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COMMISSION STAFF WORKING DOCUMENT

EXECUTIVE SUMMARY OF THE IMPACT ASSESSMENT

Accompanying the document

Commission Delegated Regulation (EU) .../...

amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates)

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Executive Summary Sheet

Impact assessment on the forthcoming amendments to the Commission Delegated Regulation (EU) No 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings - Infrastructure Corporates.

A. Need for action

Why? What is the problem being addressed?

The EU regulatory framework for insurance, Solvency II, lays down risk calibrations (similar to capital charges) for insurers' investments in different asset categories. Infrastructure corporates have a lower risk profile than implied by the current risk calibration. Lowering the risk calibration to an appropriate level for infrastructure corporates solves this imperfection in Solvency II and promotes investment in infrastructure in the EU which is important for the Commission's jobs and growth agenda and Capital Market Union initiative. Based on technical advice from the European Insurance and Occupational Pensions Authority (EIOPA), the Solvency II Delegated Regulation has already been amended to provide for appropriate risk calibrations for qualifying infrastructure projects but not infrastructure corporates.

What is this initiative expected to achieve?

A further amendment to the Solvency II Delegated Regulation, largely based on the latest technical advice from EIOPA will achieve the objective of creating conditions for growth in infrastructure investment in the European Union. It will provide appropriate risk calibrations for infrastructure corporates in all sectors, provided the investment meets prudent qualifying criteria. This initiative will complete the assessment of long term infrastructure as an asset class as envisaged under the Omnibus II Directive.

What is the value added of action at the EU level?

Risk calibrations in the Solvency II Delegated Regulation are legally binding on insurance companies in the European Union that calculate their capital requirements according to the standard formula. The European Parliament and Council have delegated necessary powers to the European Commission, which include powers to prescribe these risk calibrations. An equivalent action cannot be taken within Member States, which justifies the value addition of the action at the EU level.

B. Solutions

What legislative and non-legislative policy options have been considered? Is there a preferred choice or not? Why?

Non-legislative policy options are unsuitable in this context as the risk calibrations of which amendment is envisaged are already applicable as part of the legislative framework. The Commission follows EIOPA advice on all aspects except two – the sectoral coverage of this amendment, and the risk calibrations for infrastructure corporate debt. Regarding sectoral coverage, in addition to the baseline scenario, i.e. no changes to the Delegated Regulation, the policy options relating to the sectorial limitations include "retaining the definition based on sectors proposed by EIOPA (1A)" and "simplifying the definition (1B)". The policy options relating to the risk calibration for infrastructure corporate debt include "stipulating the same calibration for infrastructure projects and corporates debt investment (2A)" and "a 25% reduction in the risk calibration for rated debt with the qualifying unrated debt at par with BBB rated debt (2B)". The preferred choice is a combination of the latter policy options 1B and 2B, which are the most compatible with the high level European objective of growth and investment in infrastructure and meets the above objectives.

Who supports which option?

On sectors, the baseline scenario finds no support from any stakeholder, option 1A is supported by Insurance supervisors, and option 1B is supported by insurance companies and Infrastructure companies.
On risk calibration, the baseline scenario is supported by insurance supervisors, option 2A is supported by a majority of insurance companies, particularly for equity calibrations and some infrastructure companies that are infrastructure corporates. The policy option 2B is supported by infrastructure borrowers as well as some insurance companies.

C. Impacts of the preferred option

What are the benefits of the preferred option (if any, otherwise main ones)?

Taking into account the effect of individual options on all stakeholders, the Commission's preferred approach is based on a combination of options 1B (i.e. simplified definition) and 2B (a 25% reduction in risk calibration for rated debt and to treat unrated debt at par with BBB rated debt), which would impact as follows.

• It is consistent with the Investment Plan for Europe and the Capital Market Union Action Plan and encourages investment in all infrastructure sectors.

•It acknowledges the important role that insurers can play as long term investors in infrastructure and avoids any cliff-edge effect and reclassification risk when an infrastructure project matures into a corporate.

•It avoids any specific negative impact on SME infrastructure corporates and SME insurers and is considered beneficial to wider SME segment.

•It respects the proportionality of risk calibrations in Solvency II by establishing debt calibrations that are supported by data demonstrating the relative difference between infrastructure corporates and non-infrastructure investments.

What are the costs of the preferred option (if any, otherwise main ones)?

Risk calibrations are already a part of the Solvency II framework, along with provisions for reporting infrastructure investments by insurance companies. Insurers which use the Solvency II standard formula and which choose to invest in infrastructure corporates will incur an extremely small extra reporting cost for those investments, which is far outweighed by the reduction in applicable capital charges.

The preferred option will have no significant direct negative impacts in the economic, social or environmental areas. On the contrary, the preferred option will be compatible with the objectives of growth and investment in infrastructure in the EU. It will also incentivise insurance companies to invest in safer infrastructure assets that meet the qualifying criteria.

How will businesses, SMEs and micro-enterprises be affected?

The preferred options will be beneficial to infrastructure businesses, small businesses that provide services to other infrastructure companies, small and medium-sized insurance companies and the overall SME segment that benefits as users of infrastructure. In particular, by treating the debt calibrations for unrated debt at par with BBB rated debt (provided the investment meets other prudent criteria), the burden on smaller infrastructure borrowers will be avoided.

Will there be significant impacts on national budgets and administrations?

There will be no impact on national budgets and administrations. The regulatory reporting of investments by insurers is already a part of the Solvency II framework and the preferred option creates no incremental costs at the level of national supervisory authorities.

Will there be other significant impacts?

The overall impact assessments relating to the Solvency II Directive (2009) and the Solvency II Delegated Regulation (2014) have been previously published. Risk calibrations under the Solvency II Delegated Regulation for infrastructure corporates will be a specific provision within a much wider regulatory framework and there will be no other significant impact.

D. Follow up

When will the policy be reviewed?

A review of the standard formula for the Solvency Capital Requirement contained in the Solvency II Delegated Regulation Solvency II, including all asset calibrations for insurers' investments, will take place by December 2018. A broader evaluation of the Solvency Capital Requirement, including parameters laid down in the Solvency II Directive, is foreseen by Article 111(3) of the Solvency II Directive by 31 December 2020.