Summary of Comments on CEIOPS-CP-54/09 **Consultation Paper on the Draft L2 Advice on SCR Standard Formula - Loss absorbing capacity of TP**	**CEIOPS-SEC-117-09**

CEIOPS would like to thank Association of British Insurers, Belgian Coordination Group Solvency II (Assuralia/, CEA,

ECO-SLV-09-449, Centre Technique des Institutions de Prévoyance (C, CRO Forum, Danish Insurance Assiciation, European Insurance CFO Forum, European Union member firms of Deloitte Touche To, FAIDER (Fédération des Associations Indépendantes , Federation of European Accountants (FEE), FFSA, German Insurance Association – Gesamtverband der D, GROUPAMA, Groupe Consultatif , Institut des Actuaires (France), International Underwriting Association of London, Investment & Life Assurance Group (ILAG) , Legal & General Group, Munich RE, Pearl Group Limited, PricewaterhouseCoopers LLP, The Equitable Life Assurance Society (UK), and UNESPA- Association of Spanish Insurers and Reinsu

The numbering of the paragraphs refers to Consultation Paper No. 54 (CEIOPS-CP-54/09)

No.	Name	Reference	Comment	Resolution
1.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	General Comment	It is our opinion that stochastic methods need more guidelines: see 3.27. It is our opinion that there are several cases of Loss absorbing capacity. 1. The entire market undergoes the shock. In that case decreasing discretionary bonus is an acceptable solution. 2. The insurer undergoes the shock alone. For instance, due to specific investments. In that case decreasing discretionary bonus is only acceptable if lapses increase. Therefore we can expect increasing financial problems for the company. Neither Option 1(Modular) neither Option 2 (Single Equivalent Scenario) captures this distinction. The Loss absorbing capacity of future discretionary bonus cannot be taken into account at 100% if caution is an objective.	Noted
2.	Association	General	Any form of management actions which would fulfil the criteria set	Not agreed

	of British Insurers	Comment	out by CEIOPS should be recognised. CP54 appears very restrictive in some instances, limiting management actions to changes in bounus rates only (paragraph 3.86, 3.43 and 3.44), which contradicts current market practice and the approach suggested in CP32. Furthermore, it does not seem in line with currently existing UK policyholder protection rules (i.e. Treating Customers Fairly / Principles and Practices of Financial Management. The requirement for both gross and net calculations is an excessive calculation burden. Furthermore the gross calculation is artificial and does not represent the risk exposure of the undertaking. The single equivalent scenario approach could be sensible, but quantitative tests should be performed more widely before concluding on this approach.	
3.			empty	
4.	Belgian Coordination Group Solvency II (Assuralia/	General Comment	We have to confirm that most of the profit share rules for Belgian life insurance products are very "pure" discretionary. It means that most of the time (with exception for the segregated funds for which there is conditional discretionary benefits), the life insurers do not have any commitment about future profit shares to be attributed neither about the level of the profit share nor about the rules or methods to calculate the possible future profit share.	Noted
5.	CEA, ECO-SLV-09-449	General Comment	☐ The gross calculation should be performed via a simplified approach, if at all. The requirement for both gross and net calculations is an excessive calculation burden. Furthermore, in principle the gross calculation is artificial and does not represent the risk exposure of the undertaking. If the gross calculation is retained, it should be simplified; an example of a possible simplification is reported in our comment on	Noted

			Para 3.87. Another possibility would be for the gross calculation to not be tested by sub risk module but rather tested for the insurer as a whole. The application of one scenario at the level of the BSCR would significantly reduce the burden for insurers as there would no longer be a requirement to carry out 2 calculations for each sub risk. Furthermore this will also capture those FDB arrangements which are based on total market performance. For a reasoned decision whether or not the single equivalent scenario is applicable it should be tested under QIS5. However, there should not be a strict requirement to base it on the gross SCR. The single equivalent scenario approach could appear sensible particularly if it is based on the net SCR. However, it is essential that the single equivalent scenario approach is tested in QIS5 before any decision is made as to whether or not this approach should be part of the standard formula. Ceiops only offers a single equivalent scenario approach that is based on the gross capital requirements. Due to our concerns over the artificiality of the gross calculations, in principle it seems more appropriate that the single equivalent scenario would be based on net capital requirements, subject to the principle of proportionality. However, we would request that both the gross and net are also tested under QIS5, this would allow us to test the appropriateness of the methodology to take account of the different characteristics of with-profit contracts in Europe. Furthermore, as the single equivalent scenario is assumed to be “equivalent” to the modular approach we recommend that both options are available for insurers to use, see also our comment to Para 3.89.	Agreed

			An economic approach requires the recognition of all economic value including deferred tax assets. The CEA recommends that increases in deferred tax assets are allowed for as part of the loss absorbency of deferred taxes in the SCR. We recommend that Para 3.104 is removed to ensure an economic risk-based approach is retained. This paper only makes reference to profit sharing mechanisms - We request that Ceiops clarifies that ALL other management actions should be taken into account in all the calculations referred to in this paper. At no point in this paper is the allowance for management actions, other than those related to profit sharing, clearly expressed, We assume that Ceiops does not want other management actions to be ignored but we request that Ceiops clearly states that all other management actions should be taken into account in all the calculations this in their advice. Management actions assumed to occur during the stress should be recognised. As expressed in our feedback to CP32 (on management actions), we disagree with the idea that no management action may be assumed to occur during a stress test if the stress is considered as instantaneous. Under dynamic hedging strategies, this would lead to not rebalancing of the hedge during the stress, leading to an erroneously overstated capital charge. The current financial crisis provided evidence of certain management actions having been	Agreed Noted Not agreed

			taken during such stress tests and they would thus be fully considered (although with some allowance for inefficiencies of rebalancing). No mention is made of how to allow for new business expected to be written in the following 12 months as per Article 101 (3). This also applies to the CPs 47, 48 and 49, which cover the calculation of SCR market risk, Non-Life underwriting risk and Life underwriting risk. These comments should be read together with the comments provided by the CEA on CP32 on management actions.	
6.	Centre Technique des Institutions de Prévoyance (C	General Comment	For Life and Health SLT insurance, the definition of Future Discretionary Benefits and their role in SCR are the single most important of all pending issues. As stated in our comments on CEIOPS-CP 39, §3.271, we consider that FDB evaluation must be clarified for the main life products existing in the member states. The options proposed in §3.87 about gross SCR, and the options for loss absorption by FDB and deferred taxes proposed in §3.89 (modular / single scenario), are meant to derive a proxy of the VaR. We consider that the choice among these options cannot be conclusive before studying their appropriateness regarding a few typical life products.	Noted

7.			Confidential comment deleted	
8.	CRO Forum	General Comment	1. 54.A The proposed calculation approach is difficult to implement practically (priority: high)	
			2. The proposed approach to calculating the gross SCR is difficult to implement due to the number of runs involved and also difficult to interpret; the potential alternatives set out in the paper are not sufficiently robust to offer a credible alternative and based on this we do not feel the concept of ignoring any change in discretionary benefits in an adverse scenario is a useful one.	Noted
			3. The approach to determining the single equivalent scenario involved a number of assumptions which weaken the credibility of the approach. We have suggested an alternative calculation approach which eliminates the double counting of future actions from the SCR, and which could potentially be tested in QIS 5 as an alternative method, replacing the single equivalent scenario approach.	Noted
			4. 54.B The economic value of deferred tax assets in stressed circumstances should be recognised (priority: high)	Agreed
			5. It important that the loss absorbing capacity takes into account both the present value of future taxes and the recoverable portion of the loss made under stressed circumstances (deferred tax asset). This recoverable portion of the DTA has real economic value for (re)insurers that still have a positive future taxable base in stressed circumstances. Limitations on recoverability, for example due to loss-carry forward rules or profit recognition should be taken into account.	
			6. 54.C Confirmation that the scope of advice on management actions in this paper is limited to future discretionary benefits is required (priority: high)	

			7. The paper needs to state specifically in the advice that the scope of management actions referred to in this paper are in respect of discretionary elements of future discretionary benefits only, so as not to misinterpret the advice in CP32. It should be stated also that the management actions in the scope of this CP would be taken in the context of all the other management actions that would take place in the stressed scenario (such as changes in investment policy, or "kicking-in" of dynamic hedging strategies) – for which we provide comments in CP32.	Not agreed
9.	Danish Insurance Assiciation	General Comment	It is very essential that the possibility to use the equivalent approach is is withheld. For important Danish life insurance products – with a big market share – the modular approach would lead to incorrect estimates of the SCR. The reasons are rather technical but relate to the possible use of double counting in the use of loss absorbing liabilities when making use of the modular approach. Important product and regulatory features of Danish products cannot be captured in the modular approach. This is a purely technical issue – applying the equivalent approach for some life insurance products is necessary condition in order to calculate the SCR at the stipulated confidence interval. We urge that the equivalent approach be further developed and tested under QIS 5. Concerning the issue of gross or net calculations the issue is rather difficult. In some markets – depending on rules on loss absorbing features – the net approach may work. In the Danish market due to the Contribution principle (which govern the ability of liabilities to absorb losses – the gross approach may be more appropriate.	Agreed to test in QIS5 Noted

			However, if the combined scenario is forced to be equivalent to the results of the modular model - which we believe can be somewhat flawed and hence, in some instances is not able to reflect the underlying risk - the magnitude of the individual risk factors in the combined equivalent scenario will be biased to some extent. So when suggesting the equivalent approach it is, basically, because it reflects better than the modular approach the underlying risks in important cases. In any case, both net and gross calculations should be tested under QIS 5. We think there is much to be said for letting the local supervisor to decide on the method which better reflects local market conditions.	
10.	European Insurance CFO Forum	General Comment	Ignoring the economic benefits of a going concern basis is contradictory to the objectives of Solvency II. The CFO Forum believes that a going concern basis should apply both before and after a loss event, including losses that cause a breach in the SCR or MCR, as, if the entity in its entirety is transferred to another insurer or if additional capital is raised in order to operate, the acquirer can benefit from any tax benefits, tax credits or policyholder participation as appropriate. This is consistent both with the concept of transfer in one year's time and the economic valuation basis, which are embedded in Solvency II. In general, a pragmatic approach should be encouraged throughout the consultation paper. A pragmatic approach, taking into account the principle of proportionality and materiality should be considered throughout the consultation paper. The CFO Forum disagrees with the view that plausible management actions should be restricted to policyholder benefit rates. The CFO Forum believes the management actions considered	Noted

			should be consistent with the advice provided in CP 32 – "Assumptions about future management actions".	
11.	European Union member firms of Deloitte Touche To	General Comment	European Union member firms of Deloitte Touche Tohmatsu are currently involved in the Level 2 Impact Assessment of Solvency II conducted by the European Commission. "Loss absorbing capacity of TP" covers policy issues and options dealt with by this impact assessment. As a consequence, we have restricted our comments to those areas where there is no overlap with the issues addressed in the Impact Assessment.	Noted
12.	Federation of European Accountants (FEE)	General Comment	As stated in our comments on CP 39, the definition of "discretionary benefits" and the terms used is in our view not reflecting the obligatory participating features and voluntary benefits. This may be an explanation why the outcomes in the various countries with very different legal position and contract features are inconsistent. Consequently, we recommend an entire review which considers conceptually different features. The entire range of features from, over insurance at cost, some forms of mutual insurance, investment-linkage (i.e. a direct linkage to specific investments held by the insurer, where performance is transferred at 100% to policyholders), performance-linkage (a contractual obligation to forward a specified share in performance of the insurer after providing guaranteed benefits to policyholders), to premium or benefit adjustment clauses (permitting to increase premiums or decrease benefits, both otherwise guaranteed, in specific situations of deficiency), require a conceptual consideration. We could provide further input if considered helpful. Specifically obligatory participation features are by construction loss absorbing. Voluntary benefits are loss absorbing, except if the actual intention triggering the voluntary does not allow a	Noted

			modification in loss cases, e.g. if economic compulsion (marketing pressure) is too strong. It is insufficient to consider obligatory participating features as being merely a question of management actions, as it is done in the paper mainly. They are conceptually similar automatic adjustments as the value of a unit-linked contract would adjust to unit prices.	
13.	FFSA	General Comment	1. 1) Although the gross SCR is useful in the modular approach, FFSA would like to outline that it has no economic meaning (§3.84). 2. 2) FFSA considers that the single scenario approach (§3.89) could appear sensible as long as it is based on net SCR. FFSA considers that the option to use a single equivalent scenario by company should be retained only if the single equivalent scenario is build by each undertaking based on net capital charges, due the lack of economic meaning of gross capital charges and the uncertainty around their calculation (§3.89). 3. 3) FFSA has examined pros and cons of the two options the modular and the single scenario below. 4. - In theory: the modular approach may lead to some inconsistencies such as negative net SCR. The single equivalent scenario appears technically more robust and more able to reflect the specificities of profit sharing (e.g. management actions through modified bonus rates are better assessed). However, it is a more sophisticated method and more difficult to explain. The scenario is different for each entity and risk module. 5. - In practise: The modular approach seems very easy to implement although the treatment of taxes was quite hard to implement in QIS4.The single equivalent scenario approach is quite difficult to implement as it requests double calculations to define the single equivalent scenario.	Noted Noted Noted

			6. - As a result, FFSA considers that it is most essential that the modular approach and the single scenario approach be tested in QIS5.	Agreed
			7. 4) FFSA strongly disagrees with restricting the loss-absorbing capacity of deferred taxes to decreases in deferred tax liabilities and with the assumption that deferred tax assets cannot increase or even may loose their value under stressed conditions. FFSA would like this paragraph 3.104 to be removed to ensure an economic risk-based approach and a consistent approach with the recommendation made in the answer to the CP35 where the Industry strongly disagrees with the non recognition of unused tax losses and unused tax credits and highlights that the recognition of the unused tax losses should be based on the recoverability principle.	Agreed
			8. 5) CEIOPS proposes two different ways of calculating the gross SCR: (i) a calculation based on the assumption that the absolute amount of discretionary benefits per policy and per year is unchanged after and before shock and (ii) the value of discretionary benefits remains unchanged and the value of options and guarantees in the technical provisions remains unchanged. FFSA considers that the alternative proposed by CEIOPS is not clear enough, and an example could be provided to illustrate what CEIOPS means. Furthermore FFSA thinks that it is easier for undertakings to assume that future bonus rates will remain unchanged rather than assuming the amount of future discretionary benefits unchanged.	Not agreed
			9. 6) FFSA disagrees with the idea that no management action may be assumed to occur during a stress test if the latter is considered as instantaneous. Under dynamic hedging strategies, this would lead to not rebalancing of the hedge during the stress,	Not agreed

			leading to an erroneously overstated capital charge. The current financial crisis provided evidences of certain management actions having been taken during such stress tests and they would thus be fully considered (although with some allowance for inefficiencies of rebalancing)	
14.			Confidential comment deleted	
15.	German Insurance Association – Gesamtverb and der D	General Comment	GDV appreciates CEIOPS' effort regarding the implementing measures and likes to comment on this consultation paper. In general, GDV supports the detailed comment of CEA. Nevertheless, the GDV highlights the most important issues for the German market based on CEIOPS' advice in the blue boxes. ☐ It should be noted that our comments might change as our work develops. Our views may evolve depending, in particular, on other elements of the framework which are not yet fixed – e.g. specific issues that will be discussed not until the third wave is disclosed. ☐ Overall comment: ☐ There should be no decision between the modular approach and the single equivalent scenario right now because the latter has to be tested by the industry first (e.g. in QIS5). In addition, more guidance is needed concerning the single equivalent scenario. In the modular approach gross calculations are not necessary. Thus,	Agreed Not agreed

			they should not be required. ☐ ☐ ☐ The gross calculation should be performed via a simplified approach, if at all The requirement for both gross and net calculations is an excessive calculation burden. Furthermore, in principle the gross calculation is artificial and does not represent the risk exposure of the undertaking. If the gross calculation is retained, it should be simplified; an example of a possible simplification is reported in our comment on Para 3.87. Another possibility would be for the gross calculation not being tested by sub risk module but rather tested for the insurer as a whole. The application of one scenario on the level of the BSCR would significantly reduce the burden for insurers as there would no longer be a requirement to carry out 2 calculations for each sub risk. Furthermore this will also capture those FDB arrangements which are based on total market performance. For a reasoned decision whether or not the single equivalent scenario is applicable it should be tested under QIS5. However, it there should not be a strict requirement to base it on the gross SCR The single equivalent scenario approach could appear sensible particularly if it is based on the net SCR. However, it is essential that the single equivalent scenario approach is tested in QIS5 before any decision is made as to whether or not this approach should be part of the standard formula. CEIOPS only offers a single equivalent scenario approach that is	Noted

			based on the gross capital requirements. Due to our concerns over the artificiality of the gross calculations, in principle it seems more appropriate that the single equivalent scenario would be based on net capital requirements, subject to the principle of proportionality. However, we would request that both the gross and net are also tested under QIS5; this would allow us to test the appropriateness of the methodology to take account of the different characteristics of with-profit contracts in Europe. Furthermore, as the single equivalent scenario is assumed to be "equivalent" to the modular approach we recommend that both options are available for insurers to use. An economic approach requires the recognition of all economic value including deferred tax assets. The GDV recommends that increases in deferred tax assets are allowed for as part of the loss absorbency of deferred taxes in the SCR. We recommend that Para 3.104 is removed to ensure an economic risk-based approach is retained. No mention is made of how to allow for new business expected to be written in the following 12 months as per Article 101 (3) This also applies to the CPs 47, 48 and 49, which cover the calculation of SCR market risk, Non-Life underwriting risk and Life underwriting risk. These comments should be read together with the comments provided by the GDV on CP 32 on management actions.	Noted Agreed

			This paper only makes reference to profit sharing mechanisms - We request that CEIOPS clarifies that ALL other management actions should be taken into account in all the calculations referred to in this paper At no point in this paper is the allowance for management actions, other than those related to profit sharing, clearly expressed, We assume that CEIOPS does not want other management actions to be ignored but we request that CEIOPS clearly states that all other management actions should be taken into account in all the calculations in their advice. Management actions assumed to occur during the stress should be recognised As expressed in our feedback to CP 32 (on management actions), we disagree with the idea that no management action may be assumed to occur during a stress test if the stress is considered as instantaneous. Under dynamic hedging strategies, this would lead to not rebalancing of the hedge during the stress, leading to an erroneously overstated capital charge. The current financial crisis provided evidence of certain management actions having been taken during such stress tests and they would thus be fully considered (although with some allowance for inefficiencies of rebalancing).	Noted Not agreed
16.	GROUPAMA	General Comment	Groupama welcomes the option 2 suggested by CEIOPS for calculating gross SCR. We understand that if options and guarantees remain unchanged, such as the amount of profit-	

			sharing, we could use deterministic simulations to calculate gross SCR. This will avoid burdensome calculations and unclear methodologies for a calculation without direct impact on final SCR. We would appreciate it if CEIOPS were to state this clearly. (3.47) We question the scenario equivalent approach. The SCR resulting from this calculation does not seem feasible for the undertaking using a Partial Internal Model. As it may be hard to decide on this matter now after the brief period of consultation, we suggest that this methodology should be tested during QIS 5, in addition to the modular approach. (3.54) Regarding the absorption of deferred taxes, we do not think that it is consistent on the one hand to use IAS 12 methodology for deferred taxes (CP 35) and to recognize deferred tax assets (CP 46), and on the other hand to cap the deferred tax absorption to the amount of deferred taxes liabilities in the initial balance sheet. As the deferred taxes assets have an economic value (in the case of transfer, for instance), undertakings should be allowed to calculate deferred tax absorption that is higher than the amount of deferred tax liabilities in the initial balance sheet. (3.74)	 Noted Agreed
17.	Groupe Consultatif	General Comment	Groupe Consultatif believes that more work is required to build consensus on an appropriate approach (or body of approaches) to this particular issue. There is widespread agreement that the modular 'gross SCR' approach is not practical or meaningful. Opinion is more divided on the single equivalent scenario approach, although the approach to determining the scenario involved a number of assumptions which weakened the credibility of the approach. We have recently become aware of the alternative approach under consideration by the CRO Forum and we believe	Noted

			this is likely to deserve further consideration. The value creation due to a Deferred Tax Assets arising after a loss has occurred, should be accounted for. This has economic value in reality. Limitations to loss-carry-forward and profit recognition should be taken into consideration. We believe that general thrust of this CP does not fit will with the management of at least some types of with profits business. The CP expresses concern that the offset may be double counted when the stresses are applied. As bonus rates are set as an amalgam of all aspects of the underlying experience, so that favourable and adverse experience from different sources may offset each other, it is inappropriate to attempt to produce a "gross" position based on the assumption that bonuses are unchanged. We question both methods proposed for the treatment of the bonus after the stress. In the stress scenario we would not expect the bonus rates to be maintained nor would we expect the value to be the same (e.g., in the equity stress position). Further guidance is needed on the development of the single equivalent scenario and when it may be based on "net provisions". We are also concerned that the CP may be seeking to limit the range of management actions available to the undertaking in calculating the SCR (but which would however be available in real life). (For example, it is not clear if an asset switch would be permitted in the stress scenario.) We are equally concerned that any attempt to limit the range of viable management actions could also be applied to non-profit contracts where discretionary powers to review charges or premium rates which may have applied in stress scenarios would be excluded.	Agreed Noted Not agreed

