additional considerations

17. Other issues: are there any other issues or relevant factors that should be considered as part of the evaluation? We propose that FSB also considers the following issues: 1) the role of long term investors in infrastructure projects, 2) the structural environment (search for yield, now the starting structural central bank liquidity withdrawal, etc) and 3) standardization of financial documentation and disclosure requirements for infrastructure projects that inhibit more supply of the tradability of infrastructure debt.