
EUROPE 2020 – Project Bond Initiative

Advantages and disadvantages compared to current financing models

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Project Bonds Background

- Monolines provided bond market investors access to the project market
 - “AAA” wrap for projects
 - Created a large pool of liquidity for long duration paper in € and £
 - Monitored and controlled credit exposure on behalf of bondholders

- Following the collapse of the monolines, there has been no access to the market
 - Investors want to buy well rated (A-/A3) assets
 - Current structures available are typically Baa2 / BBB or even lower so cannot attract size and scale of required investment

- Disenchantment with the now failed monoline model
 - Lack of transparency and little ongoing information on the project
 - No voting rights despite monoline downgrade

EIB / EU Project Bonds Initiative

- Bond investors sitting on large amounts of cash that they want to invest on a long-term basis
 - Infrastructure seen as good assets with “essentiality” and high public importance
 - Capital markets an alternative source of funding for projects
 - Tenor
 - Basel III impact on bank lending

- EIB / EU as an enabler to re-open project bond market
 - Guarantees / sub-debt to obtain ratings uplift
 - EIB an experienced counterparty to monitor projects and make day to day decisions

Issues to Consider

■ Structure of guarantees

- We believe best solution could be to use 2 separate caps
 - Liquidity cap
 - Loss given default cap

■ Procurement

- Current legislation across Europe not supportive for bond solutions

■ Controlling creditor / voting

- We think that bond investors will not accept EIB / EU acting as sole controlling creditor
- Following their experience with the monolines, we believe investors will require voting with regards to Trigger Events and Events of Default
- Day to day monitoring and waiver by EIB acceptable

Current Funding Environment in Project Finance

■ Current Situation:

- Strong and hungry bank market for long term debt still available (Basel III)
- Narrow market focus
- Hesitation of Sponsors to run costly rating process in competitive environment

■ Current procurement practice often not supportive:

- Requires firm credit spreads on financing at BaFO
- Often insufficient compensation on termination regime
- Running bank debt process in parallel -> Relationship issues with Banks

- ✓ **Consider Project Bonds also within refinancing scenarios (shared risk)**
- ✓ **Motivate tendering authorities to reconsider procurement practice**

Bonds vs. Bank Debt

- Markets currently not the constraint
- Currently pure mathematical consideration:
 - Differences in Margins
 - Costs of Credit Enhancement
 - Cost of carry
 - Available maturities
 - Refinancing gains vs. Make-whole
- If at reasonable costs, credit enhancement powerful instrument to boost appetite on bonds
- ✓ **Sponsors will follow bond route if resulting in competitive advantage**
- ✓ **It is not “either-or” but finding the appropriate mix between bond and bank debt**

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