18.	International Underwriting Association of London	General Comment	It seems that this consultation paper has largely been drafted with life insurance in mind, although we believe that non-life businesses will also be interested in the treatment of deferred taxes. The loss absorbing capabilities of deferred tax assets should also be considered to the extent that it is likely to be possible to benefit from those assets in future periods. We believe that credit should be taken for deferred tax and for tax credits subject to applicable current and expected future tax rules, consistent with anticipated profits or losses. As we note in our response to CP55, IAS12 sets out a meaningful framework to test recovery, and we would be keen to see a similar approach adopted under Solvency II.	Agreed
19.	Investment & Life Assurance Group (ILAG)	General Comment	We believe that general thrust of this CP does not fit will with the management of UK with profits business. The CP expresses concern that the offset may be double counted when the stresses are applied. As bonus rates are set as an amalgam of all aspects of the underlying experience, so that favourable and adverse experience from different sources may offset each other, it is inappropriate to attempt to produce a "gross" position based on the assumption that bonuses are unchanged. We question both methods proposed for the treatment of the bonus after the stress. In the stress scenario we would not expect the bonus rates to be maintained nor would we expect the value to be the same (e.g., in the equity stress position). Further guidance is needed on the development of the single equivalent scenario and when it may be based on "net provisions". We are also concerned that the CP may be seeking to limit the range of management actions available to the undertaking in	Noted Not agreed

			calculating the SCR (but which would however be available in real life). (For example, it is not clear if an asset switch would be permitted in the stress scenario.) We are equally concerned that any attempt to limit the range of viable management actions could also be applied to non-profit contracts where discretionary powers to review charges or premium rates which may have applied in stress scenarios would be excluded.	
20.	Legal & General Group	General Comment	CP54 makes numerous references to "discretionary bonuses" implying that these are the only type of discretionary benefits which would be affected by management actions (e.g. 3.94 and 3.97). This is in conflict with CP32, which correctly identifies a much wider range of discretion in relation to management actions, for example CP32 paragraphs 3.2 and 3.4. CP55 should be changed so that it is consistent with CP32's definitions of discretionary management actions.	
21.	Munich RE	General Comment	We fully support all of the GDV statements and would like to add the following points: The proposed approach to calculating the gross SCR is not practical or meaningful; the potential alternatives set out in the paper are not sufficiently robust to offer a credible alternative and based on this we do not feel the concept of ignoring any change in discretionary benefits in an adverse scenario is a useful one. Also we do not prefer the approach of the single equivalent scenario.	Noted
22.	Pearl Group Limited	General Comment	Any form of management actions which would fulfill the criteria set out by CEIOPS should be recognised. CP54 seems very restrictive in some instances, limiting management actions to changes in bounus rates only (paragraph 3.86, 3.43 and 3.44). This should be seen as an illustration only.	Noted

			The requirement for both gross and net calculations is an excessive calculation burden. Furthermore the gross calculation is artificial and does not represent the risk exposure of the undertaking.	
23.	PricewaterhouseCoopers LLP	General Comment	Our detailed comments on the paper are set out below. Overall, we strongly support the "single equivalent scenario" approach to calculating the adjustment for loss-absorbing capacity of technical provisions, as we do not believe the "modular" approach can allow for appropriate treatment of changes to future discretionary benefits. Furthermore, we believe that the single equivalent scenario should be identified based on the individual capital charges calculated net, rather than gross, of changes to future discretionary benefits. We explain our reasoning for this position in more detail in our comments on paragraph 3.55 below. We note that there is no consideration, either here or in CP 55 on the calculation of the MCR, of the implications of the SCR being reduced to near zero as a result of the loss-absorbing capacity of technical provisions, a position noted in the second bullet point of paragraph 3.16. This is a significant possibility for UK insurers with closed with-profits funds, where the insurer must allow for the gradual distribution to policyholders of all assets within the fund, although any non-profit fund is likely to contribute a non-zero value to the SCR. If the SCR is reduced to zero, the cap on the MCR would result in the absolute floor on the MCR biting, which may seem like an anomalously low criterion for large with-profits firms to meet.	Noted
24.	UNESPA-Association of Spanish Insurers and Reinsu	General Comment	UNESPA (Association of Spanish Insurers and Reinsurers) appreciates the opportunity to analyze and comment on *Consultation Paper 54 about SCR Standard Formula – Loss absorbing capacity of TP*	

			UNESPA is the representative body of more than 250 private insurers and reinsurers that stand for approximately the 96% of Spanish insurance market. Spanish Insurers and reinsurers generate premium income of more than € 55 bn, directly employ 60.000 people and invest more than € 400 bn in the economy. The comments expresed in this response represent the UNESPA´s views at this stage of the project. As our develops, these views may evolve depending in particular, on other elements of the framework which are not yet fixed. An economic approach requires the recognition of all economic value including deferred tax assets. UNESPA strongly supports that increases in deferred tax assets are allowed for as part of the loss absorbency of deferred taxes in the SCR. UNESPA request that Para 3.104 is removed to ensure an economic risk-based approach is retained.	Agreed
25.	FAIDER (Fédération des Associations Indépendant es	1.	We would just be sure that the use of technical provisions to cover possible future losses will not be at the detriment of the policyholders, when all the profits that they are entitled to receive have not been distributed but set aside in a reserve. Indeed these are amounts that belong to the policyholders, even if they have not been allocated to technical provisions.	Noted
26.	Association of British Insurers	3.6.	We do not support an approach whereby the net SCR is set equal to the gross SCR Setting net SCR equal to gross SCR is not a simplification but only a means for excluding the loss absorbing effect of TP.	Noted

27.			Confidential comment deleted	
28.	CEA, ECO-SLV-09-449	3.6.	We do not support an approach whereby the net SCR is set equal to the gross SCR. Setting net SCR equal to gross SCR is not a simplification but only a means for excluding the loss absorbing effect of TP.	Noted
29.	Pearl Group Limited	3.6.	We do not support an approach whereby the net SCR is set equal to the gross SCR Setting net SCR equal to gross SCR is not a simplification but only a means for excluding the loss absorbing effect of TP.	Noted
30.	Association of British Insurers	3.8.	The obligation to calculate a “lower-boundary SCR” in QIS4 was excessive.	Noted
31.			Confidential comment deleted	
32.	CEA, ECO-SLV-09-449	3.8.	The obligation to calculate a “lower-boundary SCR” in QIS4 was excessive and should be replaced with appropriate disclosure.	Noted
33.	Pearl Group Limited	3.8.	The obligation to calculate a “lower-boundary SCR” in QIS4 was excessive and should be replaced with appropriate disclosure.	Noted
34.	Institut des Actuaires (France)	3.9.	The logical bases of the alternative approach don’t appear quite clearly. Additional material would be welcome to explain the use of the single equivalent scenario as well as its derivatives (super killer, super mega killer scenarios) whose weaknesses are explained in the appendix. Especially for life with profit policies, the way this approach deals with the issue of assessing the loss absorption capacity of technical reserves doesn’t appear obvious. This might	Noted

			end up with huge differences between markets and companies in the field of the assessment of the impact of this absorption capacity, whereas this is a sensitive factor of company real solvency.	
35.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	3.12.	Although the rule of 99.5%is the keystone of SII, its application in Life insurance is far from obvious.	Noted
36.			Confidential comment deleted	
318.	PricewaterhouseCoopers LLP	3.12.	The 3rd bullet point highlights one point emerging from QIS4 – if bonuses are increased in the stress where interest rates increase, the net SCR may be higher than the gross SCR. No advice appears to have been included in this paper to address this eventuality. We suggest it would be useful to include such advice.	Not agreed
37.	Danish Insurance Assiciation	3.15.	In general the single equivalent scenario does not result in a poorer representation of non-linear risk exposure than the modular approach. When benchmarked against a simulation study assuming normally distributed risk factors, examples abound where the capital requirement based on the equivalent scenario comes closest to the "true" simulated 99.5 percentile. Alternatively, deviations between the modular and the equivalent scenario approach due to non-linear risk exposure can be assessed by scaling the capital requirements instead of the stress test factors. In Denmark the loss-absorbing capacity of the technical provisions lies in the bonus reserves that can be used to absorb losses.	Noted

			This loss absorbing capacity varies to some extent according to which SCR-components that occur. It is therefore according to the Danish system necessary to decompose the total SCR before loss-absorbing. This implies that it is a very high priority for our market to make use of an equivalent scenario model.	
38.	Association of British Insurers	3.17.	If we consider the position of financial institutions affected by the current crises it is seen that numerous institutions have bounced back and reported profits again. This would support the case of recognising DTA where the company can demonstrate its continued ability to write profitable new business for the coming years.	Agreed
39.	CEA, ECO-SLV-09-449	3.17.	☐ The treatment of deferred tax under crisis situations should not dictate its treatment in benign conditions and for entities that are a going-concern. ☐ If we consider the position of financial institutions affected by the current crises it is seen that numerous institutions have bounced back and reported profits again. This would support the case of recognising DTA where the company can demonstrate its continued ability to write profitable new business for the coming years. If the company can cover its SCR with or without recognition of the DTA then it can be seen that recognition of the DTA does not damage the interests of policyholders. Provided this is the case, the CEA believes that the DTA should be recognised. As part of the early warning indicator report companies could assess whether not recognising the DTA might cause the SCR not to be covered and then have appropriate discussions with their supervisors.	Agreed
319.	Pricewaterho	3.19.	As stated in our response on CP 39 (paragraph 3.180), from a	Noted

	useCoopers LLP		consistency perspective it would be helpful to link the definition of conditional and pure discretionary benefits to the IFRS definition of "discretionary participation feature."	
40.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	3.25.	The notion of "Instantaneous stress" assumes a short period of time. In Life Insurance, we deal with long period of time. We do not see any reason why the stress should not be "amortized" after the first year of projection. And, it is not clear that we have to assume that the stress period is going for ever -until the end of all contracts-. It is our understanding that the last paragraph suggest that a limited period of stress is acceptable. In that case, stochastic methods could cope with this approach.	Not agreed
41.	Association of British Insurers	3.25.	The obligation can generate more onerous capital requirements than the "99.5th percentile 1-year VaR" As per the CEA's feedback on CP32, we disagree with the second bullet point: 1. "To the extent that the stress under consideration is considered to be an instantaneous stress, no management actions may be assumed to occur during the stress." 2. Calibrating stresses over a one year time period and then applying them instantaneously results in a level of confidence significantly greater than the 99.5th 1-year VaR approach specified in the Framework Directive. Also see the comments to Para 3.82. We also refer CEIOPS to the CRO Forum response on CP 32, and particularly the discussion of instantaneous shocks referring to paragraphs 3.25 and 3.6 of that paper.	Noted

			3. We agree with CEIOPS position in the scope of this CP – only in the context of future management actions relating to discretionary future benefits – that immediately after an instantaneous shock the level of discretionary future benefits would be reassessed by management to take into account the impact of the shock. 4. We do not agree with the assertion that if the stress is considered to be an instantaneous stress that no management actions may be assumed to occur during the stress. Under dynamic hedging strategies this would lead to no rebalancing of the hedge, as the stress occurs, leading to an erroneously overstated capital requirement. If the market stresses have been calibrated as 1 in 200 over 1 year capital events then they should be treated as such, and not as instantaneous stresses, which would have a much lower probability of occurring. Some allowance should then be made for the inefficiency of rebalancing the hedge. We believe that this paper needs to be a little clearer by stating specifically in the advice that the scope is management actions relating to the discretionary elements of future discretionary benefits only, and that these management actions would be taken in the context of all the other management actions that would take place in the stressed scenario (such as changes in investment policy, or "rebalancing" of dynamic hedging strategies).	Noted Not agreed
42.			Confidential comment deleted	
43.	CEA, ECO-SLV-	3.25.	The obligation can generate more onerous capital requirements than the "99.5th percentile 1 year VaR".	

	09-449		As per the CEA's feedback on CP32, we disagree with the second bullet point: ☐ "To the extent that the stress under consideration is considered to be an instantaneous stress, no management actions may be assumed to occur during the stress." ☐ Calibrating stresses over a one year time period and then applying them instantaneously results in a level of confidence significantly greater than the 99.5th 1 year VaR approach specified in the Framework Directive. Also see the comments for Para 3.82.	Noted
44.	CRO Forum	3.25.	8. We refer CEIOPS to the CRO Forum response on CP 32, and particularly the discussion of instantaneous shocks referring to paragraphs 3.25 and 3.6 of that paper. 9. We agree with CEIOPS position in the scope of this CP – only in the context of future management actions relating to discretionary future benefits – that immediately after an instantaneous shock the level of discretionary future benefits would be reassessed by management to take into account the impact of the shock. The paper needs to state specifically in the advice that the scope of management actions referred to in this paper are in respect of discretionary elements of future discretionary benefits only, so as not to misinterpret the advice in CP32. It should be stated also that the management actions in the scope of this CP would be taken in the context of all the other management actions that would take place in the stressed scenario (such as changes in investment policy, or "kicking-in" of dynamic hedging strategies) – for which	Noted Not agreed

			we provide comments in CP32.	
45.			Confidential comment deleted	
46.	German Insurance Association – Gesamtverb and der D	3.25.	The obligation can generate more onerous capital requirements than the "99.5th percentile 1 year VaR" As per the CEA's feedback on CP 32, we disagree with the second bullet point: ☐ "To the extent that the stress under consideration is considered to be an instantaneous stress, no management actions may be assumed to occur during the stress." ☐ Calibrating stresses over a one year time period and then applying them instantaneously results in a level of confidence significantly greater than the 99.5th 1 year VaR approach specified in the Framework Directive. Also see the comments for Para 3.82	Noted
47.	Pearl Group Limited	3.25.	The obligation can generate more onerous capital requirements than the "99.5th percentile 1 year VaR" We disagree with the second bullet point: 1. "To the extent that the stress under consideration is considered to be an instantaneous stress, no management actions may be assumed to occur during the stress." 2. Calibrating stresses over a one year time period and then applying them instantaneously results in a level of confidence significantly greater than the 99.5th 1 year VaR approach specified in the Framework Directive.	Noted

48.				
320.	PricewaterhouseCoopers LLP	3.25.	We welcome the aim to achieve consistency in the criteria which must be met by assumptions regarding future management actions, whether applied in the calculation of technical provisions or in the assessment of the standard formula SCR. These comments also apply to paragraph 3.82.	Noted
49.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	3.27.	For companies discovering stochastic models, guidelines on how to apply gross and net projections are necessary. As far as it is intended to increase harmonisation throughout the EU, we consider that it is indispensable to provide accurate and detailed guide lines. The wording that the insurer is not able to vary its assumptions on future bonus rates is not reasonably – or by principle - applicable with stochastic methods. This is due to the multi-scenarios approach behind the calculations. Freezing the bonus rates may give strange results because some scenarios provide more profits (out of the projected assets) than the frozen future bonus. This comes from the fact that SCR are calculated on NAV basis. With stochastic methods, we have scenarios increasing the assets side – despite the shock- although the liabilities side is not (or less) affected. QIS4 (TS.II D. 48-51) proposed the simulation of a model of assets in order to calculate the future bonus rates. This element is not explicitly given in CP54.	Noted
50.	Belgian Coordination Group Solvency II (Assuralia/	3.27.	This comment regards the total section of 3.1.5, including paragraphs 3.27 up to 3.48. We do agree that the impact of the loss-absorbing effect of profit sharing can not be double counted. However, the proposed methodology will be very burdensome for the companies. Models	Noted

for calculation of the technical provisions are designed in such a way that the profit sharing most accurately reflects the economical surroundings, and are therefore function of several assumptions/management decisions. Adapting models according to this CP, and thus make profit sharing dependent on other bases (which do not influence the calculation of the technical provisions in another way), implies major adjustments to models. The impact of such manipulation of the models could lead to unrealistic results.

We propose the following simplification:

First, we insist on the fact that any simplification cannot have as a consequence changing the total SCR calculation including the absorption capacity of the future profit share.

One possible solution could be (to be applied with prudence for example for ring-fenced structure with conditional profit share benefit) as described below.

To be able to report separately the impact of the shocks at the level of the profit share, we propose to process as following:

	Before shock	***After shock***
With PS	A1	A2
Without PS	B1	B2

A1 is the NAV before the shock (i.e. in the best estimate case).

			A2 is the NAV after the shock. B1 is the NAV calculated without attribution of future PS in the best estimate case. B2 is the NAV without PS after the application of the shock. nSCRi = A1-A2 is the measure of the impact of the shock for the risk i. B1-B2 provides an estimate of the ΔNAV without absorption effect of the PS ≈ BSCRi Adji = max(0 ; BSCRi - nSCRi) is a measure of the absorption level for the shock by the future profit share for the risk i.	
51.			Confidential comment deleted	
52.	Association of British Insurers	3.28.	The gross calculation is onerous and artificial CEIOPS interprets Article 107 of the Framework Directive very literally as implying that the objective of the adjustment is to correct a calculation of the Basic SCR that doesn't allow for the risk mitigating effect provided by future discretionary benefits, thus leading to a gross calculation. The Framework Directive is meant to be principles based and as such there should be latitude to adopt sensible and proportionate approaches. In particular a requirement for insurers to calculate capital requirements without allowing for risk mitigating mechanisms is artificial and it could be onerous to calculate. Many firms have already built dynamic models, some of which adjust	Noted

			profit-sharing based on solvency positions, profits and losses earned over the last year, allowing for smoothing from previous profit-sharing rates etc. Therefore these models automatically adjust bonus rates following shocks and as such some insurers have had major difficulties deriving liability values excluding the adjustments that would in practice be made to bonus rates.	
53.			Confidential comment deleted	Noted
54.	CEA, ECO-SLV-09-449	3.28.	The gross calculation is artificial. Ceiops interprets Article 107 of the Framework Directive very literally as implying that the objective of the adjustment is to correct a calculation of the Basic SCR that doesn't allow for the risk mitigating effect provided by future discretionary benefits, thus leading to a gross calculation. The Framework Directive is meant to be principles based and as such there should be latitude to adopt sensible and proportionate approaches. In particular a requirement for insurers to calculate capital requirements without allowing for risk mitigating mechanisms is artificial and it could be onerous to calculate for the large number of firms which have already built dynamic models and which adjust profit-sharing based on solvency positions and profits and losses earned over the last year, allowing for smoothing from previous profit-sharing rates etc. These models automatically adjust bonus rates following shocks and as such some insurers have had major difficulties deriving liability values excluding the adjustments that would in practice be made to bonus rates.	Noted
55.	German Insurance Association	3.28.	The gross calculation is artificial CEIOPS interprets Article 107 of the Framework Directive very literally as implying that the objective of the adjustment is to	Noted

	– Gesamtverb and der D		correct a calculation of the Basic SCR that doesn't allow for the risk mitigating effect provided by future discretionary benefits, thus leading to a gross calculation. The Framework Directive is meant to be principles based and as such there should be latitude to adopt sensible and proportionate approaches. In particular a requirement for insurers to calculate capital requirements without allowing for risk mitigating mechanisms is artificial and it could be onerous to calculate for the large number of firms which have already built dynamic models and which adjust profit-sharing based on solvency positions and profits and losses earned over the last year, allowing for smoothing from previous profit-sharing rates etc. These models automatically adjust bonus rates following shocks and as such some insurers have had major difficulties deriving liability values excluding the adjustments that would in practice be made to bonus rates.	
56.	Pearl Group Limited	3.28.	The gross calculation is onerous and artificial CEIOPS interprets Article 107 of the Framework Directive very literally as implying that the objective of the adjustment is to correct a calculation of the Basic SCR that doesn't allow for the risk mitigating effect provided by future discretionary benefits, thus leading to a gross calculation. The Framework Directive is meant to be principles based and as such there should be latitude to adopt sensible and proportionate approaches. In particular a requirement for insurers to calculate capital requirements without allowing for risk mitigating mechanisms is artificial and it could be onerous to calculate. Many firms have already built dynamic models, some of which adjust profit-sharing based on solvency positions, profits and losses earned over the last year, allowing for smoothing from previous	Noted

			profit-sharing rates etc. Therefore these models automatically adjust bonus rates following shocks and as such some insurers have had major difficulties deriving liability values excluding the adjustments that would in practice be made to bonus rates.	
57.	Association of British Insurers	3.30.	We do not agree that the gross calculation can provide useful information to the undertaking or the supervisor CEIOPS states that the gross SCR should provide useful information to undertakings and to the supervisors. We completely disagree with that view (see comment to Para 3.39) and for that reason propose to simplify all calculations related to the notion of gross capital charge.	Noted
58.			Confidential comment deleted	
59.	CEA, ECO-SLV-09-449	3.30.	The gross calculation is artificial. ☐ Ceiops states that the gross SCR should provide useful information to undertakings and to the supervisors. We disagree with that view as the gross calculation is artificial (see comment to Para 3.39) and for that reason propose to simplify all calculations related to the notion of gross capital charge.	Noted
60.	CRO Forum	3.30.	We disagree that the gross calculation, will help to avoid the double counting of risk mitigating effects, and will provide additional information about the risk profile of the undertaking. We propose that all calculations relating to the notion of gross capital charge should be simplified.	Noted
61.	FFSA	3.30.	CEIOPS states that the gross SCR should provide useful information to undertakings and to the supervisors. FFSA completely disagree with that view (see comment on 3.39).	Noted

62.	Association of British Insurers	3.31.	The issue is due to non-linearity in the modular approach This issue is a broader one of non-linearity introduced by the use of a modular approach, rather than double counting in the net calculation. The use of a single equivalent scenario would avoid the non-linearity introduced by the modular approach discussed in this section.	Noted
63.			Confidential comment deleted	
64.	CEA, ECO-SLV-09-449	3.31.	The issue is due to non linearity in the modular approach. This issue is a broader one of non linearity introduced by the use of a modular approach, rather than double counting in the net calculation. Insurance undertakings usually adopt various techniques to avoid the non-linearity error, such as the Non-Linearity Adjustment (which requires the calculation of the risk capital in a "big bang scenario", i.e. the scenario in which the worst case scenarios for all the risks happen simultaneously) or the application of a Single Equivalent Scenario.	Noted
65.	CRO Forum	3.31.	This will lead to double counting of risk mitigating effects.	Noted
66.	Pearl Group Limited	3.31.	This is not correct – it does not follow that risk mitigating effects will be double-counted under a net approach It does not follow that a net calculation results in double counting. This issue is a broader one of non-linearity introduced by the use of a modular approach.	Noted
67.			Confidential comment deleted	

