S&P Dow Jones Indices

A Division of S&P Global

FAQ

Frequently Asked Questions

S&P Solvency II Capital Efficiency Corporate Bond Index

The **S&P Solvency II Capital Efficiency Corporate Bond Index** seeks to track the performance of qualifying global corporate infrastructure bonds that meet the criteria under Solvency II. The index utilizes an independent third-party assessment to determine eligibility for each security.

1. **What is Solvency II?** The Solvency II regime provides a framework for insurance providers in the European Union (EU). This also applies to global insurance regulators that adhere to the Solvency II framework. Like the Basel framework for banking institutions, it focuses on three pillars to assess capital requirements, set risk management procedures, and perform supervisory reporting for adherence to the regime.

2. **To receive preferential capital requirements, securities must qualify for capital relief. What are the criteria for qualifying for capital relief?**

   The primary requirements include the following.

   - The entity "provides or supports essential public services."
   - More than 75% of its revenues come from infrastructure investing.
   - The level of output or the usage and price are contractually fixed.
   - The main payers are entities with an External Credit Assessment Institutions (ECAI) rating and a credit quality step of at least 3.
   - The investing entity should be able to hold the investment to its maturity.
   - There is diversification in terms of location.
   - A substantial majority of the revenues come from infrastructures located in the Organisation for Economic Co-operation and Development (OECD).

3. **How is each security evaluated under the criteria?** S&P Dow Jones Indices contracted with Deloitte Tax & Consulting S.à r.l to review each security on inclusion into the index and annually for as long as the security is in the index. Eligibility is subject to an annual independent assessment made by Deloitte. Eligibility as a Qualifying Infrastructure Company Investment (QICI) is based on a series of criteria defined by the EU Commission Delegated Regulations 2016/467 and 2017/1542. The criteria for the assessment include infrastructure and location, cash flow stability, investor protection, and risk of default. The process is audited to meet International Standard on Assurance Engagements (IASE 3000). Further information can be found here: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32017R1542&from=DE

4. **What types of securities are eligible for the index?** The starting index universe is the S&P Global Developed Corporate Infrastructure Bond Index. This includes corporate bonds issued in developed market currencies. Securities must be rated investment grade by each of the three credit rating agencies used.

5. **What type of infrastructure bonds are included?** The infrastructure bonds include pure-play infrastructure companies that derive the majority of their cash flow from pure-play infrastructure assets. In addition, securities classified under the following Global Industry Classifications Standard® (GICS®) sub-industries are included.

    - Electric Utilities
    - Multi-Utilities
    - Oil & Gas Storage & Transportation
    - Gas Utilities
    - Water Utilities
    - Airport Services
    - Highways & Railtracks
    - Marine Ports & Services

6. **How is the index constructed and calculated?** Building off the S&P Global Developed Corporate Infrastructure Bond Index, select benchmark issues (e.g., USD 500 million par amount or equivalent) are selected. New issue bonds and existing infrastructure bonds that meet the eligibility requirements are added to the base infrastructure index at each monthly rebalance. All bonds in the index are analyzed for Solvency II eligibility. Newly eligible QICI bonds are then added to the S&P Solvency II Capital Efficiency Corporate Bond Index at the subsequent monthly rebalance. All securities are then reviewed annually for ongoing assessment. The total return is calculated by aggregating the interest return, reflecting the return due to paid and accrued interest, and price return, reflecting the gains or losses due to changes in end-of-day price and principal repayments.

7. **Can a qualified bond lose eligibility?** Yes. Bonds that fail to meet the eligibility criteria will be removed at the monthly rebalance. Deloitte will review each bond on an annual basis for compliance with Solvency II guidelines. Any bond that fails the test will be removed from the index.

8. **What are the benefits of insurers that use this index?** Solvency II seeks to incentivize any global insurance company falling under the Solvency II regime to pursue long-term investments, matching the duration of assets and liabilities. Infrastructure bonds typically have a longer duration and are subject to capital benefits relative to similarly rated credits. However, determining if a security qualifies for capital relief is not economic for some companies. To improve access to this market, we have created an index that provides access to qualifying infrastructure—either globally or regionally—and provides the investor with the documentation proving eligibility for capital relief.

9. **How big is the infrastructure corporate bond market?** Infrastructure issuance has been growing, and the S&P Global Developed Corporate Infrastructure Corporate Bond Index is over USD 1.2 trillion. Less than half of that qualifies for Solvency II.

10. **What is the broad composition of the Solvency II index?** The index holds the majority of its assets in USD-based BBB-rated assets with an average duration over eight years. Market value is over USD 600 billion. Index constituents can be obtained with a license through S&P Dow Jones Indices.

11. **Are taxable municipals eligible for the index?** No. Municipal bonds are not part of the corporate bond index. However, the growth of municipal infrastructure debt, both taxable and tax-exempt, is a growing market that we may look to add in the future.

12. **How does the S&P Solvency II Capital Efficiency Corporate Bond Index compare with a traditional corporate index?** The defining characteristics of Solvency II-eligible bonds are the longer duration (8.6 years versus 6.4 years), slightly lower credit quality (BBB versus A-), and higher option-adjusted spread (195 bps versus 178 bps). These reflect market valuations as of May 29, 2020, but infrastructure debt has historically tended to be of longer duration, which lends well to match longer liabilities of insurance providers.

