PUBLIC CONSULTATION ON THE EUROPE 2020 PROJECT BOND INITIATIVE: KEY MESSAGES

The stakeholders' consultation on the Europe 2020 Project Bond Initiative was closed on 2nd of May. A total of 100 written contributions were submitted. In addition, 31 answers were received to the online questionnaire.

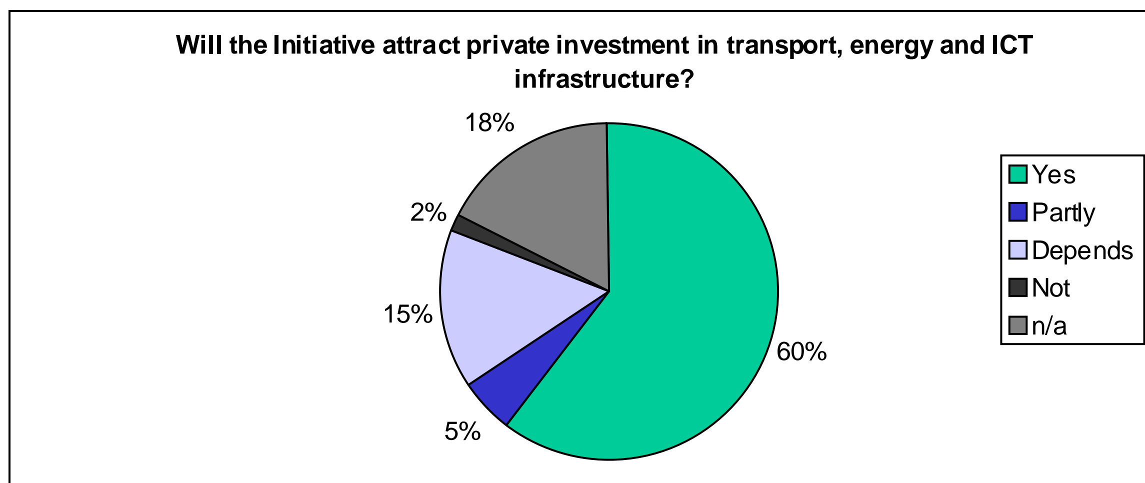
RANGE OF THE STAKEHOLDERS

Country	Number of answers	% of all answers
International	38	29%
France	22	17%
UK	19	15%
Italy	9	7%
Germany	6	5%
Netherlands	6	5%
US	6	5%
Spain	5	4%
Austria	3	2%
Ireland	2	2%
Lithuania	2	2%
Poland	2	2%
Switzerland	2	2%
Canada	1	1%
Denmark	1	1%
Estonia	1	1%
Finland	1	1%
Malta	1	1%
Slovakia	1	1%
Sweden	1	1%
n/a	2	2%
TOTAL	**131**	**100%**

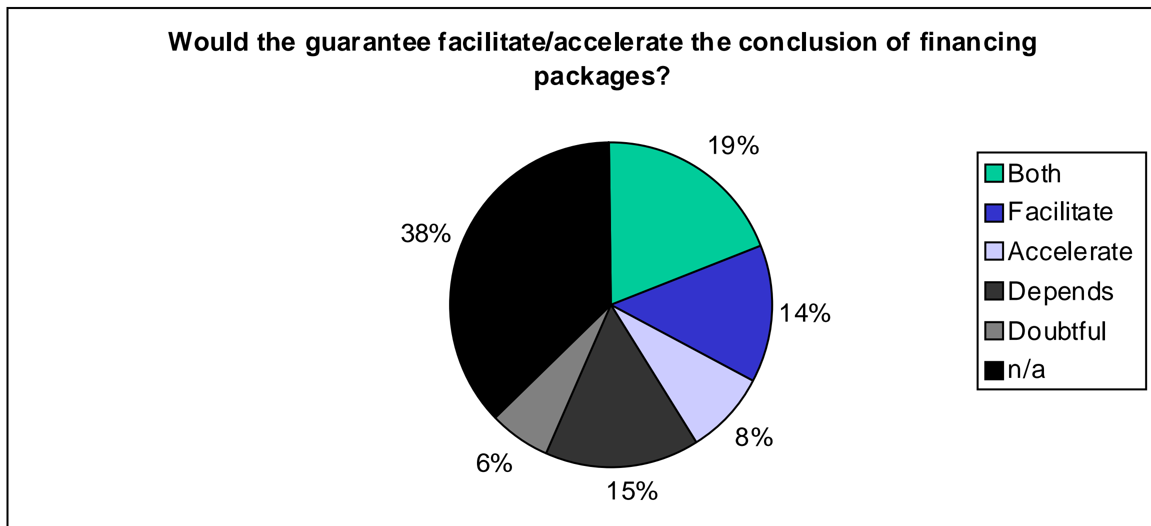
Organization Type	Number of answers	% of all answers
Associations/ networks	36	27%
Banks	17	13%
Governmental bodies	16	12%
Operators	16	12%
Financial intermediaries	12	9%
Infrastructure developers	9	7%
Consultants	5	4%
Research	4	3%
Funds	3	2%
Individuals	3	2%
Manufacturers	3	2%
Monoliners	2	2%
Insurance	1	1%
Legal	1	1%
Religious organizations	1	1%
n/a	2	2%
TOTAL	**131**	**100%**