68.			Confidential comment deleted	
69.	Association of British Insurers	3.34.	See the comments to paragraph 3.31.	
70.			Confidential comment deleted	
71.	CEA, ECO-SLV-09-449	3.34.	See the comments to Para 3.31.	
72.	FFSA	3.34.	CEIOPS provides an example to illustrate the fact that the net SCR would overestimate the loss-absorbing effect of technical provisions. The example is based on the comparison of the gross SCR and the net SCR in a particular example. FFSA strongly disagrees with the relevance of such a demonstration that consists in claiming having demonstrated something that has actually been considered as an assumption. Indeed, the underlying assumption of this demonstration is that the gross SCR reflects the actual level of risk of the undertaking, whereas FFSA contests completely the relevance and economic sense of the gross SCR (see comment on 3.39). A correct demonstration would have consisted in comparing the "correct" level of the SCR coming from the single equivalent scenario with the net SCR calculated with the modular approach, in order to illustrate to which extent the modular approach could lead to some double counting, the existence of which is naturally recognized by FFSA.	Noted
73.	Pearl Group Limited	3.34.	This is not correct – it does not follow that risk mitigating effects will be double-counted under a net approach It does not follow that a net calculation results in double counting. This issue is a broader one of non-linearity introduced by the use of	Noted

			a modular approach.	
74.	CRO Forum	3.35.	The probability of double counting risk mitigating effects increases with the granularity of the modular calculation. According to the Level 1 text, the standard formula consist of at least 13 modules or sub-modules which are relevant for a with-profit life business and where the risk mitigating effect of profit sharing is taken into account. In extreme cases the risk mitigating potential of future discretionary benefits could be accounted for 13 times where it is only available once	Noted
75.			Confidential comment deleted	
76.	CRO Forum	3.37.	CEIOPS refers to Article 107 which states that the adjustment for the loss-absorbing capacity of technical reserves should be capped by the amount of future discretionary bonuses. We believe that the limits of future discretionary bonuses should be performed at portfolio level and not at company level.	Noted
77.	FFSA	3.37.	CEIOPS reminds that Article 107 mentions that the adjustment for the loss-absorbing capacity of technical reserves should be maximised by the amount of future discretionary bonuses. FFSA intend to precise that limiting the future discretionary bonuses should be performed at segregated fund level and not at the company level.	Noted
78.	Association of British Insurers	3.39.	We do not agree that the gross calculation can provide useful information to the supervisor or the undertaking CEIOPS states that the gross SCR should provide useful information to undertakings and supervisors. We disagree with the reasons listed by CEIOPS:	Noted

			☐ CEIOPS believes that the gross SCR can show the risk exposure of the insurer in the case that bonuses have already been reduced to zero, stating the information given is similar to gross of reinsurance info. However, we believe that the gross SCR has no economical meaning and is thus not relevant as the starting point for determining the loss absorbing effect of technical reserves. One should note that the proposed gross SCR method is very different from the calculation for reserves gross and net of reinsurance, because in the latter case both situations could actually become reality, i.e. if the reinsurer were to default then the insurer would need to fund the gross reserves. The situation is different for the loss-absorbing effect of technical provisions which is not something external but intrinsic to the portfolio and which is under the control of the insurance company, rather than purely based on external factors. ☐ CEIOPS believes that gross SCR should provide supervisors with an extreme case where management actions cannot be adjusted However, there are legal constraints for undertakings to prevent them to set the level of benefits towards the policyholders at the level they choose on a pure discretionary basis. A situation where the bonus rates are the same in a stress scenario and in a current scenario clearly results in modelling something that could be forbidden by law, or at least inconsistent with good management of a company. It cannot be claimed, that the assumption that an undertaking would be so badly managed that it would continue to serve high bonus rates to its policyholders as if no severe event	

			had happened, could lead to a calculation that would provide some useful information to the supervisor. ☐ CEIOPS believes that the net SCR is more driven by management actions by the actual risks to which the entity is exposed However, we completely disagree with the statements that the net SCR would provide more information on the management actions than on risks to which the company is exposed. The fact that the loss-absorbing effect of technical provisions depends on management actions is natural. Indeed, the very idea of discretionary benefits is that they depend on management actions and on financial performance, and do constitute a way to share good and bad performance of the financial assets with the policyholders: the more discretionary the benefits, the most significant the impact of management actions and the more important the level of loss-absorbing effects. It appears then natural that the level of net SCR for some specific contracts appears quite low. We therefore consider that the requirement to calculate a gross SCR is complicated and not in line with the economic approach. This paper only makes reference to profit sharing mechanisms - We request that CEIOPS clarifies that ALL other management actions should be taken into account in all the calculations referred to in this paper At no point in this paper is the allowance for management actions,	Not agreed

			other than those related to profit sharing, clearly expressed, We assume that CEIOPS does not want other management actions to be ignored but we request that CEIOPS clearly states that all other management actions should be taken into account in all the calculations this in their advice.	
79.			Confidential comment deleted	
80.	CEA, ECO-SLV-09-449	3.39.	The gross calculation is artificial. ☐ Ceiops states that the gross SCR should provide useful information to undertakings and supervisors. ☐ We disagree with the reasons listed by Ceiops: ☐ Ceiops believes that the gross SCR can show the risk exposure of the insurer in the case that bonuses have already been reduced to zero, stating the information given is similar to gross of reinsurance info. However, we believe that the gross SCR has no economical meaning and is thus not relevant as the starting point for determining the loss absorbing effect of technical reserves. One should note that the proposed gross SCR method is very different from the calculation for reserves gross and net of reinsurance, because in the latter case both situations could actually become reality, i.e. if the reinsurer were to default then the insurer would need to fund the gross reserves. The situation is different for the loss-absorbing effect of technical provisions which is not something external but intrinsic to the portfolio and which is under the control of the insurance company, rather than purely based on external factors. The approach advised by Ceiops could be compared with one in which the SCR ignores the fact that there are some loss-absorbing features like deductibles or limits within an insurance contract which change the risks borne by the undertaking	Noted

			for example the claim paid under a non-life contract will not be higher than the loss incurred by the policyholder. Any approach that is not based on the actual features of the insurance contract does not give any relevant information. ☐ Ceiops believes that gross SCR should provide supervisors with an extreme case where management actions cannot be adjusted However, there are legal constraints for undertakings to prevent them to set the level of benefits towards the policyholders at the level they choose on a pure discretionary basis. A situation where the bonus rates are the same in a stress scenario and in a current scenario clearly results in modelling something that could be forbidden by law, or at least inconsistent with good management of a company. It cannot be claimed, that the assumption that an undertaking would be so badly managed that it would continue to serve high bonus rates to its policyholders as if no severe event had happened, could lead to a calculation that would provide some useful information to the supervisor. ☐ Ceiops believes that the net SCR is more driven by management actions by the actual risks to which the entity is exposed However, we completely disagree with the statements that the net SCR would provide more information on the management actions than on risks to which the company is exposed. The fact that the loss-absorbing effect of technical provisions depends on management actions is natural. Indeed, the very idea of discretionary benefits is that they depend on management actions and on financial performance, and do constitute a way to share good and bad performance of the financial assets with the policyholders: the more discretionary the benefits, the most	

			significant the impact of management actions and the more important the level of loss-absorbing effects. It appears then natural that the level of net SCR for some specific contracts appears quite low. We therefore consider that the requirement to calculate a gross SCR is artificial and not in line with the economic approach. This paper only makes reference to profit sharing mechanisms - We request that Ceiops clarifies that ALL other management actions should be taken into account in all the calculations referred to in this paper. At no point in this paper is the allowance for management actions, other than those related to profit sharing, clearly expressed, We assume that Ceiops does not want other management actions to be ignored but we request that Ceiops clearly states that all other management actions should be taken into account in all the calculations this in their advice.	Not agreed
81.	CRO Forum	3.39.	10. The paragraph states that the gross calculation may provide information about the risk profile, drawing a comparison to gross of reinsurance results. This is not a valid comparison because the reinsured liabilities will generally be guaranteed (i.e. not discretionary)and is not consistent with business practice. We would also point out that: 11. (i) Comparison of the gross SCR with gross reserves is meaningless because reinsurance can absorb losses on an insurance portfolio without changing the level of benefits to	Noted

			policyholders. 12. (ii) The gross SCR cannot provide any relevant information to the supervisor, as it is based on a specific stress scenario. 13. (iii) Discretionary benefit are dependant on management actions and on financial performance 14. Additionally, the gross valuation values liabilities and assets under inconsistent bases, and the liabilities valued will not reflect the actual liabilities of the insurer under stressed conditions.	
82.	FFSA	3.39.	CEIOPS states that the gross SCR should provide a useful information to undertakings and supervisors for different reasons: (i) gross SCR should be similar to gross of reinsurance reserves, (ii) gross SCR should provide supervisors with an extreme case where management actions cannot be adjusted, (iii) net SCR is more driven by management actions by the actual risks to which the entity is exposed to. FFSA can only disagree with all these elements: (i) FFSA thinks that the comparison of the gross SCR with gross reserves has no meaning for the reason that reinsurance can absorb losses on an insurance segregated fund or company level but without changing the level of benefits towards the policyholders. The situation is different with the loss-absorbing effect of technical provisions which is not something external but intrinsic to the portfolio, so that it dictates the level of benefits. The approach advised by CEIOPS could be compared with the one considering that a calculation of the SCR that would neglect the fact that there are some loss-absorbing features like deductibles or limits within an insurance contract would bring relevant information on the risk bore by the undertaking. Actually any approach that is	Noted

			not based on the actual features of the insurance contract is irrelevant, as if the potential loss on a non-life contract was calculated without considering that contract contain some limits or that the claim paid will not be higher than the loss incurred by the policyholder. The gross SCR has no economical meaning and is thus not relevant as the starting point for determining the loss absorbing effect of technical reserves. (ii) FFSA thinks that the gross SCR cannot provide any relevant information to the supervisor, because it represents a situation where the company would continue to have management actions based on a particular situation that does no longer exist. CEIOPS seems to neglect the fact that there are legal constraints for undertakings to prevent them to set the level of benefits towards the policyholders at the level they choose on a pure discretionary basis. A situation where the bonus rates are the same in a stress scenario and in a current scenario is not only irrelevant, but it clearly consists in modelling something that could be forbidden by law, or at least inconsistent with good management of a company. It cannot be claimed, that the assumption that an undertaking would be so badly managed that it would continue to serve high bonus rates to its policyholders as if no severe event had happened, could lead to a calculation that would provide some useful information to the supervisor. (iii) FFSA completely disagrees with the statements that net SCR would provide more information on the management actions than on risks to which the company is exposed. The fact that the loss-absorbing effect of technical provisions depends on management actions should not astonish CEIOPS. Indeed, the very idea of discretionary benefits is that they depend on management actions and on financial performance, and do constitute a way to share good and bad performance of the financial assets with the	

			policyholders: the more discretionary the benefits, the most significant the impact of management actions and the more important the level of loss-absorbing effects. It appears then natural than the level of net SCR for some specific contracts appears quite low. The check that there is no double count is another issue. Also, FFSA disagrees with the idea that no management action may be assumed to occur during a stress test if the latter is considered as instantaneous. Under dynamic hedging strategies, this would lead to not rebalancing of the hedge during the stress, leading to an erroneously overstated capital charge. The current financial crisis provided evidences of certain management actions having been taken during such stress tests and they would thus be fully considered (although with some allowance for inefficiencies of rebalancing)	 Not agreed
83.	German Insurance Association – Gesamtverband der D	3.39.	The gross calculation is artificial ☐ CEIOPS states that the gross SCR should provide useful information to undertakings and supervisors. ☐ We disagree with the reasons listed by CEIOPS: ☐ ☐ CEIOPS believes that the gross SCR can show the risk exposure of the insurer in the case that bonuses have already been reduced to zero, stating the information given is similar to gross of reinsurance info. However, we believe that the gross SCR has no economical meaning and is thus not relevant as the starting point for determining the loss absorbing effect of technical reserves.	Noted

			One should note that the proposed gross SCR method is very different from the calculation for reserves gross and net of reinsurance, because in the latter case both situations could actually become reality, i.e. if the reinsurer were to default then the insurer would need to fund the gross reserves. The situation is different for the loss-absorbing effect of technical provisions which is not something external but intrinsic to the portfolio and which is under the control of the insurance company, rather than purely based on external factors. The approach advised by CEIOPS could be compared with one in which the SCR ignores the fact that there are some loss-absorbing features like deductibles or limits within an insurance contract which change the risks borne by the undertaking for example the claim paid under a non-life contract will not be higher than the loss incurred by the policyholder. Any approach that is not based on the actual features of the insurance contract does not give any relevant information. ☐ CEIOPS believes that gross SCR should provide supervisors with an extreme case where management actions cannot be adjusted However, there are legal constraints for undertakings to prevent them to set the level of benefits towards the policyholders at the level they choose on a pure discretionary basis. A situation where the bonus rates are the same in a stress scenario and in a current scenario clearly results in modelling something that could be forbidden by law, or at least inconsistent with good management of a company. It cannot be claimed, that the assumption that an undertaking would be so badly managed that it would continue to serve high bonus rates to its policyholders as if no severe event had happened, could lead to a calculation that would provide some	

			useful information to the supervisor. ☐ CEIOPS believes that the net SCR is more driven by management actions by the actual risks to which the entity is exposed However, we completely disagree with the statements that the net SCR would provide more information on the management actions than on risks to which the company is exposed. The fact that the loss-absorbing effect of technical provisions depends on management actions is natural. Indeed, the very idea of discretionary benefits is that they depend on management actions and on financial performance, and do constitute a way to share good and bad performance of the financial assets with the policyholders: the more discretionary the benefits, the most significant the impact of management actions and the more important the level of loss-absorbing effects. It appears then natural that the level of net SCR for some specific contracts appears quite low. We therefore consider that the requirement to calculate a gross SCR is artificial and not in line with the economic approach. This paper only makes reference to profit sharing mechanisms - We request that CEIOPS clarifies that ALL other management actions should be taken into account in all the calculations referred to in this paper At no point in this paper is the allowance for management actions, other than those related to profit sharing, clearly expressed, We	Not agreed

			assume that CEIOPS does not want other management actions to be ignored but we request that CEIOPS clearly states that all other management actions should be taken into account in all the calculations this in their advice.	
84.	Groupe Consultatif	3.39.	1. The paragraph states that the gross calculation may provide information about the risk profile, drawing a comparison to gross of reinsurance results. This is not a valid comparison because the reinsured liabilities will generally be guaranteed (i.e. not discretionary). 2. Additionally, the gross valuation values liabilities and assets under inconsistent bases, and the liabilities valued will not reflect the actual liabilities of the insurer under stressed conditions.	Noted
85.	Pearl Group Limited	3.39.	We do not agree that the gross calculation can provide useful information to the supervisor 3. CEIOPS states that the gross SCR should provide useful information to undertakings and supervisors. 4. We disagree with the reasons listed by CEIOPS: 5. ☐ CEIOPS believes that the gross SCR can show the risk exposure of the insurer in the case that bonuses have already been reduced to zero, stating the information given is similar to gross of reinsurance info. However, we believe that the gross SCR has no economical meaning and is thus not relevant as the starting point for determining the loss absorbing effect of technical reserves.	Noted

			One should note that the proposed gross SCR method is very different from the calculation for reserves gross and net of reinsurance, because in the latter case both situations could actually become reality, if the reinsurer were to default. Reinsurance can absorb losses on an insurance portfolio without changing the level of benefits towards the policyholders. The situation is different with the loss-absorbing effect of technical provisions which is not something external but intrinsic to the portfolio, so that it dictates the level of benefits. The approach advised by CEIOPS could be compared with the one considering that a calculation of the SCR that would neglect the fact that there are some loss-absorbing features like deductibles or limits within an insurance contract would bring relevant information on the risk bore by the undertaking actually any approach that is not based on the actual features of the insurance contract is irrelevant, as if the potential loss on a non-life contract was calculated without considering that contract contain some limits or that the claim paid will not be higher than the loss incurred by the policyholder. ☐ CEIOPS believes that gross SCR should provide supervisors with an extreme case where management actions cannot be adjusted However, CEIOPS seems to neglect the fact that there are legal constraints for undertakings to prevent them to set the level of benefits towards the policyholders at the level they choose on a pure discretionary basis. A situation where the bonus rates are the same in a stress scenario and in a current scenario is not only irrelevant, but it clearly consists in modelling something that could be forbidden by law, or at least inconsistent with good management of a company. It cannot be claimed, that the assumption that an	

			undertaking would be so badly managed that it would continue to serve high bonus rates to its policyholders as if no severe event had happened, could lead to a calculation that would provide some useful information to the supervisor. ☐ CEIOPS believes that the net SCR is more driven by management actions by the actual risks to which the entity is exposed However, we completely disagree with the statements that the net SCR would provide more information on the management actions than on risks to which the company is exposed. The fact that the loss-absorbing effect of technical provisions depends on management actions should not astonish CEIOPS. Indeed, the very idea of discretionary benefits is that they depend on management actions and on financial performance, and do constitute a way to share good and bad performance of the financial assets with the policyholders: the more discretionary the benefits, the most significant the impact of management actions and the more important the level of loss-absorbing effects. It appears then natural than the level of net SCR for some specific contracts appears quite low. We therefore consider that the gross SCR is a complicated, non-economical and useless tool, and that such a calculation should be avoided.	
86.	CEA, ECO-SLV-	3.40.	We support Ceiops arguments that the gross calculation does not reflect the economic reality of the insurer.	Noted

	09-449			
87.	Groupe Consultatif	3.40.	It is not clear what value is gained by undertaking a hypothetical calculation of this nature. It will convey little useful information and will be difficult to interpret. If the concern is to establish that there is no double counting of loss absorbency, would the more appropriate approach not be to establish the SCR related to guaranteed benefits and benefits arising from implied or contractual terms of the profit sharing arrangement in the circumstances tested.	Noted
88.	Investment & Life Assurance Group (ILAG)	3.40.	It is not clear what value is gained by undertaking a hypothetical calculation of this nature. It will convey little useful information and will be difficult to interpret. If the concern is to establish that there is no double counting of loss absorbency, would the more appropriate approach not be to establish the SCR related to guaranteed benefits and benefits arising from implied or contractual terms of the profit sharing arrangement in the circumstances tested.	Noted
89.	Association of British Insurers	3.41.	The gross calculation does not reflect the economic reality of the insurer 5. We understand that with this definition of the Basic SCR CEIOPS wants to see whether the total effect of the adjustment of future discretionary benefits is overrated in the transition from Basic SCR to nSCR. Unfortunately, the proposed method leads to very strange situations. Two examples are as follows: Consider appropriate recognition of reinsurance techniques containing basis risk, with the basis risk measured in line with the 99.5% confidence interval, stipulated by the Directive.	Noted

			☐ Whole of life policy with profits distributed via premium adjustments (i.e. reductions) and a stress scenario resulting in a decrease in claim expenses. Following the suggested method for the gross Basic SCR no premium adjustments would be made and the insurance undertaking would make a profit. However, in reality the premium adjustments would be made. ☐ Consider a profit-sharing policy where the policyholder would always get 90% of the investment returns and an interest rate shock up. Following the suggested method the policyholder would then get less than the contractually guaranteed part of his investment. As CEIOPS notes in 3.46, for the proposed method of the Basic SCR calculation, legal or contractual rules have to be ignored in the model. Already this statement shows that there is no economic reality in the proposed method of the Basic SCR calculation. The proposed approach also seems to suggest that the firms should assume they continue to allow for paying discretionary benefits on policies, which are no longer on the books as a result of the stress applied (e.g. where a lapse or mortality stress is applied). This doesn't seem logical.	
90.			Confidential comment deleted	Noted
91.	CEA, ECO-SLV-09-449	3.41.	☐ The gross calculation does not reflect the economic reality of the insurer. ☐ We understand that with this definition of the Basic SCR Ceiops wants to see whether the total effect of the adjustment of future discretionary benefits is overrated in the transition from	Noted

			Basic SCR to nSCR. Unfortunately, the proposed method leads to very strange situations. Two examples are as follows: ☐ Consider a whole of life policy with profits distributed via premium adjustments (i.e. reductions) and a stress scenario resulting in a decrease in claim expenses. Following the suggested method for the gross Basic SCR no premium adjustments would be made and the insurance undertaking would make a profit. However, in reality the premium adjustments would be made. ☐ Consider a profit-sharing policy where the policyholder would always get 90% of the investment returns and an interest rate shock up. Following the suggested method the policyholder would then get less than the contractually guaranteed part of his investment. As Ceiops notes in 3.46, for the proposed method of the Basic SCR calculation, legal or contractual rules have to be ignored in the model. Already this statement shows that there is no economic reality in the proposed method of the Basic SCR calculation. The proposed approach also seems to suggest that the firms should assume they continue to allow for paying discretionary benefits on policies which are no longer on the books as a result of the stress applied (e.g. where a lapse or mortality stress is applied). This doesn't seem logical.	
92.	CRO Forum	3.41.	15. The two situations described (calculation of technical provisions gross of reinsurance and hypothetical technical provisions ignoring changes to future discretionary benefits) are not	Noted

			comparable. The former presents the overall liability of the firm to the policyholder with an overlay of the amount of that risk that will be covered by a third party. In the event of default of the third party the gross technical provisions provide useful information about the exposure of the firm. In latter situation, the hypothetical technical provisions ignoring reductions to future discretionary benefits cannot be interpreted in any meaningful way. They do not represent the total risk the firm is exposed to as the firm is able to, and would reasonable be expected to, take action to manage discretionary benefits down in any adverse scenario. 16. The proposed approach also seems to suggest that the firms should assume they continue to allow for paying discretionary benefits on policies which are no longer on the books as a result of the stress applied (e.g. where a lapse or mortality stress is applied). This doesn't seem logical.	
93.	Federation of European Accountants (FEE)	3.41.	The paper states that the gross calculation is a usual tool in the analysis of complex situations and provides reinsurance as an example of these situations since technical provisions are usually calculated gross and net of reinsurance. In our view reinsurance in this context does not provide a proper example. The reasoning in case of reinsurance is not due to complex situations because there is a direct liability to policyholders, which is not fully off-set by the cession. If the reinsurer fails to pay, regardless of the reason for this, the insurer remains liable. This is the reason for requiring a gross presentation of the direct liability and the recoverable to the reinsurer. In contrast, in case of participating features, since the obliged and entitled party are the same, rights and obligations result evenly from the same contract and can therefore be legally fully off-set.	Noted
94.	German Insurance	3.41.	☐ The gross calculation does not reflect the economic reality of the insurer	Noted

