



Европейски парламент Parlamento Europeo Evropský parlament Europa-Parlamentet Europäisches Parlament
Euroopa Parlament Ευρωπαϊκό Κοινοβούλιο European Parliament Parlement européen Parlaimint na hEorpa
Europski parlament Parlamento europeo Eiropas Parlaments Europos Parlamentas Európai Parlament
Parlament Ewropew Europees Parlement Parlament Europejski Parlamento Europeu Parlamentul European
Európsky parlament Evropski parlament Euroopan parlamentti Europaparlamentet



**Long Term Investment
and Reindustrialisation
Intergroup**

Vice-President Valdis Dombrovskis
Responsible for Financial Stability, Financial Services
and Capital Market Union
European Commission
Berlaymont Building
Rue de la Loi 200
B- 1049 Brussels

Brussels, July 23, 2016

Dear Vice-President Dombrovskis,

We very much welcome the recent addition to the Solvency II delegated acts establishing an infrastructure asset class that will enable insurers to finance more infrastructure projects. We also welcome the recently launched Juncker Plan that seeks to foster investment in the EU.

However, in Europe and elsewhere, governments are facing budget deficits and will not be able to fund investment needs to the required extent. The success of the Juncker Plan thus largely depends on the involvement of the private sector, in particular when it comes to the funding of long-term projects.

While your teams are working on a more appropriate calibration for banks' exposure to the infrastructure projects asset class (as a follow up to last year's public consultation on the possible impact of the CRR and CRD IV on bank financing of the economy), the Basel Committee appears to have chosen the opposite path. Its recent draft proposals on the revision of the standardized approach for credit risk aim at substantially increasing the Risk Weighted Assets for specialized lending, including for infrastructure financing, reaching in some instances 150%. It is worth noting that according to the Committee unrated corporate exposures should be risk weighted at 100%. We believe that banks may be discouraged from investing in this type of investment.

The current Basel Committee's draft proposals may negatively affect the achievements of the Juncker Plan, and also give rise to substantial concerns, given that default rates for the financing of infrastructures, airplanes and boats are, according to recent calculations, rather low (a 0.31% to 0.41% loss rate is expected,

according to Global Credit Data due to high recovery rates¹). It is worth pointing out that data on the default and recovery rates of project finance loans used by EIOPA and the Commission to recommend adjusted capital calibrations for infrastructure in Solvency II² would be a perfectly valid argument to revise capital calibrations for infrastructure financing of banks, too.

We urge the European Commission to defend the financing of infrastructure projects by banks, and to adjust the calibration for banks' exposure to this asset class, as it did for insurers, without foregoing the objectives of financial stability. The Commission shall become active in the deliberations of the Basel Committee and promote an approach on infrastructure financing that helps to enhancing long-term finance by banks. In such case, the eligible infrastructure assets could be restricted to projects within the EU and, outside the EU, to sectors with high recovery rates³, low volatility⁴ and complying with the investment guidelines of long-term investors⁵.

Yours sincerely,

Dominique RIQUET

Member of the European Parliament, Chair of the Intergroup "Long-term investment and reindustrialisation", Vice-Chair of the Committee on Transport and Tourism,

Burkhard BALZ

Member of the European Parliament, Vice-Chair of the Intergroup "Long-term investment and reindustrialisation", EPP-Coordinator in the Committee on Economic and Monetary Affairs,

Simona BONAFÈ

Member of the European Parliament, Vice-Chair of the Intergroup "Long-term investment and reindustrialisation", Member of the Committee on the Environment, Public Health and Food Safety,

Adina-Ioana VĂLEAN

Vice-President of the European Parliament, Vice-Chair of the Intergroup "Long-term investment and reindustrialisation", Member of the Committee on Industry, Research and Energy,

¹ Global Credit Data is a cross-border data-pooling initiative of a number of banks.

² Moody's, "Default and Recovery Rates for Project Finance Bank Loans, 1983-2013" March 2015. As the name suggests, data is actually derived from bank portfolios.

³ Default and Recovery Rates for Project Finance Bank Loans, 1983-2013 default and vary according to the sectors and geographic areas.

⁴ Project Finance exposed to energy prices in emerging country for example.

⁵ Harsh weighting of Coal Mining Project for example.

Pervenche BERÈS

Member of the European Parliament, Head of the French socialist delegation, S&D-Coordinator in the Committee on Economic and Monetary Affairs, Member of the Intergroup “Long-term investment and reindustrialisation”,

Sylvie GOULARD

Member of the European Parliament, ALDE-Coordinator in the Committee on Economic and Monetary Affairs, Member of the Intergroup “Long-term investment and reindustrialisation”

Nathalie GRIESBECK,

Member of the European Parliament, Member of the Committee on Civil Liberties, Justice and Home Affairs, Member of the Intergroup “Long-term investment and reindustrialisation”,

Alain LAMASSOURE

Member of the European Parliament, Chair of the Special Committee on Tax Rulings and Other Measures Similar in Nature or Effect and Member of the Committee on Economic and Monetary Affairs, Member of the Intergroup “Long-term investment and reindustrialisation”,

Cora van NIEUWENHUIZEN

Member of the European Parliament, Member of the Committee on Economic and Monetary Affairs, Member of the Intergroup “Long-term investment and reindustrialisation”,

Maria SPYRAKI

Member of the European Parliament, Member of the Committee on Regional Development. Member of the Intergroup “Long-term investment and reindustrialisation”,

Pablo ZALBA-BIDEGAIN

Member of the European Parliament, Vice-Chair and Vice-Coordinator of the EPP in the Committee on Economic and Monetary Affairs, Member of the Intergroup “Long-term investment and reindustrialisation”.