Practical Considerations for the Europe 2020 Bond Initiative

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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 requires for firm credit spreads on financing
  - Not compatible with the capital markets
  - UK experience
  - Running bank debt process in parallel?

- 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

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