	Association – Gesamtverb and der D		☐ We understand that with this definition of the Basic SCR CEIOPS wants to see whether the total effect of the adjustment of future discretionary benefits is overrated in the transition from Basic SCR to nSCR. Unfortunately, the proposed method leads to very strange situations. Two examples are as follows: ☐ ☐ Consider a whole of life policy with profits distributed via premium adjustments (i.e. reductions) and a stress scenario resulting in a decrease in claim expenses. Following the suggested method for the gross Basic SCR no premium adjustments would be made and the insurance undertaking would make a profit. However, in reality the premium adjustments would be made. ☐ Consider a profit-sharing policy where the policyholder would always get 90% of the investment returns and an interest rate shock up. Following the suggested method the policyholder would then get less than the contractually guaranteed part of his investment. As CEIOPS notes in Para 3.46, for the proposed method of the Basic SCR calculation, legal or contractual rules have to be ignored in the model. Already this statement shows that there is no economic reality in the proposed method of the Basic SCR calculation. The proposed approach also seems to suggest that the firms should assume they continue to allow for paying discretionary benefits on policies which are no longer on the books as a result of the stress applied (e.g. where a lapse or mortality stress is applied). This	

			doesn't seem logical.	
95.	Groupe Consultatif	3.41.	3. The two situations described (calculation of technical provisions gross of reinsurance and hypothetical technical provisions ignoring changes to future discretionary benefits) are not comparable. The former presents the overall liability of the firm to the policyholder with an overlay of the amount of that risk that will be covered by a third party. In the event of default of the third party the gross technical provisions provide useful information about the exposure of the firm. In latter situation, the hypothetical technical provisions ignoring reductions to future discretionary benefits cannot be interpreted in any meaningful way. They do not represent the total risk the firm is exposed to as the firm is able to, and would reasonable be expected to, take action to manage discretionary benefits down in any adverse scenario. 4. The proposed approach also seems to suggest that the firms should assume they continue to allow for paying discretionary benefits on policies which are no longer on the books as a result of the stress applied (e.g. where a lapse or mortality stress is applied). This doesn't seem logical. The comparison made in this section to the gross/ net calculations undertaken for reinsurance purposes is spurious as the split is required for other purposes. The calculation does not typically rely on either discretion or management actions exercised by either the insurance undertaking or the reinsurance undertaking. As noted in the response to 3.40, we believe the gross figure will be difficult to interpret.	Noted

96.	Investment & Life Assurance Group (ILAG)	3.41.	The comparison made in this section to the gross/ net calculations undertaken for reinsurance purposes is spurious as the split is required for other purposes. The calculation does not typically rely on either discretion or management actions exercised by either the insurance undertaking or the reinsurance undertaking. As noted in the response to 3.40, we believe the gross figure will be difficult to interpret.	Noted
97.	Munich RE	3.41.	1. We understand that with this definition of Basis-SCR CEIOPS wants to see whether the total effect of adjustment of future discretionary benefits is overrated in the transition from Basis-SCR to nSCR. Unfortunately, the proposed method leads to very strange situations. Two examples: 2. 1) Consider a life-long policy with premium adjustment and a decrease in claim expenses. Following the suggested method for the Basis SCR no premium adjustments are made and the insurance undertaking will make profit. However, in reality the premium adjustments will lead to a loss. 3. 2) Consider a with-profit policy where the policy holder always get 90% of the investment returns and an interest rate shock up. Following the suggested method the policy holder would get less than contractually guarantied part of his investment – at least for his future premiums. 4. One should note that the proposed method is very different from hypothetical calculation for gross and net of reinsurance, because in the later case both situations could actually have become reality. As CEIOPS itself notes in 3.46, for the proposed method of Basis-SCR calculation legal or contractual rules have to be ignored in the model. Already this statement shows that there is no economic reality in the proposed method of Basis-SCR calculation.	Noted

98.	Pearl Group Limited	3.41.	The gross calculation does not reflect the economic reality of the insurer	Noted
321.	PricewaterhouseCoopers LLP	3.41.	We strongly agree with the statement that the gross calculation of the SCR is hypothetical and does not reflect economic reality. However, we acknowledge that it has some use within the context of the standard formula and is a requirement of the Level 1 text.	Noted
99.	CEA, ECO-SLV-09-449	3.42.	We disagree that Article 107 requires that the BSCR calculation be calculated based on gross inputs. More importantly, Article 105(5) requires that the market risk module reflects the sensitivity of the value of assets, liabilities and financial instruments to changes in the term structure of interest rates, market prices, credit spreads, exchange rates and defaults. If, as is usual for policies with discretionary benefits, the policy payouts and other factors, such as the investment policy, would change and this would affect the liabilities then Article 105 mandates that such effect is allowed for in the market risk calculation. ☐ A similar argument would apply for Article 105 for the life underwriting risk and other risk modules if these would also affect the liabilities.	Noted
100.	CRO Forum	3.42.	We disagree that Article 107 requires that the BSCR calculation be calculated based on gross inputs. More importantly, Article 105(5) requires that the market risk module reflects the sensitivity of the value of assets, liabilities and financial instruments to changes in the term structure of interest rates, market prices, credit spreads, exchange rates and defaults.	Noted

			If, as is usual for policies with discretionary benefits, the policy payouts and other factors, such as the investment policy, would change and this would affect the liabilities then Article 105 mandates that such effect is allowed for in the market risk calculation. A similar argument would apply for Article 105 for the life underwriting risk and other risk modules if these would also affect the liabilities. In order for such changes to the liabilities to be allowed for under Article 105, they would need to be demonstrable and verifiable as set out in CP32.	
101.	Investment & Life Assurance Group (ILAG)	3.42.	Part of the problem may be that in a sense the gross and the net positions are the same thing: the outcome is the application of the management actions taken as a whole in the circumstances of the stresses taken as a whole.	Noted
102.	CEA, ECO-SLV-09-449	3.43.	This paper only makes reference to profit sharing mechanisms - We request that Ceiops clarifies that ALL other management actions should be taken into account in all the calculations referred to in this paper. At no point in this paper is the allowance for management actions, other than those related to profit sharing, clearly expressed, We assume that Ceiops does not want other management actions to be ignored but we request that Ceiops clearly states that all other management actions should be taken into account in all the calculations this in their advice.	Not agreed
103.	ACA –	3.44.	See 3.27	Noted

	ASSOCIATION DES COMPAGNIES D'ASSURANCES DU		+ Here we have the useful precision that the FDB are absolute in term of cash flows before and after the shock. In other places, it is sometimes the bonus rate that is fixed.	
104.				
105.	CEA, ECO-SLV-09-449	3.44.	We disagree with the approach whereby the absolute amount of future discretionary benefits cash flows does not change before and after the shock has been tested. This firstly would not be correct for the shocks where the run-off of policies would be different (e.g. lapses, mortality and other decrements). Secondly, it will make the gross calculation set out in the CP even more "artificial" for companies to interpret and understand. Thirdly, the practical implementation of the approach will be cumbersome. Lastly, there will be important technical secondary impacts on the projection of cash flows and the interaction with assets. For example, there will be scenarios where this approach will trigger losses or force the sale of assets to make up for cash flow shortages causing artificial differences in the performance and cash flows of the assets etc – these artificial differences will show up in the differences between the gross and net calculations. See also comments to Para 3.87. This paper only makes reference to profit sharing mechanisms - We request that Ceiops clarifies that ALL other management actions should be taken into account in all the calculations referred to in this paper.	Noted Not agreed

			At no point in this paper is the allowance for management actions, other than those related to profit sharing, clearly expressed, We assume that Ceiops does not want other management actions to be ignored but we request that Ceiops clearly states that all other management actions should be taken into account in all the calculations this in their advice.	
106.	CRO Forum	3.44.	We disagree with the approach whereby the absolute amount of future discretionary benefits cash flows does not change before and after the shock has been tested. This firstly would not be correct for the shocks where the run-off of policies would be different (e.g. lapses, mortality and other decrements). Secondly, it will make the gross calculation set out in the CP even more “artificial” for companies to interpret and understand. Thirdly, the practical implementation of the approach will be cumbersome. Lastly, there will be important technical secondary impacts on the projection of cash flows and the interaction with assets. For example, there will be scenarios where this approach will trigger losses or force the sale of assets to make up for cash flow shortages causing artificial differences in the performance and cash flows of the assets etc – these artificial differences will show up in the differences between the gross and net calculations.	Noted
107.	FFSA	3.44.	CEIOPS interprets requirement of QIS4 as the fact that the amount of cash flows should be the same for best estimate and gross capital charge calculations. FFSA thinks that the calculation of the absolute amount of future discretionary benefits per policy and per year will lead to inconsistent results for lapse risk sub module; In savings contracts, the partial surrender would move the amount of mathematical reserves but would not affect necessarily the amount of bonuses	Not agreed

			towards the policyholders' mathematical reserves and will disconnect the absolute amount of benefits to be paid and the amount of mathematical reserve. FFSA thinks that a similar issue appears on interest rates sub module as the level of rates will remove the mathematical reserves. Consequently in order to avoid those difficulties and should this option be retained, FFSA supports to fix the rate of discretionary benefits divided by the mathematical reserves obtained on the central scenario (+ same idea about the part of residual unrealised gains at the end of projection that would be redistributed to policyholders). FFSA would support the approach which consists in using in the gross SCR calculations those rates applied in the stressed scenarios, with dynamic lapses.	
108.			Confidential comment deleted	
109.	Groupe Consultatif	3.44.	We disagree with the approach whereby the absolute amount of future discretionary benefits cash flows does not change before and after the shock has been tested. This firstly would not be correct for the shocks where the run-off of policies would be different (e.g. lapses, mortality and other decrements). Secondly, it will make the gross calculation set out in the CP even more "artificial" for companies to interpret and understand. Thirdly, the practical implementation of the approach will be cumbersome. Lastly, there will be important technical secondary impacts on the projection of cash flows and the interaction with assets. For example, there will be scenarios where this approach will trigger losses or force the sale of assets to make up for cash flow shortages causing artificial differences in the performance and cash flows of the assets etc – these artificial differences will show up in the differences between the gross and net calculations. Maintaining the cash flows unchanged does not appear to have any	Noted

			basis in the reality of the operation of with profits funds. It would not represent the technical provisions which would be calculated if the circumstances being tested had actually applied.	
110.	Institut des Actuaires (France)	3.44.	Does one refer to individual relative cash flow per policy or to the total cash flow when assuming it remains unchanged? Could the latter approach be possibly considered as realistic and meaningful?	Noted
111.	Investment & Life Assurance Group (ILAG)	3.44.	Maintaining the cash flows unchanged does not appear to have any basis in the reality of the operation of with profits funds. It would not represent the technical provisions which would be calculated if the circumstances being tested had actually applied.	Noted
112.				
113.	CEA, ECO-SLV-09-449	3.45.	The proposal suggested doesn't solve the problem from a practical perspective. Holding individual cash flows constant in a stochastic model is likely to have unexpected consequences which cause the model to behave in unintended way. For example, the investment strategy in the model may be dependent on the solvency position of the fund, assuming an average cash flow across all scenarios would disrupt this aspect of the model. It would also be inconsistent to assume in the technical provisions that future management actions such as varying bonus rates and investment strategy were allowed to take place, but not in the gross SCR. See also comments to Para 3.87.	Noted
114.	CRO Forum	3.45.	The proposal suggested doesn't solve the problem from a practical perspective. Holding individual cash flows constant in a stochastic model is likely to have unexpected consequences which cause the	Noted

			model to behave in unintended way. For example, the investment strategy in the model may be dependent on the solvency position of the fund, assuming an average cash flow across all scenarios would disrupt this aspect of the model. It would also be inconsistent to assume in the technical provisions that future management actions such as varying bonus rates and investment strategy were allowed to take place, but not in the gross SCR.	
115.	FFSA	3.45.	CEIOPS proposes to use bonus rates calculated as the average of bonus rates across all generated scenarios in order to capture dynamic effects of profit sharing in a more simple way. FFSA considers that this approach is not acceptable from a theoretical point of view since the amount of bonus rates depends on each scenario and so will the discount factors that apply to the specific scenario. The correct present value of future bonuses would be determined through the average of discounted values of future bonus rates (method 2) which is completely different from the proposed discounted value of the average bonus rate (method 1) since the discount rates will actually depend on each scenario. FFSA thus proposes to use method 2 in order to determine the discounted value of future bonus rate at valuation date and to retrieve the average value of future bonus rates at a future date by capitalizing such an initial value using the interest rate curve at valuation date.	Noted
116.	Groupe Consultatif	3.45.	The proposal suggested doesn't solve the problem from a practical perspective. Holding individual cash flows constant in a stochastic model is likely to have unexpected consequences which cause the model to behave in unintended way. For example, the investment strategy in the model may be dependent on the solvency position of the fund, assuming an average cash flow across all scenarios would disrupt this aspect of the model. It would also be inconsistent to assume in the technical provisions that future	Noted

			management actions such as varying bonus rates and investment strategy were allowed to take place, but not in the gross SCR. The average rate of bonus will already reflect the impact of loss absorbency (from all sources) so not really a gross calculation.	
117.	Investment & Life Assurance Group (ILAG)	3.45.	The average rate of bonus will already reflect the impact of loss absorbency (from all sources) so not really a gross calculation.	Noted
118.	The Equitable Life Assurance Society (UK)	3.45.	As a closed mutual company, the Equitable's main focus is to ensure fair distribution of assets to policyholders over the remaining lifetime of the fund. Accordingly, our approach is to adjust with-profits policy asset shares regularly in line with investment returns net of charges, subject to a degree of smoothing. This is achieved by way of adjusting up or down the non-guaranteed element of policy values. In calculating the gross SCR, we might therefore expect to be able to take account of such adjustments which are consistent with the shock scenarios applied. That is to say, we would not consider adjustment of asset shares resulting from changes in asset values or returns to be considered as management actions and therefore disallowed in the calculation of the gross SCR. The implication of this paragraph and others in this section seems to be contrary to this. Clarification is requested on this point.	Noted Not agreed
119.	Association of British Insurers	3.46.	☐ Calculations should not disregard legal or contractual rules ☐ CEIOPS states that the calculation of the gross SCR should "disregard legal or contractual rules of the profit sharing mechanism" for conditional discretionary benefits.	Not agreed

			We disagree with this requirement since the primary constraint when modelling an insurance liability is that it should model legal and contractual rules. Such an inconsistency should be avoided.	
120.			Confidential comment deleted	
121.	CEA, ECO-SLV-09-449	3.46.	☐ Calculations should not disregard legal or contractual rules. ☐ Ceiops states that the calculation of the gross SCR should “disregard legal or contractual rules of the profit sharing mechanism” for conditional discretionary benefits. We disagree with this requirement since the primary constraint when modelling an insurance liability is that it should model legal and contractual rules. Such an inconsistency should be avoided.	Not agreed
122.	FFSA	3.46.	CEIOPS states that the calculation of the gross SCR should be performed “disregard legal or contractual rules of the profit sharing mechanism” for conditional discretionary benefits. FFSA can only disagree with that aspect since the primary constraint when modelling an insurance liability is that it should model legal and contractual rules. Such an inconsistency should be avoided	Not agreed
123.	Pearl Group Limited	3.46.	Calculations should not disregard legal or contractual rules CEIOPS states that the calculation of the gross SCR should “disregard legal or contractual rules of the profit sharing mechanism” for conditional discretionary benefits. We disagree with this requirement since the primary constraint when modelling an insurance liability is that it should model legal and contractual rules. Such an inconsistency should be avoided.	Not agreed

322.	PricewaterhouseCoopers LLP	3.46.	The proposed approach may present practical difficulties, for example where models are coded to vary the conditional discretionary benefits in line with the legal or contractual rules. Applying the rules presented in this table would require such coding to be overridden. We note that the proposed rules in this paragraph are not currently reflected in the advice in paragraphs 3.82 to 3.104.	Noted
124.	CEA, ECO-SLV-09-449	3.47.	☐ We disagree with the approach of assuming the value of options and guarantees in the technical provisions remains unchanged before and after the shock being tested. ☐ Future discretionary benefits which arise out of profit sharing mechanisms are a major component of the optionality in many insurance books. In particular, the value of future options and guarantees may increase which should be reflected in the calculations. See also comments to Para 3.87.	Noted
125.	CRO Forum	3.47.	We disagree with the approach of assuming the value of options and guarantees in the technical provisions remains unchanged before and after the shock being tested. Future discretionary benefits which arise out of profit sharing mechanisms are a major component of the optionality in many insurance books. In particular, the value of future options and guarantees may increase which should be reflected in the calculations.	Noted
126.	GROUPAMA	3.47.	Groupama welcomes the option 2 suggested by CEIOPS for calculating gross SCR. We understand that if options and guarantees remain unchanged, such as the amount of profit-	

			sharing, we could use deterministic simulations to calculate gross SCR. This will avoid burdensome calculations and unclear methodologies for a calculation without direct impact on final SCR. We would appreciate it if CEIOPS were to state this clearly.	
127.	Groupe Consultatif	3.47.	We disagree with the approach of assuming the value of options and guarantees in the technical provisions remains unchanged before and after the shock being tested. Future discretionary benefits which arise out of profit sharing mechanisms are a major component of the optionality in many insurance books. In particular, the value of future options and guarantees may increase which should be reflected in the calculations. Whilst still artificial, this may represent a better approach but it is not obvious that the resulting weightings will be appropriate in the single equivalent scenario approach. On balance this is the better definition and should be easier to work in practice.	Noted
128.	Investment & Life Assurance Group (ILAG)	3.47.	Whilst still artificial, this may represent a better approach but it is not obvious that the resulting weightings will be appropriate in the single equivalent scenario approach. On balance this is the better definition and should be easier to work in practice.	Noted
129.	Association of British Insurers	3.48.	The statement in the 3rd bullet point is inconsistent with CP49 where the change in best estimate liabilities is required to be calculated on both a gross and net basis with best estimate liabilities for profit sharing business including both guaranteed and discretionary benefits.	Noted
130.	CEA, ECO-SLV-09-449	3.48.	The statement in the 3rd bullet point is inconsistent with CP49 where the change in best estimate liabilities is required to be calculated on both a gross and net basis with best estimate	Noted

			liabilities for profit sharing business including both guaranteed and discretionary benefits. Also see the comments for 3.87.	
131.			Confidential comment deleted	
132.	FFSA	3.48.	FFSA has examined pro and cons of the two options, the modular and the single scenario, below. - In theory: the modular approach may lead to some inconsistencies such as negative net SCR. The single equivalent scenario appears technically more robust and more able to reflect the specificities of profit sharing (e.g. management actions through modified bonus rates are better assessed). However, it is a more sophisticated method and more difficult to explain. The scenario is different for each entity and risk module. - In practise: The modular approach seems very easy to implement although the treatment of taxes was quite hard to implement in QIS4.The single equivalent scenario approach is quite difficult to implement as it requests double calculations to define the single equivalent scenario. - As a result, FFSA considers that it is most essential that the modular approach and the single scenario approach be tested in QIS5.	Agreed
323.	PricewaterhouseCoopers LLP	3.48.	The second definition (i.e. that presented in paragraph 3.47 as opposed to that presented in paragraph 3.44) appears to have distinct practical advantages in terms of ease of calculation, as described in the 2nd and 3rd bullet points of this paragraph. Given the acknowledgement that the gross SCR is in any case a	Noted

			hypothetical construct, it is hard to argue that either definition could have a significant technical advantage over the other. We would thus favour adopting the more pragmatic approach, which appears to be option 2. These comments also apply to paragraph 3.87.	
133.	CEA, ECO-SLV-09-449	3.49.	For a reasoned decision whether or not the single equivalent scenario should be applied, this should be tested under QIS5.	Agreed
134.	CEA, ECO-SLV-09-449	3.50.	See comment to Para 3.49.	
135.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	3.52.	Although the Appendix A is clear, we believe that the Single Equivalent approach is difficult.	Noted
136.			Confidential comment deleted	
137.	Groupe Consultatif	3.52.	It does not appear to be a valid reason to drop the single equivalent scenario just because undertakings may not be familiar with the concepts. Level 2 guidance (and possibly professional actuarial support) would be required to promote the method.	Noted
138.	Investment & Life Assurance Group (ILAG)	3.52.	It does not appear to be a valid reason to drop the single equivalent scenario just because undertakings may not be familiar with the concepts. Level 2 guidance (and possibly professional actuarial support) would be required to promote the method.	Noted