ANSWERS TO QUESTIONS OF THE PUBLIC CONSULTATION PAPER

- 60% of stakeholders think that the chosen mechanism is **likely to attract private sector institutional investors** to the sectors of transport, energy and ICT in particular (see the chart below). 16% expect it to depend on technical features of the mechanism (price, structure, attracted rating, etc.).



- Large share of stakeholders would also like to see **the following sectors included:**
    - Social infrastructure (25%)
    - Renewables (16%)
    - Water and waste (13% and 6% respectively)
- 19% of respondents believe that the guarantee would both **facilitate and accelerate** the conclusion of financing packages (see the chart below); while 22% say it would only facilitate (14%) or accelerate (8%).



- An absolute majority of stakeholders agree that **minimum rating of A-** is sufficient to attract investors. The views on desirable minimum rating diverged as follows:
    - A/A- for bigger projects
    - BBB/BBB+ for smaller projects
- Several investors stressed that they **do not merely look at ratings**, but also at the general legal framework of the jurisdiction of the project, the exact contractual arrangements as well as the quality of the financial package.
- 50% of answers stated that **a credit enhancement of 20%** of outstanding senior bonds would be sufficient (10%) or would depend on other factors (40%) and should be decided in case-by-case basis. 5% of the stakeholders believe that 20% credit enhancement would not be enough.
- **Effect on financing costs and maturities:**
    - 50% of stakeholders expect lower financial costs and (or) longer maturities
    - 20% of stakeholders expect it to depend on different factors – regulation, guarantee and other fees, rating, etc.
- Some sponsors are worried about **negative carry** as the full financing amount is drawdown at the outset rather than in phases as for a bank loan. Some also feared that bond financing would prove less flexible.
- 50% of stakeholders think a **single entity acting as controlling creditor** is essential (33%) (especially during the conclusion of the financial package and the construction phase), beneficial (15%) or depends on the project (3%). 10% would expect the EU or

the EIB to serve as a controlling creditor. 11% of respondents do not see a single controlling creditor necessary.

ADDITIONAL MESSAGES FROM THE STAKEHOLDERS

- Views on **size of project** appropriate for bond funding varied widely with quoted ticket sizes per investor varying from EUR 20 million to EUR 100 million, which would translate into deal sizes ranging from EUR 50 to EUR 250 million, assuming a minimum of two investors.
- **Procurement process** and its obstacles in terms of requiring fully funded and committed fixed price offers to a tight timeline generally does not favour or even allow bond solutions. The process differs across Member States, but in general the demand was that the procurement process should be more flexible to allow bond solutions with their different benchmark, volatility of spread and timing requirements.
- **Regulatory issues:** many investors cited **Solvency II** as a main obstacle to investing in longer-term, lower-rated assets as such bonds would attract higher capital charges, although some actors are of the view that the regulation favours the longest-term assets, since capital charges increase no further beyond a certain point. A few banks were worried that depending on exact structure project bonds could be classified as asset-backed securities under **Capital Requirements Directive**, which would mean a higher risk weighting.

Summary by the European Commission, DG ECFIN, 2011