GENERAL DISCLAIMER

Copyright © 2020 S&P Dow Jones Indices LLC. All rights reserved. STANDARD & POOR'S, S&P, S&P 500, S&P 500 LOW VOLATILITY INDEX, S&P 100, S&P COMPOSITE 1500, S&P MIDCAP 400, S&P SMALLCAP 600, S&P GIVI, GLOBAL TITANS, DIVIDEND ARISTOCRATS, S&P TARGET DATE INDICES, GICS, SPIVA, SPDR and INDEXOLOGY are registered trademarks of Standard & Poor's Financial Services LLC, a division of S&P Global ("S&P"). DOW JONES, DJ, DJIA and DOW JONES INDUSTRIAL AVERAGE are registered trademarks of Dow Jones Trademark Holdings LLC ("Dow Jones"). These trademarks together with others have been licensed to S&P Dow Jones Indices LLC. Redistribution or reproduction in whole or in part are prohibited without written permission of S&P Dow Jones Indices LLC. This document does not constitute an offer of services in jurisdictions where S&P Dow Jones Indices LLC, S&P, Dow Jones or their respective affiliates (collectively "S&P Dow Jones Indices") do not have the necessary licenses. Except for certain custom index calculation services, all information provided by S&P Dow Jones Indices is impersonal and not tailored to the needs of any person, entity or group of persons. S&P Dow Jones Indices receives compensation in connection with licensing its indices to third parties and providing custom calculation services. Past performance of an index is not an indication or guarantee of future results.

It is not possible to invest directly in an index. Exposure to an asset class represented by an index may be available through investable instruments based on that index. S&P Dow Jones Indices does not sponsor, endorse, sell, promote or manage any investment fund or other investment vehicle that is offered by third parties and that seeks to provide an investment return based on the performance of any index. S&P Dow Jones Indices makes no assurance that investment products based on the index will accurately track index performance or provide positive investment returns. S&P Dow Jones Indices LLC is not an investment advisor, and S&P Dow Jones Indices makes no representation regarding the advisability of investing in any such investment fund or other investment vehicle. A decision to invest in any such investment fund or other investment vehicle should not be made in reliance on any of the statements set forth in this document. Prospective investors are advised to make an investment in any such fund or other vehicle only after carefully considering the risks associated with investing in such funds, as detailed in an offering memorandum or similar document that is prepared by or on behalf of the issuer of the investment fund or other investment product or vehicle. S&P Dow Jones Indices LLC is not a tax advisor. A tax advisor should be consulted to evaluate the impact of any tax-exempt securities on portfolios and the tax consequences of making any particular investment decision. Inclusion of a security within an index is not a recommendation by S&P Dow Jones Indices to buy, sell, or hold such security, nor is it considered to be investment advice.

These materials have been prepared solely for informational purposes based upon information generally available to the public and from sources believed to be reliable. No content contained in these materials (including index data, ratings, credit-related analyses and data, research, valuations, model, software or other application or output therefrom) or any part thereof ("Content") may be modified, reverse-engineered, reproduced or distributed in any form or by any means, or stored in a database or retrieval system, without the prior written permission of S&P Dow Jones Indices. The Content shall not be used for any unlawful or unauthorized purposes. S&P Dow Jones Indices and its third-party data providers and licensors (collectively "S&P Dow Jones Indices Parties") do not guarantee the accuracy, completeness, timeliness or availability of the Content. S&P Dow Jones Indices Parties are not responsible for any errors or omissions, regardless of the cause, for the results obtained from the use of the Content. THE CONTENT IS PROVIDED ON AN "AS IS" BASIS. S&P DOW JONES INDICES PARTIES DISCLAIM ANY AND ALL EXPRESS OR IMPLIED WARRANTIES, INCLUDING, BUT NOT LIMITED TO, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE OR USE, FREEDOM FROM BUGS, SOFTWARE ERRORS OR DEFECTS, THAT THE CONTENT'S FUNCTIONING WILL BE UNINTERRUPTED OR THAT THE CONTENT WILL OPERATE WITH ANY SOFTWARE OR HARDWARE CONFIGURATION. In no event shall S&P Dow Jones Indices Parties be liable to any party for any direct, indirect, incidental, exemplary, compensatory, punitive, special or consequential damages, costs, expenses, legal fees, or losses (including, without limitation, lost income or lost profits and opportunity costs) in connection with any use of the Content even if advised of the possibility of such damages.

S&P Global keeps certain activities of its various divisions and business units separate from each other in order to preserve the independence and objectivity of their respective activities. As a result, certain divisions and business units of S&P Global may have information that is not available to other business units. S&P Global has established policies and procedures to maintain the confidentiality of certain non-public information received in connection with each analytical process.

In addition, S&P Dow Jones Indices provides a wide range of services to, or relating to, many organizations, including issuers of securities, investment advisers, broker-dealers, investment banks, other financial institutions and financial intermediaries, and accordingly may receive fees or other economic benefits from those organizations, including organizations whose securities or services they may recommend, rate, include in model portfolios, evaluate or otherwise address.