139.	Groupe Consultatif	3.53.	If the model is properly constructed and reflects the profit sharing arrangements it is not obvious why this is a concern. The underlying assumption almost seems to be that profits arise in silos that cannot be offset against each other and that bonus decisions will be made in respect of each silo in isolation. All aspects of with profits experience feed into the bonus decision. As noted earlier, would a calculation aimed at setting an SCR floor be a more meaningful test.	Noted
140.	Investment & Life Assurance Group (ILAG)	3.53.	If the model is properly constructed and reflects the profit sharing arrangements it is not obvious why this is a concern. The underlying assumption almost seems to be that profits arise in silos that cannot be offset against each other and that bonus decisions will be made in respect of each silo in isolation. All aspects of with profits experience feed into the bonus decision. As noted earlier, would a calculation aimed at setting an SCR floor be a more meaningful test.	Noted
141.	Association of British Insurers	3.54.	See comments to 3.89.	
142.	CEA, ECO-SLV-09-449	3.54.	See comments to Para 3.89.	
143.	CRO Forum	3.54.	We would like to set out an alternative approach for the calculation for the adjustment of the loss-absorbing capacity of future discretionary benefits, than those presented in the paper. This approach is similar to the modular approach, but takes advantage of information that is already included in the projections used to calculate each module of the SCR, which could potentially be tested in QIS 5 as an alternative method, replacing the single equivalent	Partially agreed

			scenario approach. Calculation: ☐ (1) The Basic SCR is calculated on the basis that CEIOPS calls the Net SCR. That is, by applying the legal and contractual terms of the profit sharing mechanism for "conditional discretionary benefits" and allowing for the effect of management actions under stress for "pure discretionary benefits". This basic SCR will potentially include the double counting that we wish to eliminate. ☐ (2) In the calculation of the SCR for each sub-module, companies effectively are calculating a stressed balance sheet and comparing it to the central balance sheet (i.e. original balance sheet used to calculate own funds). Therefore, for each module companies can derive the market-consistent value of the technical provisions relating only to future discretionary benefits from both balance sheets. The change in these provisions measures the impact of the risk mitigation. For each sub-module, this difference should be added to the SCR used to calculate the Basic SCR. Let's call this SCR*. ☐ (3) The SCR*s of the sub-modules are then aggregated using the standard formula correlation matrices to derive the Basic SCR*. ☐ (4) If the difference between the Basic SCR* and Basic SCR is in excess of the market consistent value of the technical provisions relating only to future discretionary benefits on the central balance sheet, then the Basic SCR needs to be adjusted upwards by the amount of that excess to negate double counting. This method has the following advantages:	

			☐ The double counting is eliminated. ☐ From a practical point of view, companies do not need to perform multiple runs of the SCR. They only need to make sure that their valuation models are able to produce the present value of future discretionary benefits independently from other benefits and liabilities. ☐ Regulators can see the real impact of the loss-absorption at each sub-module level as well as in total. This approach is more intuitive than the gross-net approach and can be applied more easily.	
144.	GROUPAMA	3.54.	We question the scenario equivalent approach. The SCR resulting from this calculation does not seem feasible for the undertaking using a Partial Internal Model. As it may be hard to decide on this matter now after the brief period of consultation, we suggest that this methodology should be tested during QIS 5, in addition to the modular approach.	Agreed
324.	PricewaterhouseCoopers LLP	3.54.	We have a strong technical preference for the single equivalent scenario approach. In reality, the individual market and underwriting stresses are highly unlikely to occur in isolation and so each allowance for changes in future discretionary benefits will by necessity be very approximate. The use of a single equivalent scenario in which all stresses occur to different extents is likely to present a much more realistic picture to which management would expect to react. The obvious avoidance of double counting of the effects of changes to future discretionary benefits, the requirement for only a single run net of management actions and the ability to consider the loss-absorbing capacity of deferred taxes within the same scenario are all strong practical arguments in favour of this	Noted

			approach. However, this is reliant on the single equivalent scenario approach becoming more widely understood and we welcome CEIOPS's plans to facilitate this. We strongly agree with the sentiments in paragraph 3.52 that blind reliance on a tool provided by the supervisor is undesirable – it is imperative that undertakings adopting this approach have a full understanding of how it works. Given the limited testing of the single equivalent scenario approach in QIS4, we recommend that CEIOPS carries out further testing in QIS5 following its initiative to educate undertakings on the approach before reaching a final conclusion.	Agreed
145.	CRO Forum	3.55.	We disagree with the single equivalent scenario technique set out in section 3.1.7. The technique makes very strong assumptions which weaken the credibility of the technique, some of which are mentioned by CEIOPS in paragraph 3.55. ☐ The undiversified capital is calculated using the gross SCR as defined in this CP, which we believe to be too artificial to interpret meaningfully. The CP allows the use of the net SCR only to companies that can prove it is more correct which will cause inconsistencies across companies, and in the ranking of risks. ☐ The method allocates diversification benefits linearly to all risk types. ☐ The approach assumes capital is linearly related to the risk/stress. ☐ Changing the sign of the stress can change the capital requirement. ☐ Reduced stress tests are derived assuming normal	Noted

			distributions. ☐ The approach also ignores the interaction between risks (i.e. that a more onerous scenario when the risks are combined may require stress tests of a different sign to be included)	
325.	Pricewaterho useCoopers LLP	3.55.	We accept and welcome the fact that undertakings will be permitted to base the identification of the single equivalent scenario on capital charges net of changes to future discretionary benefits. Management actions are often strongly based around market performance rather than insurance risks. A single scenario based on gross capital charges may thus be heavily skewed towards market risks while that based on net capital charges has a much heavier weighting towards insurance risks because management actions pass much of the market risk on to policyholders. It is this latter scenario which presents the more accurate picture of the risk profile of the undertaking itself. We thus question whether it is appropriate to present the use of gross capital charges as the default option in Level 2 text. We believe that undertakings should be given an equal choice between gross and net capital charges in order to encourage deeper consideration of the most appropriate approach. These comments also apply to paragraphs 3.56, 3.57 and 3.97.	Noted
146.	Danish Insurance Assiciation	3.56.	When the size of the risk absorbing buffers are independent of the scenarios under consideration construction of the equivalent scenario from gross capital requirements is more appropriate. Proper assumptions regarding the allocation of the risk absorbing buffer are crucial if net capital requirements are to be used.	Noted
326.	Pricewaterho useCoopers	3.56.	See comments on paragraph 3.55.	

	LLP			
147.	Association of British Insurers	3.57.	We agree that use of net capital requirements can lead to the drastically wrong choice of scenario. Should it be net by default, there should be flexibility to choose by the insurer, who will need to satisfy themselves the final scenario chosen is representative, and be able to explain that to the supervisor if necessary.	Noted
148.			Confidential comment deleted	
149.	CEA, ECO-SLV-09-449	3.57.	For a reasoned decision whether or not the single equivalent scenario is applicable more testing is essential. However, there should not be a strict requirement to base it on the gross SCR. ☐ Ceiops mentions that differences could occur if the single equivalent scenario is based on the gross or the net SCR. However, the loss-absorption capacity can be very important for some products, especially savings products, and it means that the risk profile can be strongly modified between the gross and the net vision. We do not understand why the default approach should be the gross calculation which does not realistically reflect the risk of the policy and is not the most economic view. Due to our concerns over the artificiality of the gross calculations, in principle it seems more appropriate that the single equivalent scenario would be based on net capital requirements, subject to the principle of proportionality. However, we would request that both the gross and net are also tested under QIS5. This would allow us to test the appropriateness of the methodology to take account of the different characteristics of with-profit contracts in Europe. Furthermore, as the single equivalent scenario is assumed to be “equivalent” to the modular approach we recommend that both	Agreed

			options are available for insurers to use.	
150.			Confidential comment deleted	
151.	FFSA	3.57.	CEIOPS mentions that differences could occur if the single equivalent scenario is based on gross rather on net SCR. FFSA would remind that the loss-absorption capacity in France can be very important for some products like savings, and this capacity can differ significantly according to the risk assessed. It means that the risk profile can be strongly modified between the gross and the net vision. That is why FFSA does not understand why the default approach should be the gross calculation and not the most economic view. Furthermore, FFSA would like to insist on the fact that the gross SCR calculation has no economical meaning and suggests to calibrate the single equivalent scenario based on the net SCR.	Noted
152.	Groupe Consultatif	3.57.	Level 2 guidance would be useful as to the circumstances when a national supervisor could approve a scenario based on net capital requirements. (Presumably, this will be when that the gross position cannot be meaningfully produced. What additional information do you get from the equivalent scenario if you can calculate the net position directly?)	Noted
153.	Investment & Life Assurance Group (ILAG)	3.57.	Level 2 guidance would be useful as to the circumstances when a national supervisor could approve a scenario based on net capital requirements. (Presumably, this will be when that the gross position cannot be meaningfully produced. What additional information do you get from the equivalent scenario if you can calculate the net position directly?)	Noted
154.	Pearl Group Limited	3.57.	The default approach to calibrate the “single equivalent scenario” should be based on the net SCR	Not agreed

155.			Confidential comment deleted	
327.	PricewaterhouseCoopers LLP	3.57.	See comments on paragraph 3.55.	
156.			Confidential comment deleted	
157.	CEA, ECO-SLV-09-449	3.61.	We request more information on the simplified method for calculating the BSCR when the single equivalent scenario is based on the net capital requirements.	Noted
158.			Confidential comment deleted	
159.	FFSA	3.61.	FFSA would require more information on the simplified method for calculating the BSCR when the single equivalent scenario is based on the net capital requirements, and would request assurance that it consists of applying gross calculation method in this single equivalent scenario.	Noted
160.				
161.	CEA, ECO-SLV-09-449	3.65.	Incorrect reference to CP26 The CEA recommends that the reference is corrected to read "Ceiops' CP32". It may be difficult to assess the impact of future management actions under a stress scenario. Even if similar stress scenarios in the past had occurred, future management actions may still differ because e.g. the available capital is different and therefore other (more/less) management actions are required.	Agreed Noted

			Please see our comments to CP26.	
162.	Groupe Consultatif	3.65.	It would be helpful if the text could clarify that the same range of valid options is assumed to exist after the scenario has occurred as existed before it and that it is not to be restricted to a subset of the actions	Noted
163.	Investment & Life Assurance Group (ILAG)	3.65.	It would be helpful if the text could clarify that the same range of valid options is assumed to exist after the scenario has occurred as existed before it and that it is not to be restricted to a subset of the actions.	Noted
164.	Association of British Insurers	3.69.	See comments to paragraph 3.88.	
165.	CEA, ECO-SLV-09-449	3.69.	See comments to Para 3.88. ☐	
166.	Danish Insurance Assiciation	3.69.	The loss-absorbing capacity of technical provisions should relate to operational risk as well. (See also 3.88)	Not agreed Not in line with Level 1 text
167.				
328.	PricewaterhouseCoopers LLP	3.70.	1. This paragraph notes that only deferred tax liabilities may be reduced as “deferred tax assets lose their value if the financial situation of the undertaking deteriorates”. Although this can be the case, there will be situations where value can reasonably be expected to be recovered against a deferred tax asset as a result of the shock, either as a new asset is created or by netting off an	Partially agreed See revised text

			asset against an existing liability. A key factor in determining the valuation of the deferred tax asset is the length of the period over which value is expected to be recovered. An example of a reduction in a deferred tax liability covered by this paragraph may be where the shock results in lower equity values, resulting in reduced unrealised gains. However, to the extent that a deferred tax asset is created which could be recovered against an existing deferred tax liability, or realised in some other way (e.g. losses which could be carried back in the same entity against profits of an earlier period, or surrendered as group relief in the current period) then it would seem reasonable that this was factored in to some extent.	
168.	CEA, ECO-SLV-09-449	3.73.	There seems to be a mistake in the text. The sentence should be: "the adjustment for loss-absorbing capacity of deferred taxes".	Agreed
169.			Confidential comment deleted	
170.	CRO Forum	3.74.	We agree with CEIOPS that the adjustment for loss-absorbency of technical provisions should be made first, and then further adjustment for the loss-absorbency of deferred taxes should be made. There are 2 impacts on deferred taxes that need to be taken into consideration during a stress scenario: ☐ The present value of future taxes in the stressed balance sheet will be expected to be much smaller (or even zero) compared to their central balance sheet. So there is some absorption there but we need to check that there is not double counting, and that there is no creation of a deferred tax asset because under stress	Noted

			situation the (re)insurer's future profits (or tax base) are less than zero. ☐ The (re)insurer will also make a loss at the time of the stress, which can be carried forward only to a limited extent and offset only if the present value of deferred taxes in the stressed balance sheet is positive. The same calculation proposed in our response to paragraph 3.54 for the purposes of eliminating the double counting for the loss absorbency of future discretionary benefits, but where the adjusted difference in each sub-module relates to the present value of future taxes calculated in (re)insurer's valuation models. One further nuance though is that the present value of future taxes in the stressed balance sheet would need include the impact of the (re)insurer making a loss equal to the SCR of that submodule. However, where (re)insurers valuation models already project the taxable base of the company already and the loss carry forward mechanism appropriate to their country(ies) then this nuance may already be taken into account in a more accurate way and (re)insurers should be allowed to use this more accurate method. Once the impacts are aggregated, the total aggregated impact would need to be less than or equal the value of the present value of deferred taxes in the central balance sheet. If the impact is larger then a deduction for double counting of the absorbency. Once again, this method uses information that is already, or can be incorporated into (re)insurers' valuation models, avoids the need to perform multiple runs, eliminates any double counting and is closer to economic reality. It important that the loss absorbing capacity takes into account both the present value of future taxes and the recoverable portion	Partially agreed

			of the loss made under stressed circumstances (deferred tax asset). This recoverable portion of the DTA has real economic value for (re)insurers that still have a positive future taxable base in stressed circumstances. Limitations on recoverability, for example due to loss-carry forward rules or profit recognition should be taken into account. (Re)insurers will also need to take into account the level, usually legal and/or tax entity, the tax calculation occurs in their undertaking(s).	See revised text
171.	GROUPAMA	3.74.	Regarding the absorption of deferred taxes, we do not think that it is consistent on the one hand to use IAS 12 methodology for deferred taxes (CP 35) and to recognize deferred tax assets (CP 46), and on the other hand to cap the deferred tax absorption to the amount of deferred taxes liabilities in the initial balance sheet. As the deferred taxes assets have an economic value (in the case of transfer, for instance), undertakings should be allowed to calculate deferred tax absorption that is higher than the amount of deferred tax liabilities in the initial balance sheet.	Partially agreed See revised text
172.	CEA, ECO-SLV-09-449	3.75.	See comments to Para 3.104.	
173.	UNESPA-Association of Spanish Insurers and Reinsu	3.75.	See comments on 3.104	
174.	CEA, ECO-SLV-09-449	3.76.	See comment to Para 3.75.	

175.	Groupe Consultatif	3.76.	We do not accept that it is reasonable that no new deferred tax assets should be set up or that the value of existing tax assets should not be increased. We believe that the approach should consistently address the tax position. We accept that recoverability of the new or increased asset should also be considered as part of the process: it prejudges the situation to state that the "assets lose their value if the financial situation of the undertaking deteriorates".	Partially agreed See revised text
176.	Investment & Life Assurance Group (ILAG)	3.76.	We do not accept that it is reasonable that no new deferred tax assets should be set up or that the value of existing tax assets should not be increased. We believe that the approach should consistently address the tax position. We accept that recoverability of the new or increased asset should also be considered as part of the process: it prejudges the situation to state that the "assets lose their value if the financial situation of the undertaking deteriorates".	Partially agreed See revised text
177.	UNESPA- Association of Spanish Insurers and Reinsu	3.76.	See comments on 3.104	
178.	CRO Forum	3.77.	We refer CEIOPS to the section relating to deferred taxes in our response on CP35.	
179.			Confidential comment deleted	
180.	CRO Forum	3.81.	We agree with CEIOPS pragmatic approach to the treatment of the risk margin for the purposes of the scope of this CP.	Noted
181.	Association of British Insurers	3.82.	The assumption about an instantaneous stress not being capable of mitigation by management actions is not appropriate for operational risk (which is not covered here but may be read across	Not agreed

			to). The reason for this is that certain operational tail risks arise after litigation/regulatory/TCF issues and there will be a time difference between the risk emerging and the loss crystallisation. It may be appropriate to consult on operational risk and mitigation by management actions. This is especially important for unit-linked business where this risk is the material one. We are also concerned that this section does not make it clear that management actions can occur for all products. The control for a regulator is that firms need to do scenarios and then draw up high-level mitigation plans that would include management actions. These would then form the basis for a discussion with the relevant regulator as their appropriateness. Practical examples of this approach can be obtained from the operation of ICAS in the UK. We suggest to delete the second bullet point and to add the following text to 3.82: 1. The development of scenarios around the calculation of the SCR, for all products, will include the effects of mitigation on the SCR of management actions. For clarity this does not only apply for with profit policies where the actions need to interact with policyholders reasonable expectations. 2. To the extent that the stress is instantaneous there can only be limited management actions, and these must be approved in principle by the regulator in advance of the stress occurring.	
182.			Confidential comment deleted	
183.	CEA,	3.82.	Companies should be allowed to reflect the actions they would	Noted

	ECO-SLV-09-449		realistically expect to take over the course of the year. One of the key criteria specified in CP32 for management actions was that they were to be realistic. It is unrealistic to assume that companies would take no actions during the 12 month period over which the stress is assumed to take place. Article 101 (3) now requires life companies to allow for the uncertainty associated with new business written over these 12 months. This may necessitate a change in the calculation method compared to that used in QIS4. For the latter, as an implicit approximation, all the calculations were performed at t=0 rather than at the end of one year. As no new business needed to be assumed over this period this was a very pragmatic approach. However, now that new business has to be allowed for, a full 1 year VaR might be required. If so, companies should be able to allow for the management actions they would take in practice. In addition, the benefits from any dynamic asset management strategies should not be excluded by disallowing any management actions during the stress - If dynamic hedging strategies are expected to be rolled over during the next 12 months then their roll-over should be taken into account, otherwise the capital charges would be erroneously overstated. Please also read the comments previously provided by the CEA on CP32. Please see also comments to Para 3.25.	
184.	CRO Forum	3.82.	Please refer to our comments in 3.25.	
185.	European Insurance CFO Forum	3.82.	Not all market stresses should be treated as instantaneous and some management actions should be allowed under an instantaneous stresses.	Not agreed

			The CFO Forum does not agree with the assertion that if the stress is considered to be an instantaneous stress that no management actions may be assumed to occur during the stress. Under dynamic hedging strategies, this would lead to no rebalancing of the hedge, as the stress occurs, leading to an erroneously overstated capital requirement. If the market stresses have been calibrated as 1 in 200 over 1 year capital events then they should be treated as such, and not as instantaneous stresses, which would have a much lower probability of occurring albeit with some allowance for the inefficiency of rebalancing. Where there is evidence that certain management actions can be effected during a stress, for example, due to certain procedures being in place, past evidence of such actions or other supporting factors, undertakings should be permitted to allow for such actions.	
186.	German Insurance Association – Gesamtverband der D	3.82.	Companies should be allowed to reflect the actions they would realistically expect to take over the course of the year. One of the key criterions specified in CP 32 for management actions was that they were to be realistic. It is unrealistic to assume that companies would take no actions during the 12 month period over which the stress is assumed to take place. Article 101 (3) now requires life companies to allow for the uncertainty associated with new business written over these 12 months. This may necessitate a change in the calculation method compared to that used in QIS4. For the latter, as an implicit approximation, all the calculations were performed at t=0 rather than at the end of one year. As no new business needed to be assumed over this period this was a very pragmatic approach. However, now that new business has to be allowed for, a full 1 year VaR might be required. If so, companies should be able to allow for the management actions they would take in practice. In addition, the benefits from any	Not agreed

			dynamic asset management strategies should not be excluded by disallowing any management actions during the stress - If dynamic hedging strategies are expected to be rolled over during the next 12 months then their roll-over should be taken into account, otherwise the capital charges would be erroneously overstated. Please also read the comments previously provided by the GDV on CP 32. Please see also comments to Para 3.25	
187.	Legal & General Group	3.82.	The assumption about instantaneous stress not being mitigate-able by management actions is not appropriate for operational risk (which is not covered here but may be read across to). The reason for this is that certain operational tail risks arise after litigation/regulatory/TCF issues and there will be a time difference between the risk emerging and the loss crystallisation. It may be appropriate to consult on operational risk and mitigation by management actions. This is especially important for unit linked business where this risk is the material one. We are also concerned that this section does not make it clear that management actions can occur for all products. The control for a regulator is that firms need to do scenarios and then draw up high level mitigation plans that would include management actions. These would then form the basis for a discussion with the relevant regulator as to their appropriateness, which then form the basis for their use. Practical examples of this approach can be obtained from the operation of ICAS in the UK.	Not agreed

			We suggest the following additional bullets to be added to 3.8.2. 1. The development of scenarios around the calculation of the SCR, for all products, will include the effects of mitigation on the SCR of management actions. For clarity this does not only apply for with profit policies where the actions need to interact with policyholders reasonable expectations. 2. To the extent that the stress is instantaneous there can only be limited management actions, and these must be approved in principle by the regulator in advance of the stress occurring. Delete the middle bullet.	
188.	Munich RE	3.82.	In the sense of consistency we do support the reference to CP 32. Thus our comments to CP 32 indirectly apply to CP 54.	Noted
189.				
329.	PricewaterhouseCoopers LLP	3.82.	See comments on paragraph 3.25.	
190.			Confidential comment deleted	
191.	CEA, ECO-SLV-09-449	3.83.	☐ The allowance for management actions under the gross calculation appears contradictory. ☐ Ceiops mentions that the use of management actions should be similar for gross and net calculations. However, this is unclear since the gross calculation (as described by Ceiops) would limit the use of management actions since the level of discretionary benefits would remain identical. We request explanation of this point.	Noted

192.	FFSA	3.83.	CEIOPS mentions that the use of management actions should be similar for gross and net calculations. FFSA thinks this is unclear since the gross calculation (as described by CEIOPS) would limit the use of management actions since the level of discretionary benefits would remain quite identical. Furthermore, FFSA thinks that the gross calculation as presented by CEIOPS is non-sense and would require more studies on the single equivalent scenario.	Noted
193.	German Insurance Association – Gesamtverb and der D	3.83.	☐ The allowance for management actions under the gross calculation appears contradictory ☐ CEIOPS mentions that the use of management actions should be similar for gross and net calculations. However, this is unclear since the gross calculation (as described by CEIOPS) would limit the use of management actions since the level of discretionary benefits would remain identical. We request explanation of this point.	Noted
194.	Association of British Insurers	3.84.	A requirement for the Gross SCR is not appropriate ☐ CEIOPS advises that the standard SCR for each risk shall be derived under a gross and a net calculation. This is too burdensome, and goes beyond the objective of determining required capital. The ability of an insurer to lower the FDB should not be tested by a sub risk module but should be tested as a whole via the application of one scenario on the level of the BSCR i.e. the single equivalent scenario. This would reduce the administrative burden of requiring	Not agreed

			two scenarios to be calculated for each sub risk. Furthermore it will also capture those FDB arrangements which are based on total market performance.	
195.			Confidential comment deleted	
196.	CEA, ECO-SLV-09-449	3.84.	A requirement for the Gross SCR is not appropriate. ☐ Ceiops advises that the standard SCR for each risk shall be derived under a gross and a net calculation. This is too burdensome, and goes beyond the objective of determining required capital. See also comments to Para 3.39.	Not agreed
197.	CRO Forum	3.84.	Please refer to our comments in 3.82.	
198.	European Insurance CFO Forum	3.84.	See comments for paragraph 3.97	
199.	FFSA	3.84.	CEIOPS advices that the solvency capital requirement should be derived under a gross and a net calculation. In 3.39, CEIOPS states that the gross SCR should provide a useful information to undertakings and supervisors for different reasons: (i) gross SCR should be similar to gross of reinsurance reserves, (ii) gross SCR should provide supervisors with an extreme case where management actions cannot be adjusted, (iii) net SCR is more driven by management actions by the actual risks to which the entity is exposed to. FFSA disagrees with this advice since the gross calculation does not present any particular meaning. As mentioned in the comment of	Not agreed

			3.39. FFSA disagrees with arguments provided by CEIOPS: (i) FFSA thinks that the comparison of the gross SCR with gross reserves has no meaning for the reason that reinsurance can absorb losses on a insurance portfolio but without changing the level of benefits towards the policyholders. The situation is different with the loss-absorbing effect of technical provisions which is not something external but intrinsic to the portfolio, so that it dictates the level of benefits. The approach advised by CEIOPS could be compared with the one considering that a calculation of the SCR that would neglect the fact that there are some loss-absorbing features like deductibles or limits within an insurance contract would bring relevant information on the risk bore by the undertaking actually any approach that is not based on the actual features of the insurance contract is irrelevant, as if the potential loss on a non-life contract was calculated without considering that contract contain some limits or that the claim paid will not be higher than the loss incurred by the policyholder. The gross SCR has no economical meaning and is thus not relevant as the starting point for determining the loss absorbing effect of technical reserves. (ii) FFSA thinks that the gross SCR cannot provide any relevant information to the supervisor, because it represents a situation where the company would continue to have management actions based on a particular situation that does no longer exist. CEIOPS seems to neglect the fact that there are legal constraints for undertakings to prevent them to set the level of benefits towards the policyholders at the level they choose on a pure discretionary basis. A situation where the bonus rates are the same in a stress scenario and in a current scenario is not only irrelevant, but it clearly consists in modelling something that could be forbidden by law, or at least inconsistent with good management of a company.	

			It cannot be claimed, that the assumption that an undertaking would be so badly managed that it would continue to serve high bonus rates to its policyholders as if no severe event had happened, could lead to a calculation that would provide some useful information to the supervisor. (iii) FFSA completely disagrees with the statements that net SCR would provide more information on the management actions than on risks to which the company is exposed. The fact that the loss-absorbing effect of technical provisions depends on management actions should not astonish CEIOPS. Indeed, the very idea of discretionary benefits is that they depend on management actions and on financial performance, and do constitute a way to share good and bad performance of the financial assets with the policyholders: the more discretionary the benefits, the most significant the impact of management actions and the more important the level of loss-absorbing effects. It appears then natural than the level of net SCR for some specific contracts appears quite low. The check that there is no double count is another issue. Also, FFSA disagrees with the idea that no management action may be assumed to occur during a stress test if the latter is considered as instantaneous. Under dynamic hedging strategies, this would lead to not rebalancing of the hedge during the stress, leading to an erroneously overstated capital charge. The current financial crisis provided evidences of certain management actions having been taken during such stress tests and they would thus be fully considered (although with some allowance for inefficiencies of rebalancing)	
200.	German	3.84.	A requirement for the Gross SCR is not appropriate	Not agreed

	Insurance Association – Gesamtverband der D		☐ CEIOPS advises that the standard SCR for each risk shall be derived under a gross and a net calculation. This is too burdensome, and goes beyond the objective of determining required capital. See also comments to Para 3.39	
201.	Pearl Group Limited	3.84.	A requirement for the Gross SCR is not appropriate CEIOPS advises that the standard SCR for each risk shall be derived under a gross and a net calculation. This is too burdensome, and goes beyond the objective of determining required capital	Not agreed
202.	CEA, ECO-SLV-09-449	3.85.	See comments to Para 3.31.	
203.	FFSA	3.85.	CEIOPS mentions that a gross calculation would (i) help to prevent double counting and (ii) would provide more information on the risk profile of the entity. FFSA strongly disagrees with this: (i) Avoidance of double counting comes only from the comparison of two items that are (i) the difference between the impacts of shocks on the undertaking and its policyholders on the net SCR and (ii) the maximum amount of future discretionary benefits. (ii) As already commented, in its comment of paragraph 3.84, FFSA disagrees with the view of CEIOPS that gross SCR would bring additional information on the risk profile.	Noted

204.	German Insurance Association – Gesamtverband der D	3.85.	See comments to Para 3.31	
205.	Association of British Insurers	3.86.	We disagree that the insurer should only be allowed to vary assumptions on future bonus rates in response to the shock being tested. Instead, allowance for future management actions should be defined as follows (in response to the shock being tested): ☐ Assumptions on changes to policyholder claim values (which may reflect changes to bonus rates, surrender values, market value adjustments, policyholder charges or any other discretionary factors). ☐ Assumptions regarding investment policy, including both assets hypothecated or allocated to policyholder benefits and other assets. ☐ Assumptions regarding maintenance of dynamic or other hedging strategies. ☐ Any other actions that have been verified in accordance with CP32.	Not agreed
206.			Confidential comment deleted	
207.	CEA, ECO-SLV-09-449	3.86.	This paper only makes reference to profit sharing mechanisms - We request that Ceiops clarifies that ALL other management actions should be taken into account in all the calculations referred to in this paper. At no point in this paper is the allowance for management actions, other than those related to profit sharing, clearly expressed, We	Not agreed

			assume that Ceiops does not want other management actions to be ignored but we request that Ceiops clearly states that all other management actions should be taken into account in all the calculations this in their advice. ☐ This paragraph should be re-worded to ensure that it is clear that the insurer is able vary ALL its management action assumptions in response to the shock tested.	
208.	European Insurance CFO Forum	3.86.	The CFO Forum disagrees with the view that plausible management actions should be restricted to policyholder benefit rates. The CFO Forum believes the management actions considered should be consistent with the advice provided in CP 32 – "Assumptions about future management actions".	Not agreed
209.	German Insurance Association – Gesamtverband der D	3.86.	This paper only makes reference to profit sharing mechanisms - We request that CEIOPS clarifies that ALL other management actions should be taken into account in all the calculations referred to in this paper At no point in this paper is the allowance for management actions, other than those related to profit sharing, clearly expressed, We assume that CEIOPS does not want other management actions to be ignored but we request that CEIOPS clearly states that all other management actions should be taken into account in all the calculations this in their advice. - This paragraph should be re-worded to ensure that it is clear that the insurer is able vary ALL its management action assumptions in response to the shock tested.	Not agreed
210.	ACA –	3.87.	Life Insurance : involves long duration of liabilities. The shock is a	Noted

	ASSOCIATION DES COMPAGNIES D'ASSURANCES DU		short term view. More specific guidelines should be given on how to conciliate the two.	
211.	Association of British Insurers	3.87.	Both of these options are in direct contravention of Article 105, as the liabilities are not adjusted to reflect changes in market conditions. Further, they only discuss changes to policyholder payouts or bonus rates and do not allow for other management actions, in particular for investment strategy or dynamic hedging. Compliance with Article 105 requires that these factors are allowed for.	Not agreed
212.			Confidential comment deleted	
213.	CEA, ECO-SLV-09-449	3.87.	A gross calculation under which the bonus rate is kept fixed would seem the most appropriate. Both of the simplified options to calculate gross figures have drawbacks. Ceiops proposes two different ways of calculating the gross SCR: ☐ Option 1: A calculation based on the assumption that the absolute amount of discretionary benefits per policy and per year is unchanged after and before shock. Our feedback - Option 1 will overstate the gross SCR; and may in some cases not be possible to calculate at all in a stochastic model that contains management actions and policyholder actions. Furthermore, this calculation will lead to inconsistent results for the lapse risk sub module: In savings contracts, a partial surrender will reduce the amount of technical provisions but under option 1 it would not necessarily affect the amount of bonuses in the technical	Noted

			provisions and so it will disconnect the absolute amount of benefits to be paid and the amount of the technical provisions. Similarly for longevity and mortality stresses which will change the assumed incidence of deaths and therefore the associated benefit payments. ☐ Option 2: A calculation based on the assumption that the value of discretionary benefits remains unchanged and the value of options and guarantees in the technical provisions remains unchanged. Our feedback - Since the value of options and guarantees has a high sensitivity e.g. for surrender values in adverse market situations Option 2 isn't economic. The value of the guarantees is expected, by definition, to change because the stress will have reduced the payouts that could otherwise be supported. The cost of guarantees will go up even if the overall the value of future discretionary bonuses does not. The basic problem is that the gross calculation is a very artificial calculation and it does not reflect the economic reality. The use of the gross SCR: ☐ has no economical meaning and ☐ is complicated to interpret and to implement. Both options will be difficult to apply if full stochastic models are used (e.g. where the stochastic calculation is the basic calculation). Invariably, it may be easier for undertakings to assume that future bonus rates will remain unchanged rather than assuming that the amount or value of future discretionary benefits is unchanged.	

			The 2 options for calculating the gross capital amounts are not clearly defined: ☐ Option 1 mentions that discretionary benefits per policy should remain identical before and after shock but at the same time, the table in Para 3.46 states that conditional discretionary benefits should be changed following changes in the risk under stress, which would lead to changes in the amount of benefits per policy. These two elements appear to be contradictory, or the way they are linked together is at least not clear enough. ☐ Option 2 mentions that the total value of discretionary benefits should be identical before and after the shock and that the value of options and guarantees may be kept at the same level after the shock. However, if the (present) value of future discretionary benefits remains unchanged, problems arise with the interest rate shock. Under this shock, the technical provisions are discounted differently which results in a changed valuation of provisions and a changed value of future benefits. Thus, option 2's assumption of an unchanged value of benefits would actually mean that we are assuming that future cash flows change in order to balance the effect of the shifted discount rate. This cannot be the aim of a gross SCR calculation. The same holds for options and guarantees – we would expect their value to change with an interest rate shock. ☐ The economic rationale for only mentioning the value of options and guarantees that would be identical before and after the calculation of the SCR is not described, even if it can be guessed that such a proposition is made for the sole purpose of being more practical. Does Ceiops consider that the best estimate of liabilities should remain unchanged, and the value of options and guarantees as part of this best estimate, or does Ceiops only refer to the value	

			of options and guarantees, with other parts of the best estimate changing? This is unclear. ☐ It is unclear what the actual difference is between option 1 and option 2 in terms discretionary benefits. Option 1 seems to focus on benefits per policy whereas option 2 seems to focus on the global amount of benefits. It could then be understood that the main difference between option 1 and option 2 is that the number of policies could then change in option 1 after the shock but not in option 2. This is unclear. ☐ ☐ Therefore the 2 options appear quite unclear, and we require urgent clarification examples of how these options are expected to work in practice. The inclusion of the statement "it may be assumed that the value of options and guarantees in the technical provisions remain unchanged" does not make sense. Overall, the total value of future discretionary benefits should remain unchanged. In a stress situation the stress will reduce the payouts that could otherwise be supported by the assets backing the policies. If the total value of future discretionary benefits is to remain unchanged then the cost of guarantees will increase. ☐ The CEA recommends that this statement is removed from the second definition of the gross calculation. Possible alternative approximation to the Gross SCR calculation As stated above, we have several concerns over the approximations	Partially agreed

			to the gross calculations proposed by Ceiops. If the requirement to carry out a gross calculation is retained then it is important that a simplified method is available. With a view to attempting to find a simplified gross SCR calculation, the following is one possible consideration (although we should state that it is very important that any method is tested in QIS5 before a final decision can be made): ☐ (1) The Basic SCR is calculated in the way that the Net SCR is currently calculated i.e. allowing the insurer to vary its assumptions on future bonus rates in response to each shock tested. ☐ (2) For each sub-module of the SCR calculation, the insurer will calculate a stressed balance sheet and compare it to the original balance sheet. For this simplification, the insurer needs to be able to separately identify the market-consistent value of the future discretionary benefits in both of these balance sheets, i.e. before and after each stress. The change in this value measures the loss absorbing capacity of technical provisions in each stress. For each sub-module, this difference should be added to the Net SCR. Let’s call this SCR*. An adjustment will be required for some lines of business to the difference discussed, for example, where there are other elements which shift under the stress such as the expected premium income or expected number of lapses. In this case the market consistent value of future discretionary benefits could change due to that fact that more or less policyholders have lapsed and/or paid more or less premium than expected. So the difference in the market consistent present value of future discretionary benefits will be due to 2 effects: the loss absorption; and a change in the number of policies in force. An adjustment is necessary to take this impact	See revised text

			into account in an unbiased way (without being affected by other variables), which is proportional to the future discretionary benefits. This adjustment would also be required in other cases such as the interest rate risk sub-module where a further adjustment would be necessary due to the change in the discount rate used to value the liabilities under this stress. ☐ (3) The SCR*s of the sub-modules are then aggregated using the standard formula correlation matrices to derive the Basic SCR*. ☐ (4) If the difference between the Basic SCR* and Basic SCR is in excess of the market consistent value of the technical provisions relating to future discretionary benefits on the original balance sheet, then the Basic SCR needs to be adjusted upwards by the amount of that excess. This method has the advantage that companies do not need to perform multiple runs of the SCR. But it does require insurers to be able to produce the present value of future discretionary benefits independently from the other technical provisions and for the insurers to be able to carry out the adjustments suggested. This is just one possible proposal for a simplified gross SCR calculation, but as stated above, it is very important that any method is tested in QIS5 before a final decision can be made.	
214.	CRO Forum	3.87.	We disagree with both options. Our suggested approach to calculating loss absorbency (see paragraph 3.89) means we do not need to make these assumptions.	Noted

			Please refer to our comments in 3.44 and 3.47.	
215.	Danish Insurance Assiciation	3.87.	Regarding the definition of gross scenario, option 2 is highly preferred. From a practical perspective option 1 is laborious as the present value of future discretionary benefits is currently calculated as a residual amount for accounting purposes. The future value of discretionary benefits is not explicitly quantified. This extra work can be justified if it adds substantial realism. However, this is not the case.	Noted
216.	European Union member firms of Deloitte Touche To	3.87.	We believe that, as the Level 1 text states refers to the value of future discretionary benefits, the definition of the gross calculation of the SCR should be based on the value of future discretionary benefits (Option 2). In particular, in an interest rate up stress test, a calculation based on Option 1 would mean that the amount and the value of the future discretionary benefits would have to be calculated on a different interest rate. The amount of the benefit would be based on the unshocked interest, while the value should be calculated by discounting this amount with the shocked interest rate. This leads to a misestimation of the gross value of the discretionary benefit, while from a practical point of view, such a calculation will lead to issues.	Noted
217.	FFSA	3.87.	CEIOPS proposes two different ways of calculating the gross SCR: (i) a calculation based on the assumption that the absolute amount of discretionary benefits per policy and per year is unchanged after and before shock and (ii) the value of discretionary benefits remains unchanged and the value of options and guarantees in the technical provisions remains unchanged. FFSA considers that the alternative proposed by CEIOPS is not clear enough, and an example could be provided to understand what CEIOPS means. Furthermore FFSA outlines that it is easier for undertakings to assume that future bonus rates will remain unchanged rather than	Noted

			assuming the amount of future discretionary benefits unchanged. Furthermore several remarks can be made: (i) option 1 mentions that discretionary benefits per policy should remain identical before and after shock but in the same time, the table in 3.46 mentions that conditional discretionary benefits should be impacted by changes in the risk under stress, which would finally lead to changes in the amount of benefits per policy. These two elements appear to be contradictory, or the way they are linked together is at least not clear enough. (ii) option 2 mentions that the total amount of discretionary benefits should be identical after and before the shock and that the value of options and guarantees could be kept at the same level after the shock. However, 3.48 mentions that it is the best estimate of the liabilities that would not change except with a shock on interest rates, which is not clearly expressed in the CEIOPS Advice. It is then not clear if best estimates of liabilities are considered unchanged as far as possible (which is close to what FFSA would support) or not. Furthermore, the same remark as for option 1 could be made, that is to say that conditional discretionary benefits are assumed to change according to paragraph 3.46. It is not clear if the time value of options and guarantees would remain unchanged also for option 1. (iii) when value of options and guarantees is mentioned, it is unclear if CEIOPS is referring to the time value, the intrinsic value or the whole value both intrinsic and time of the options and guarantees. It should be noted that only the time value of options and guarantees is generally identified in models and rarely the intrinsic part. (iv) The economic rationale for only mentioning the value of options and guarantees that would be identical before and after the	

			calculation of the SCR is not described, even if it can be guessed that such a proposition is made for the sole purpose of being more practical. Does CEIOPS consider that the best estimate of liabilities should remain unchanged, and the value of options and guarantees as part of this best estimate, or does CEIOPS only refer to the value of options and guarantees, with other parts of the best estimate changing? This is unclear.	
218.			Confidential comment deleted	
219.	German Insurance Association – Gesamtverb and der D	3.87.	A gross calculation under which the bonus rate is kept fixed would seem the most appropriate. Both of the simplified options to calculate gross figures have drawbacks. CEIOPS proposes two different ways of calculating the gross SCR: ☐ Option 1: A calculation based on the assumption that the absolute amount of discretionary benefits per policy and per year is unchanged after and before shock. Our feedback - Option 1 will overstate the gross SCR; and may in some cases not be possible to calculate at all in a stochastic model that contains management actions and policyholder actions. Furthermore, this calculation will lead to inconsistent results for the lapse risk sub module: In savings contracts, a partial surrender will reduce the amount of technical provisions but under option 1 it would not necessarily affect the amount of bonuses in the technical provisions and so it will disconnect the absolute amount of benefits to be paid and the amount of the technical provisions. Similarly for longevity and mortality stresses which will change the assumed	Noted

			incidence of deaths and therefore the associated benefit payments. ☐ Option 2: A calculation based on the assumption that the value of discretionary benefits remains unchanged and the value of options and guarantees in the technical provisions remains unchanged. Our feedback - Since the value of options and guarantees has a high sensitivity e.g. for surrender values in adverse market situations Option 2 isn't economic. The value of the guarantees is expected, by definition, to change because the stress will have reduced the payouts that could otherwise be supported. The cost of guarantees will go up even if the overall the value of future discretionary bonuses does not. The basic problem is that the gross calculation is a very artificial calculation and it does not reflect the economic reality. The use of the gross SCR: ☐ has no economical meaning and ☐ is complicated to interpret and to implement. Both options will be difficult to apply if full stochastic models are used (e.g. where the stochastic calculation is the basic calculation). Invariably, it may be easier for undertakings to assume that future bonus rates will remain unchanged rather than assuming that the amount or value of future discretionary benefits is unchanged.	

			The 2 options for calculating the gross capital amounts are not clearly defined ☐ Option 1 mentions that discretionary benefits per policy should remain identical before and after shock but at the same time, the table in Para 3.46 states that conditional discretionary benefits should be changed following changes in the risk under stress, which would lead to changes in the amount of benefits per policy. These two elements appear to be contradictory, or the way they are linked together is at least not clear enough. ☐ Option 2 mentions that the total value of discretionary benefits should be identical before and after the shock and that the value of options and guarantees may be kept at the same level after the shock. However, if the (present) value of future discretionary benefits remains unchanged, problems arise with the interest rate shock. Under this shock, the technical provisions are discounted differently which results in a changed valuation of provisions and a changed value of future benefits. Thus, option 2's assumption of an unchanged value of benefits would actually mean that we are assuming that future cash flows change in order to balance the effect of the shifted discount rate. This cannot be the aim of a gross SCR calculation. The same holds for options and guarantees – we would expect their value to change with an interest rate shock. ☐ The economic rationale for only mentioning the value of options and guarantees that would be identical before and after the calculation of the SCR is not described, even if it can be guessed that such a proposition is made for the sole purpose of being more practical. Does CEIOPS consider that the best estimate of liabilities should remain unchanged, and the value of options and guarantees as part of this best estimate, or does CEIOPS only refer to the value	

			of options and guarantees, with other parts of the best estimate changing? This is unclear. ☐ It is unclear what the actual difference is between option 1 and option 2 in terms discretionary benefits. Option 1 seems to focus on benefits per policy whereas option 2 seems to focus on the global amount of benefits. It could then be understood that the main difference between option 1 and option 2 is that the number of policies could then change in option 1 after the shock but not in option 2. This is unclear. ☐ ☐ Therefore the 2 options appear quite unclear, and we require urgent clarification examples of how these options are expected to work in practice. The inclusion of the statement “it may be assumed that the value of options and guarantees in the technical provisions remain unchanged” does not make sense. Overall, the total value of future discretionary benefits should remain unchanged. In a stress situation the stress will reduce the payouts that could otherwise be supported by the assets backing the policies. If the total value of future discretionary benefits is to remain unchanged then the cost of guarantees will increase. ☐ The GDV recommends that this statement is removed from the second definition of the gross calculation. Possible alternative approximation to the Gross SCR calculation As stated above, we have several concerns over the approximations	Partially agreed See revised text

			to the gross calculations proposed by CEIOPS. If the requirement to carry out a gross calculation is retained then it is important that a simplified method is available. With a view to attempting to find a simplified alternative, the following is one possible consideration (although we should state that it is very important that any method is tested in QIS5 before a final decision can be made): ☐ (1) The Basic SCR is calculated in the way that the Net SCR is currently calculated i.e. allowing the insurer to vary its assumptions on future bonus rates in response to each shock tested. ☐ (2) For each sub-module of the SCR calculation, the insurer will calculate a stressed balance sheet and compare it to the original balance sheet. For this simplification, the insurer needs to be able to separately identify the market-consistent value of the future discretionary benefits in both of these balance sheets, i.e. before and after each stress. The change in this value measures the loss absorbing capacity of technical provisions in each stress. For each sub-module, this difference should be added to the Net SCR. Let's call this SCR*. An adjustment will be required for some lines of business to the difference discussed, for example, where there are other elements which shift under the stress such as the expected premium income or expected number of lapses. In this case the market consistent value of future discretionary benefits could change due to that fact that more or less policyholders have lapsed and/or paid more or less premium than expected. So the difference in the market consistent present value of future discretionary benefits will be due to 2 effects: the loss absorption; and a change in the number of policies in force. An adjustment is necessary to take this impact	

			into account in an unbiased way (without being affected by other variables), which is proportional to the future discretionary benefits. This adjustment would also be required in other cases such as the interest rate risk sub-module where a further adjustment would be necessary due to the change in the discount rate used to value the liabilities under this stress. ☐ (3) The SCR*s of the sub-modules are then aggregated using the standard formula correlation matrices to derive the Basic SCR*. ☐ (4) If the difference between the Basic SCR* and Basic SCR is in excess of the market consistent value of the technical provisions relating to future discretionary benefits on the original balance sheet, then the Basic SCR needs to be adjusted upwards by the amount of that excess. This method has the advantage that companies do not need to perform multiple runs of the SCR. But it does require insurers to be able to produce the present value of future discretionary benefits independently from the other technical provisions and for the insurers to be able to carry out the adjustments suggested. This is just one possible proposal for a simplified alternative, but as stated above, it is very important that any method is tested in QIS5 before a final decision can be made.	
220.	Munich RE	3.87.	Since the value of options and guarantees has a high sensitivity e.g. for surrender values in adverse market situations Option 2 isn't economic. But also Option 1 is only an approximation since e.g. by national	Noted

			law policyholders must participate in valuation reserves on assets.	
221.	Pearl Group Limited	3.87.	CEIOPS proposes following options: Option 1 "The insurer is not able to vary the absolute amount of future discretionary benefits paid per policy and year in response to the shock being tested, i.e. the absolute amount of future discretionary benefits' cash flows is unchanged from the one used to calculate the best estimate liability as part of the calculation of technical provisions." Option 2 "The value of future discretionary benefits remains unchanged before and after the shock being tested. Moreover, it may be assumed that the value of options and guarantees in the technical provisions remain unchanged." Neither of these seems to be acceptable.	Noted
330.	PricewaterhouseCoopers LLP	3.87.	We favour option 2 due to its practical benefits; see comments on paragraph 3.48.	Noted
222.	Association of British Insurers	3.88.	We suggest deleting the bullet points and replacing "the following risks by all risks".	Not agreed
223.			Confidential comment deleted	
224.	CEA, ECO-SLV-09-449	3.88.	Discretionary benefits can also be paid under non-life contracts – the scope of the adjustment for risk-mitigating effects should not be limited to the SCR modules listed by Ceiops. In our opinion there should be no restriction to the modules for which the adjustment for the risk-mitigating effects of future	Not agreed

			discretionary benefits as also under certain Non-life insurance and health Non-SLT, FDB arrangements exist. Thus in our opinion the FDB should be recognised for all insurance contracts where it is appropriate regardless of the nature of the business. ☐	
225.	Danish Insurance Assiciation	3.88.	The loss-absorbing capacity of technical provisions should relate to operational risk as well. (See also 3.69)	Not agreed Not in line with Level 1 text
226.	FFSA	3.88.	CEIOPS describes that the risks subject to mitigating effects from technical reserves are market risk, life underwriting risks, health SLT underwriting risk, and counterparty default risk. FFSA considers that this list should be extended to non-life risks due to the fact that some experience accounts in non-life insurance could be considered as profit-sharing mechanisms.	Not agreed
227.	German Insurance Association – Gesamtverb and der D	3.88.	Discretionary benefits can also be paid under non-life contracts – the scope of the adjustment for risk-mitigating effects should not be limited to the SCR modules listed by CEIOPS In our opinion there should be no restriction to the modules for which the adjustment for the risk-mitigating effects of future discretionary benfits as also under certain Non-life insurance and health Non-SLT, FDB arrangements exist. Thus in our opinion the FDB should be recognised for all insurance contracts where it is appropriate regardless of the nature of the business. ☐	Not agreed
228.	Legal & General Group	3.88.	Delete the bullets and “the following risks” and replace by “all risks”. There is no reason to limit the adjustment to the risks listed where the insurance undertaking may properly offset other risks against discretionary benefits.	Not agreed

229.	Association of British Insurers	3.89.	The proposals appear to be narrowly drawn and not to consider the principles in the level one directive that the framework should be rooted in economic reality. A key part of this is that a firm often has many components and has various options as to how to operate its discretions especially in the use of deferred tax, which is often set at a group level rather than a firm level. The use of this asset should be in line with the current accounting practices that limit its use to the likelihood of being recovered over an appropriate period (typically 3-5 years). The use of bonuses as a mitigant should be read in conjunction with "treating customers fairly" (TCF) rules. These currently vary between countries.	Noted
230.	CEA, ECO-SLV-09-449	3.89.	☐ For a reasoned decision as to whether or not the single equivalent scenario should be applied, more testing is essential. The single equivalent scenario approach reduces the amount of calculations required by the insurer and also (if based on the net modular capital requirements) removes the need to calculate the artificial gross capital requirements which caused problems for some insurers to model as it required the natural link between profit sharing and investment returns, as well as other drivers, to be switched off. The single equivalent scenario appears technically more robust and more able to reflect the specificities of profit sharing (e.g. management actions through modified bonus rates are better assessed) and addresses the question of non linearity, albeit approximately, which is a clear advantage over the gross and net modular approach. Furthermore, the modular approach may lead to some inconsistencies such as the production of a negative net SCR which would not occur under the single equivalent scenario approach. Some members also found the treatment of taxes was quite hard to implement in QIS4 under the modular approach. However, the single equivalent scenario approach will result in	Agreed Noted

			scenarios which are different for each entity so it will be more difficult to explain. If it is based on gross modular calculations it does not remove the concerns that we have raised with respect to the gross calculations (see comments to Paras 3.28, 3.39, 3.41), such as the lack of economic meaning of the gross capital charges, the difficulty in carrying out the gross calculations and the uncertainty around their calculation. The single equivalent scenario approach was optional in QIS4 and, as such, it was only tested in one country. We cannot say in advance, without considering the quantitative impact and the ease of application, whether the single equivalent scenario approach is better than a modular approach. Additionally, the approach is entity specific and so it may cause problems at group level. ☐ The single equivalent scenario approach appears sensible as long as there is no strict requirement to base it on the gross SCR. However, we consider that it is essential that the modular approach and the single scenario approach (on both a gross and net basis) are tested in QIS5. ☐ We would recommend that it should be left to the firm to decide which methodology is most appropriate to use.	
231.	CRO Forum	3.89.	Please refer to our comments in 3.54 and 3.74.	
232.	FFSA	3.89.	FFSA has examined pros and cons of the two options, the modular and the single scenario, below. - In theory: the modular approach may lead to some inconsistencies such as negative net SCR. The single equivalent	Noted

			scenario appears technically more robust and more able to reflect the specificities of profit sharing (e.g. management actions through modified bonus rates are better assessed). However, it is a more sophisticated method and more difficult to explain. The scenario is different for each entity and risk module. - In practise: The modular approach seems very easy to implement although the treatment of taxes was quite hard to implement in QIS4.The single equivalent scenario approach is quite difficult to implement as it requests double calculations to define the single equivalent scenario. - As a result, FFSA considers that it is most essential that the modular approach and the single scenario approach be tested in QIS5 Furthermore, FFSA considers that the single scenario approach could appear sensible as long as it is based on net SCR. FFSA considers that the option to use a single equivalent scenario by company should be retained only if the single equivalent scenario is build by each undertaking based on net capital charges, due the lack of economic meaning of gross capital charges and the uncertainty around their calculation	Agreed
233.	German Insurance Association – Gesamtverb and der D	3.89.	☐ For a reasoned decision as to whether or not the single equivalent scenario should be applied, more testing is essential. The single equivalent scenario approach reduces the amount of calculations required by the insurer and also (if based on the net modular capital requirements) removes the need to calculate the artificial gross capital requirements which caused problems for some insurers to model as it required the natural link between profit sharing and investment returns, as well as other drivers, to	Agreed Noted

			be switched off. The single equivalent scenario appears technically more robust and more able to reflect the specificities of profit sharing (e.g. management actions through modified bonus rates are better assessed) and addresses the question of non linearity, albeit approximately, which is a clear advantage over the gross and net modular approach. Furthermore, the modular approach may lead to some inconsistencies such as the production of a negative net SCR which would not occur under the single equivalent scenario approach. Some members also found the treatment of taxes was quite hard to implement in QIS4 under the modular approach. However, the single equivalent scenario approach will result in scenarios which are different for each entity so it will be more difficult to explain. If it is based on gross modular calculations it does not remove the concerns that we have raised with respect to the gross calculations (see comments to Para 3.28, 3.39, 3.41), such as the lack of economic meaning of the gross capital charges, the difficulty in carrying out the gross calculations and the uncertainty around their calculation. The single equivalent scenario approach was optional in QIS4 and, as such, it was only tested in one country. We cannot say in advance, without considering the quantitative impact and the ease of application, whether the single equivalent scenario approach is better than a modular approach. The single equivalent scenario appears not to be consistent with the modular approach embedded in the Level 1 Text, so consideration would need to be given as to how to ensure consistency. Additionally, the approach is entity specific and so it may cause problems at group level. ☐ The single equivalent scenario approach could appear sensible as long as there is no strict requirement to base it on the gross SCR. However, we consider that it is essential that the	

			modular approach and the single scenario approach (on both a gross and net basis) are tested in QIS5. ☐ Therefore, at this stage we cannot give a preference for or against the single equivalent scenario approach. We would recommend that it should be left to the firm to decide which methodology is most appropriate to use.	
234.	Legal & General Group	3.89.	The proposals appear to be narrowly drawn and do not consider the principles in the level one directive that the framework should be rooted in economic reality. A key part of this is that a firm often has various options as to how to operate its discretions especially in the use of deferred tax which is often set at a group level rather than a firm level. The use of this asset should be in line with the current accounting practices that limit its use to the likelihood of being recovered over an appropriate period (typically 3-5 years). The use of bonuses as a mitigant should be read in conjunction with “treating customers fairly” (TCF) rules. These currently vary between countries but CEIOPS. (Applies to 3.90 – 3.104)	Noted
235.	Munich RE	3.89.	Since the single scenario approach wasn’t tested thoroughly under QIS4 (cf. 3.50) a founded valuation is not possible. A decision may not be reached before QIS5.	Agreed
236.	Pearl Group Limited	3.89.	We believe both options have pitfalls and would therefore recommend that it should be left to the firm to decide which option it wants to use.	Noted
331.	PricewaterhouseCoopers LLP	3.89.	We strongly favour option 2, the single equivalent scenario approach. It should be included in Level 2 text at least as an available option and preferably as the favoured or default option.	Noted

237.	The Equitable Life Assurance Society (UK)	3.89.	Equitable Life strongly supports the use of the "Single Equivalent Scenario" approach for the calculation of the adjustment for loss absorbency of technical provisions and deferred taxes. The Society is a closed with-profits mutual company and, as a result, the range of management actions available in the event of a shock scenario is limited. The use of the Modular Approach would be unsuitable for a company such as Equitable for that reason, and the approach that we take in practice is to consider the stressed conditions as a whole and to formulate a response in terms of a range of management actions that address the overall position. Such an approach would be inconsistent with use of the Modular Approach.	Noted
238.			Confidential comment deleted	
239.	CEA, ECO-SLV-09-449	3.90.	☐ The gross calculation should be performed via a simplified approach, if at all. ☐ Ceiops mentions that a calculation based on a gross and a net calculation are necessary. We only agree that this possibility is acceptable to the extent that the gross calculation is performed with a simplified approach (see comment to Para 3.87).	Not agreed
240.	German Insurance Association – Gesamtverband der D	3.90.	☐ The gross calculation should be performed via a simplified approach, if at all ☐ CEIOPS mentions that a calculation based on a gross and a net calculation are necessary. We only agree that this possibility is acceptable to the extent that the gross calculation is performed with a simplified approach (see comment to Para 3.87).	Not agreed

241.	Legal & General Group	3.90.	As per 3.89	
242.	Pearl Group Limited	3.90.	The gross calculation should be performed via a simplified approach	Not agreed
243.	Association of British Insurers	3.91.	☐ The gross calculation should be performed via a simplified approach, if at all CEIOPS mentions that the BSCR should be used.We only agree to the extent that the BSCR is replaced by a simplified approach	Not agreed
244.	CEA, ECO-SLV-09-449	3.91.	☐ The gross calculation should be performed via a simplified approach, if at all. Ceiops mentions that the BSCR should be used. We only agree to the extent that the BSCR is replaced by a simplified approach (see comment to Para 3.87).	Not agreed
245.	German Insurance Association – Gesamtverband der D	3.91.	☐ The gross calculation should be performed via a simplified approach, if at all CEIOPS mentions that the BSCR should be used. We only agree to the extent that the BSCR is replaced by a simplified approach (see comment to Para 3.87).	Not agreed
246.	Legal & General Group	3.91.	As per 3.89	

247.	Pearl Group Limited	3.91.	The gross calculation should be performed via a simplified approach	Not agreed
248.	Legal & General Group	3.92.	As per 3.89	
249.	CEA, ECO-SLV-09-449	3.93.	☐ The gross calculation should be performed via a simplified approach, if at all. Ceiops mentions that the BSCR should be compared with the nSCR. We only agree to the extent that the BSCR is replaced by a simplified approach (see comment to Para 3.87).	Not agreed
250.	German Insurance Association – Gesamtverband der D	3.93.	☐ The gross calculation should be performed via a simplified approach, if at all CEIOPS mentions that the BSCR should be compared with the nSCR. We only agree to the extent that the BSCR is replaced by a simplified approach (see comment to Para 3.87).	Not agreed
251.	Legal & General Group	3.93.	As per 3.89	
252.	Pearl Group Limited	3.93.	The gross calculation should be performed via a simplified approach	Not agreed
253.	CEA, ECO-SLV-	3.94.	The total value of future discretionary benefits is not clearly defined.	Noted

	09-449		The maximum of the total value of future discretionary benefits is not described either theoretically or practically. In particular, as Ceiops states in Para 3.19, there are different types of discretionary benefits: conditional discretionary benefits and pure discretionary benefits. The maximum value of conditional discretionary benefits can theoretically be measured but this does not mean that the undertaking has the possibility to use this loss-absorbing capacity in the context of the markets shocks under the market risk modules. For example, imagine that the conditional discretionary benefits are equal to 20, this does not mean that the undertaking will be contractually entitled to pass policyholders losses of 20, because there are some contractual rules that have to be applied and that would not automatically allow the company to do this, unlike pure discretionary benefits. For this reason, the maximum amount of the total value of discretionary benefits could in some situations be higher than the actual amount that the undertaking could contractually and under the specific shock scenarios pass to policyholders. The most appropriate way to avoid any double counting could be to use a single equivalent scenario, although as noted in our response to Para 3.89 the appropriateness of this needs to be tested in QIS5.. If Ceiops rejects this view, it should then provide more clarity as to the requirements of this paragraph. It is unclear under which scenario the total value of future discretionary bonuses is calculated. For the avoidance of doubt, we recommend that the wording is	Noted

			amended to say "the total value of future discretionary bonuses calculated for the purpose of calculating the technical provisions"	
254.	FFSA	3.94.	CEIOPS mentions that the adjustment is limited to the maximum of total value of future discretionary benefits. FFSA considers this is unclear since the way the maximum of total value of future discretionary benefits is not described not theoretically nor practically. In particular, as CEIOPS states in 3.19, there are different types of discretionary benefits conditional discretionary benefits and pure discretionary benefits. The maximal value of conditional discretionary benefits can theoretically be measured but this does not mean that the undertaking has the possibility to use this loss-absorbing capacity in the context of the markets shocks of the market risk modules. Let's imagine that the conditional discretionary benefits are of 20, this does not mean that the undertaking will be contractually entitled to pass-through policyholders losses of 20, because there are some contractual rules that have to be applied and that would not automatically allow the company to pass-through the losses to the policyholders as if it was pure discretionary benefits. For that reason, the maximal amount of total value of discretionary benefits could in some situation be higher than the actual amount that the undertaking could contractually and under the specific shock scenarios tested pass-through to policyholders.	Noted
255.	German Insurance Association – Gesamtverb and der D	3.94.	The total value of future discretionary benefits is not clearly defined The maximum of the total value of future discretionary benefits is not described either theoretically or practically. In particular, as CEIOPS states in Para 3.19, there are different types of discretionary benefits: conditional discretionary benefits	Noted

			and pure discretionary benefits. The maximum value of conditional discretionary benefits can theoretically be measured but this does not mean that the undertaking has the possibility to use this loss-absorbing capacity in the context of the markets shocks under the market risk modules. For example, imagine that the conditional discretionary benefits are equal to 20, this does not mean that the undertaking will be contractually entitled to pass policyholders losses of 20, because there are some contractual rules that have to be applied and that would not automatically allow the company to do this, unlike pure discretionary benefits. For this reason, the maximum amount of the total value of discretionary benefits could in some situations be higher than the actual amount that the undertaking could contractually and under the specific shock scenarios pass to policyholders. It is unclear under which scenario the total value of future discretionary bonuses is calculated. For the avoidance of doubt, we recommend that the wording is amended to say "the total value of future discretionary bonuses calculated for the purpose of calculating the technical provisions"	Agreed
256.	Legal & General Group	3.94.	CP54 makes numerous references to "discretionary bonuses" implying that these are the only type of discretionary benefits which would be affected by management actions. This is in conflict with CP32, which correctly identifies a much wider range of discretion in relation to management actions, for example CP32 paragraphs 3.2 and 3.4. CP55 should be changed so that it is consistent with CP32's definitions of discretionary management	Noted

			actions. (Also applicable to 3.97). Also see 3.89	
257.	CRO Forum	3.95.	Please refer to our comments in 3.74.	
258.	FFSA	3.95.	CEIOPS describe the way the loss-absorbing capacity of deferred tax should be calculated. FFSA thinks that the computation of the SCR shock in the third bullet point is not explicit and should be more accurate, an example being necessary. For this reason, FFSA cannot comment on this.	Noted
259.	GROUPAMA	3.95.	Dealing with deferred taxes absorption, we think that it is not consistent with using IAS 12 methodology for deferred taxes (CP 35) and recognize deferred taxes assets (CP 46), with capping the deferred taxes to the amount of deferred taxes liabilities of the initial balance sheet. As the deferred taxes assets have an economic value (in case of transfer for instance), undertakings should be allowed to calculate a deferred taxes absorption higher that the amount of deferred taxes liabilities of the initial balance sheet.	Partially agreed See revised text
260.	Legal & General Group	3.95.	As per 3.89	
261.			Confidential comment deleted	
262.	CEA, ECO-SLV-09-449	3.96.	☐ The gross calculation should be performed via a simplified approach, if at all. Ceiops mentions that the BSCR should be used. However, if Ceiops pursue in this methodology, we only agree to this requirement to the extent that the BSCR is replaced by a more simplified calculation (see comment to Para 3.87).	Not agreed

263.	CRO Forum	3.96.	Please refer to our comments in 3.55.	
264.	German Insurance Association – Gesamtverb and der D	3.96.	☐ The gross calculation should be performed via a simplified approach, if at all ☐ CEIOPS mentions that the BSCR should be used. If CEIOPS pursue in this methodology, we only agree to this requirement to the extent that the BSCR is replaced by a more simplified calculation (see comment to Para 3.87).	Not agreed
265.	Institut des Actuaires (France)	3.96.	Same comments as for 3.9: further information is needed to understand its bases and the meaning of the results stemming from its use	Noted
266.	Legal & General Group	3.96.	As per 3.89	
267.	Pearl Group Limited	3.96.	The gross calculation should be performed via a simplified approach	Not agreed
268.	Association of British Insurers	3.97.	The option to use a single equivalent scenario should be based on net capital charges, due the lack of economic meaning of gross capital charges, the difficulty in carrying out the gross calculations and the uncertainty around their calculation If the single equivalent scenario approach is based on gross calculations then it does not constitute to a significant improvement compared with the modular approach based on gross and net capital charges, as the gross calculation is still required.	Not agreed
269.			Confidential comment deleted	

270.	CEA, ECO-SLV-09-449	3.97.	The option to use a single equivalent scenario should not be strictly based on gross capital charges, due their lack of economic meaning, the difficulty in carrying them out and the uncertainty around their calculation. This will need to be tested in QIS5. Please see our other comments on Para 3.89 on the use of the single equivalent scenario.	Noted
271.	European Insurance CFO Forum	3.97.	The calculation of loss absorbing capacity should avoid the creation of spurious information. The CFO Forum agrees that the impact of a scenario should be initially calculated gross of the loss absorbing capabilities deferred tax and an adjustment should then be made to determine the net impact. For the loss absorbing capability of technical provisions, particularly future participating bonuses, it is often only appropriate to calculate these net as grossing up creates a hypothetical value conveying spurious accuracy. Requirements to gross up create an additional cost with no tangible benefit. The CFO Forum supports the objective to avoid overstatement of the loss absorbing capacity of technical provisions and deferred tax. It recommends, however, to avoid the creation of spurious information, the option to identify the best method to measure these loss absorbing impacts is left to the judgement of the entity conducting the evaluation, with appropriate governance and recoverability principles and challenge as required throughout Solvency II. Quantitative tests should be performed on the single equivalent	Noted Agreed

			scenario approach. The single equivalent scenario approach could appear sensible, but it is difficult to assess its appropriateness given that this methodology was not extensively tested under QIS4. Some quantitative tests should be performed more widely before concluding on this approach.	
272.	FFSA	3.97.	CEIOPS proposes an option based on a single equivalent scenario, which has to be build by each undertaking based on the results of the risk capital charges calculated on a gross of loss-absorbing effet of technical provisions basis. FFSA considers that the option to use a single equivalent scenario by company should be retained only if the single equivalent scenario would be build by each undertaking based on net capital charges, due the lack of economic meaning of gross capital charges and the uncertainty around their calculation	Not agreed
273.	German Insurance Association – Gesamtverband der D	3.97.	The option to use a single equivalent scenario should not be strictly based on gross capital charges, due to their lack of economic meaning, the difficulty in carrying them out and the uncertainty around their calculation This will need to be tested in QIS5. Please see our other comments on Para 3.89 on the use of the single equivalent scenario.	Noted
274.	Legal & General Group	3.97.	As per 3.89 and 3.94	
332.	PricewaterhouseCoopers	3.97.	See comments on paragraph 3.55 in relation to the use of gross or net capital charges to identify the single equivalent scenario.	

	LLP			
275.	Association of British Insurers	3.98.	☐ The gross calculation should be performed via a simplified approach, if at all ☐ CEIOPS mentions that the BSCR should be compared with the nSCR. We only agree to the extent that the BSCR is replaced replaced by a more simplified calculation (see comment to Para 3.87).	Not agreed
276.			Confidential comment deleted	
277.	CEA, ECO-SLV-09-449	3.98.	☐ The gross calculation should be performed via a simplified approach, if at all. ☐ Ceiops mentions that the BSCR should be compared with the nSCR - We only agree to the extent that the BSCR is replaced by a more simplified calculation (see comment to Para 3.87).	Not agreed
278.	German Insurance Association – Gesamtverband der D	3.98.	☐ The gross calculation should be performed via a simplified approach, if at all ☐ CEIOPS mentions that the BSCR should be compared with the nSCR. We only agree to the extent that the BSCR is replaced replaced by a more simplified calculation (see comment to Para 3.87).	Not agreed
279.	Legal & General Group	3.98.	As per 3.89	
280.	Pearl Group Limited	3.98.	The gross calculation should be performed via a simplified approach	Not agreed

281.	Association of British Insurers	3.99.	The advice in this paragraph limits the adjustment to (B)SCR to a maximum of the total value of future discretionary bonuses, which can be considered a sub-set of the actions we can take into account in stressed conditions. Such limits are not imposed by the Directive and it is unclear why CEIOPS is going out of their mandate set out in Level 1 propose such an overly prudent advice. The effect of the cap as it stands could completely and erroneously remove risk mitigation for downward interest rate stresses. We propose that the cap, set out in this paragraph, is removed.	Not agreed
282.			Confidential comment deleted	
283.	CEA, ECO-SLV-09-449	3.99.	The restriction to ensure that the adjustment for future discretionary benefits is limited to the total value of future discretionary benefits is unnecessary under the single scenario approach. The paragraph states that: "This adjustment is limited to a maximum of the total value of future discretionary bonuses." However, the advice given in Para 3.100 already meets the requirements of Article 107 and so there is no need to also have the requirement in Para 3.99. The fact that the net calculation is carried out using a single scenario means that the mitigating effect of reducing bonuses cannot be double counted. ☐ The CEA recommends that this advice is removed.	Not agreed
284.	FFSA	3.99.	CEIOPS proposed that the loss-absorbing effect should be lower that the maximum of the total value of future discretionary benefits.	Not agreed

			FFSA thinks that such a check is useless when using a single equivalent scenario because the approach ensures already that no double-counting will appear. Requiring such a test would be not only useless but would also require a considerable amount of time from undertakings, and this would significantly impair the practical interest of the single equivalent scenario approach.	
285.	German Insurance Association – Gesamtverb and der D	3.99.	The restriction to ensure that the adjustment for future discretionary benefits is limited to the total value of future discretionary benefits is unnecessary under the single scenario approach. The paragraph states that: “This adjustment is limited to a maximum of the total value of future discretionary bonuses.” However, the advice given in Para 3.100 already meets the requirements of Article 107 and so there is no need to also have the requirement in Para 3.99. The fact that the net calculation is carried out using a single scenario means that the mitigating effect of reducing bonuses cannot be double counted. ☐ The GDV recommends that this advice is removed.	Not agreed
286.	GROUPAMA	3.99.	We do not understand why capping the adjustment for profit sharing in the scenario equivalent approach. This cap is only used for avoiding double-counting profit sharing absorption in case of modular approach.	Not agreed
287.	Legal & General Group	3.99.	This is difficult to calculate and in any event a meaningless aim. Delete.	Not agreed
288.	Pearl Group Limited	3.99.	Management actions should not be limited to a restrictive factual calculation. They should be further defined in a more general	Not agreed

			manner, as described in CP32 paragraph 3.2. Provided firms meet the criteria set out by CEIOPS, a broader definition of management action should be allowed for. We would also like to stress that this is a restrictive reading of the Directive, as it considers that events would happen simultaneously, which is quite unrealistic. For management actions that do affect discretionary bonuses setting the maximum impact to the level of discretionary bonus rates doesn't feel appropriate either as Market value Reductions or changes to the assets held could mean that the impact of management actions could be greater than this amount. The suggested cap could have unintended consequences and is not strictly required by the Directive. We believe this approach is unrealistic. In any event, this should not be read across internal models	
289.	Association of British Insurers	3.100.	A test to ensure that the adjustment for future discretionary benefits is limited to the total value of future discretionary benefits is not always necessary to comply with the Framework of the Directive We disagree with this: if the methodology designed in Level 2 texts is such that there is no possibility to double count any effects, then there is no necessity to perform such a test that would succeed systematically.	Not agreed
290.	CEA, ECO-SLV-09-449	3.100.	A test to ensure that the adjustment for future discretionary benefits is limited to the total value of future discretionary benefits is not always necessary to comply with the Framework Directive. ☐ Ceiops mentions that the test of 3.99 is the only way to comply the Level 1 text Article 107.	Not agreed

			We disagree with this: if the methodology designed in Level 2 texts is such that there is no possibility to double count any effects, then there is no necessity to perform such a test that would succeed systematically.	
291.	FFSA	3.100.	CEIOPS mentions that the test of 3.99 is the only way to comply the Level 1 text Article 107. FFSA disagrees with this: if the methodology designed in Level 2 texts is such that there is no possibility to double count any effects, then there is no necessity to perform such a test that would succeed systematically.	Not agreed
292.	German Insurance Association – Gesamtverband der D	3.100.	A test to ensure that the adjustment for future discretionary benefits is limited to the total value of future discretionary benefits is not always necessary to comply with the Framework Directive ☐ CEIOPS mentions that the test of 3.99 is the only way to comply the Level 1 text Article 107. We disagree with this: if the methodology designed in Level 2 texts is such that there is no possibility to double count any effects, then there is no necessity to perform such a test that would succeed systematically.	Not agreed
293.	Legal & General Group	3.100.	As per 3.89	
294.	Pearl Group Limited	3.100.	A test to ensure that the adjustment for future discretionary benefits is limited to the total value of future discretionary benefits is not always necessary to comply with the Framework Directive	Not agreed

			☐ ☐ CEIOPS mentions that the test of 3.99 is the only way to comply the Level 1 text Article 107. We disagree with this: if the methodology designed in Level 2 texts is such that there is no possibility to double count any effects, then there is no necessity to perform such a test that would succeed systematically.	
295.	Legal & General Group	3.101.	As per 3.89	
296.	Association of British Insurers	3.102.	To count as an asset, there needs to be a reasonable probability that the deferred tax will crystallise. Also it should be noted, that tax is usually paid at group level.	Noted
297.	Legal & General Group	3.102.	As per 3.89	
298.	Pearl Group Limited	3.102.	It should be noted here, that tax is usually paid at group level.	Noted
299.	Association of British Insurers	3.103.	The advice is worded incorrectly. Deferred taxes are not part of the technical provisions. We recommends that the advice is reworded as follows: “The adjustment for loss-absorbing capacity of deferred taxes is based on the difference between the value of deferred taxes as included on the balance sheet (other liabilities) and the value of deferred taxes under the single equivalent scenario.”	Agreed

300.	CEA, ECO-SLV-09-449	3.103.	The advice is worded incorrectly. Deferred taxes are not part of the technical provisions. ☐ The CEA recommends that the advice is reworded as follows: “The adjustment for loss-absorbing capacity of technical provisions deferred taxes is based on the difference between the value of deferred taxes as included on the balance sheet (other liabilities) and the value of deferred taxes under the single equivalent scenario.”	Agreed
301.	German Insurance Association – Gesamtverb and der D	3.103.	The advice is worded incorrectly. Deferred taxes are not part of the technical provisions. => The GDV recommends that the advice is reworded as follows: ☐ “The adjustment for loss-absorbing capacity of technical provisions deferred taxes is based on the difference between the value of deferred taxes as included on the balance sheet (other liabilities) and the value of deferred taxes under the single equivalent scenario.”	Agreed
302.	Legal & General Group	3.103.	As per 3.89	
303.	Pearl Group Limited	3.103.	The advice is worded incorrectly. Deferred taxes are not part of the technical provisions.	Agreed
304.				
305.	Association	3.104.	An economic approach requires the recognition of all economic	Partially agreed

	of British Insurers		value including deferred tax assets. 6. CEIOPS only allows insurers to adjust their capital requirements to take account of decreases in deferred tax liabilities recognised in the balance sheet, ignoring deferred tax assets, which could be generated after the stress. This treatment is asymmetric and therefore not in line with an economic approach. CEIOPS' argument for not recognising the loss of absorbing capacity of deferred tax assets is that these assets "lose their value if the financial situation of the undertaking deteriorates". We should state that this sentence is ambiguous as it could be read in two ways – either that deferred tax assets have zero value in the stress situation or that deferred tax assets cannot increase in value in the stress situation. We would request clarification from CEIOPS as to the exact interpretation of this statement. For either interpretation, we have strong concerns with this requirement, as it is not in line with an economic approach. Under a hypothetical transaction between properly informed parties, the value of deferred tax asset would have economic value because the "buyer" can use this deferred tax asset to offset deferred tax liabilities in their balance sheet. The non-recognition of deferred assets would be inconsistent with the transfer value approach adopted and as acknowledged in QIS4 it would also be inconsistent with IAS12. The insurer should test whether he is able to recover any deferred tax either by means of carry back (hard commitment) or a carry forward (based on future profits). The biggest controversy would lay with the carry forward and the deferred tax assets. However as part of Pillar II and insurer is required to project the solvency position over a longer time horizon as part of the ORSA. This longer	See revised text

			time horizon normally would be generated by means of a planning forecast made by the insurer which is endorsed by the management body of the insurer. If this part of the ORSA is disclosed to the supervisor, discussed and endorsed, then based on the recoverability criterion this DTA should be recognised. After the recognition of a shock which would see the recognition of a DTA, one could expect a new longer time projection is to be made. This could act as a triggering event for a new ORSA process.	
306.			Confidential comment deleted	
307.	CEA, ECO-SLV-09-449	3.104.	An economic approach requires the recognition of all economic value including deferred tax assets. ☐ Ceiops only allows insurers to adjust their capital requirements to take account of decreases in deferred tax liabilities recognised in the balance sheet, ignoring deferred tax assets which could be generated after the stress. This treatment is asymmetric and therefore not in line with an economic approach. Ceiops' argument for not recognising the loss of absorbing capacity of deferred tax assets is that these assets "lose their value if the financial situation of the undertaking deteriorates". We should state that this sentence is ambiguous as it could be read in two ways – either that deferred tax assets have zero value in the stress situation or that deferred tax assets cannot increase in value in the stress situation. We would request clarification from Ceiops as to the exact interpretation of this statement. For either interpretation, we have strong concerns with this requirement as it is not in line with an economic approach. Under a hypothetical transaction between properly informed parties, the value of deferred tax asset would have economic value because the "buyer" can use this deferred tax asset to offset deferred tax	Partially agreed See revised text

			liabilities in their balance sheet. The non-recognition of deferred assets would be inconsistent with the transfer value approach adopted and as acknowledged in QIS4 it would also be inconsistent with IAS12. The insurer should test whether he is able to recover any deferred tax either by means of carry back (hard commitment) or a carry forward (based on future profits). The biggest controversy would lay with the carry forward and the deferred tax assets. However as part of Pillar II and insurer is required to project the solvency position over a longer time horizon as part of the ORSA. This longer time horizon normally would be generated by means of a planning forecast made by the insurer which is endorsed by the management body of the insurer. If this part of the ORSA is disclosed to the supervisor, discussed and endorsed, then based on the recoverability criterion this DTA should be recognised. After the recognition of a shock which would see the recognition of a DTA, one could expect a new longer time projection is to be made. This could act as a triggering event for a new ORSA process. Please see the CEA feedback on CP35 where we expressed our strong disagreement with the non recognition of unused tax losses and unused tax credits and highlighted that the recognition of the unused tax losses should be based on the recoverability principle. ☐ The CEA recommends that increases in deferred tax assets are allowed for as part of the loss absorbency of deferred taxes in the SCR. ☐ We recommend that Para 3.104 is removed to ensure an economic risk-based approach is retained.	

308.	CRO Forum	3.104.	In our suggested approach to calculating the loss absorbency of deferred tax we take into account both the reduction of the present value of future taxes (deferred tax liability on the market consistent balance sheet) and then the impact of a loss equal to the SCR. This is performed per sub-module and then there is a check that there is no double counting at aggregate level. Under this method the potential deferred tax asset created by making an immediate loss equal to the SCR, is limited to the extent that future taxes on which to offset this are still available in the stressed scenario. That is, if the undertaking can demonstrate that a future positive tax base exists in the stressed situation then the relevant recoverable portion of the deferred tax asset should be taken into account. If a single scenario stress is used then this will also be the case. That is, if future taxes exist in the stress scenario then the undertaking can calculate how much of the tax asset caused by a loss equal to the single scenario SCR is actually recoverable from future taxes – and undertakings should be allowed to use this amount as part of the loss absorption. Please note where (re)insurers valuation models already project the taxable base of the company already and the loss carry forward mechanism appropriate to their country(ies) then the impact of the loss in stressed circumstances may already be taken into account in a more accurate way and (re)insurers should be allowed to use this more accurate method (rather than assuming the loss equals the SCR, which is an approximate method).	Noted
309.	Danish Insurance Asiciation	3.104.	The assumption that deferred tax assets lose all their value when the companies incur losses is rather conservative and cannot be reconciled with a best estimate approach and a going concern.	Partially agreed See revised text

			In Denmark we have two kind of deferred tax assets: A "normal" company tax asset and a tax asset which is a result of the special Danish tax on the yield on the assets covering the technical provisions. This latter tax may be negative resulting in a tax asset. Such tax assets do not loose value in case of incurred losses, and according to Danish law they can even be paid out in cash under certain circumstances.	
310.	European Insurance CFO Forum	3.104.	The loss absorbing capabilities of deferred tax assets should also be considered to the extent it is likely to be possible to benefit from those assets in future periods. The CFO Forum believes that credit should be taken for deferred tax and for tax credits subject to applicable current and expected future tax rules consistent with anticipated profits or losses. Current IAS 12 sets out a meaningful framework to test recoverability and the CFO Forum recommends that this is used in Solvency II. The links between the loss-absorbing capacity of deferred taxes and other consultation papers related to deferred taxes (CP35 and CP46) need to be examined deeply in order to avoid inconsistencies between different consultation papers related to deferred taxes and recognise that deferred tax assets have a value when recoverable.	Partially agreed See revised text
311.	FFSA	3.104.	CEIOPS would limit the amount of deferred tax assets recognized to the amount in the balance sheet as of reporting date. FFSA strongly disagrees with restricting the loss-absorbing capacity of deferred taxes to decreases in deferred tax liabilities and with the assumption that deferred tax assets cannot increase or even may loose their value under stressed conditions. FFSA would like this paragraph to be removed to ensure an economic risk-based	Partially agreed See revised text

			approach and a consistent approach with the recommendation made in the answer to the CP35 where the Industry strongly disagrees with the non recognition of unused tax losses and unused tax credits and highlights that the recognition of the unused tax losses should be based on the recoverability principle.	
312.	German Insurance Association – Gesamtverb and der D	3.104.	An economic approach requires the recognition of all economic value including deferred tax assets. ☐ CEIOPS only allows insurers to adjust their capital requirements to take account of decreases in deferred tax liabilities recognised in the balance sheet, ignoring deferred tax assets which could be generated after the stress. This treatment is asymmetric and therefore not in line with an economic approach. CEIOPS' argument for not recognising the loss of absorbing capacity of deferred tax assets is that these assets "loose their value if the financial situation of the undertaking deteriorates". We should state that this sentence is ambiguous as it could be read in two ways – either that deferred tax assets have zero value in the stress situation or that deferred tax assets cannot increase in value in the stress situation. We would request clarification from CEIOPS as to the exact interpretation of this statement. For either interpretation, we have strong concerns with this requirement as it is not in line with an economic approach. Under a hypothetical transaction between properly informed parties, the value of deferred tax asset would have economic value because the "buyer" can use this deferred tax asset to offset deferred tax liabilities in their balance sheet. The non-recognition of deferred assets would be inconsistent with the transfer value approach adopted and as acknowledged in QIS4 it would also be inconsistent with IAS12.	Partially agreed See revised text

			The insurer should test whether he is able to recover any deferred tax either by means of carry back (hard commitment) or a carry forward (based on future profits). The biggest controversy would lay with the carry forward and the deferred tax assets. However as part of Pillar II and insurer is required to project the solvency position over a longer time horizon as part of the ORSA. This longer time horizon normally would be generated by means of a planning forecast made by the insurer which is endorsed by the management body of the insurer. If this part of the ORSA is disclosed to the supervisor, discussed and endorsed, then based on the recoverability criterion this DTA should be recognised. After the recognition of a shock which would see the recognition of a DTA, one could expect a new longer time projection is to be made. This could act as a triggering event for a new ORSA process. Please see the GDV feedback on CP35 where we expressed our strong disagreement with the non recognition of unused tax losses and unused tax credits and highlighted that the recognition of the unused tax losses should be based on the recoverability principle. ☐ The GDV recommends that increases in deferred tax assets are allowed for as part of the loss absorbency of deferred taxes in the SCR. ☐ We recommend that Para 3.104 is removed to ensure an economic risk-based approach is retained.	
313.	Groupe Consultatif	3.104.	In Denmark most life policies are taxed with a direct 15% tax of all investment income and with a right to carry negative tax forward (tax assets) or being refunded if the company is going default. It is odd not to include this tax treatment consistent in the calculations.	Agreed See revised text

			See 3.76	
314.	Investment & Life Assurance Group (ILAG)	3.104.	See 3.76	
315.	Legal & General Group	3.104.	As per 3.89	
316.	Pearl Group Limited	3.104.	An economic approach requires the recognition of all economic value including deferred tax assets. 6. CEIOPS only allows to adjust or decrease the final capital requirement for the amount of deferred tax liabilities recognized in the balance sheet, discarding all deferred tax assets (which could be generated) in excess of DTL that emerged after the loss equal to the SCR shock. The treatment is asymmetric and therefore does not make sense.	Partially agreed See revised text
317.	UNESPA- Association of Spanish Insurers and Reinsu	3.104.	Level 1 text considers that assets and liabilities should have economic value, including all types of deferred taxes UNESPA considers as a fundamental principle from the 1st wave of Consultation Papers (in CP35 to be precise) that an assessment by default should take into account all future in-flows and out-flows (tax included) The proposal considered by CEIOPS in CP54 clearly breaks with this principle because it only allows to adjust the final capital	Partially agreed See revised text

			requirement for the amount of deferred tax liabilities recognized in the balance sheet, rejecting all deferred tax assets (which could be generated) in excess of deferred tax liabilities that rise after the loss equal to the SCR shock. The treatment is asymmetric and not market consistent, apart from is improperly justified. UNESPA disagrees with CEIOPS' position which not recognizes by default the loss absorbing capacity of deferred tax assets in excess of deferred tax liabilities. CEIOPS's argument for not recognizing its loss absorbing capacity is that deferred tax assets lose their value if the financial situation of the undertaking deteriorates. This argument represents an "all-or nothing" position and so far excessive, since it assumes that these assets will never have economic value. If the financial situation of the undertaking deteriorates may be occur that the value of deferred tax assets change (in the same way that other assets) and therefore do not keep the 100% of its value, however do not seems neither reasonable nor justified to say that this deferred tax assets lose all the value (0%). When this deferred tax assets arise in excess of deferred tax liabilities, CEIOPS should consider the possibility to allow a certain degree of recognition, above 0%. For example, in a "winding-up" situation, a case by case analysis should be considered in order to assess the economic value of these deferred tax assets, since although is clear that the financial situation of the undertaking deteriorates, their amount in a hypothetical transaction between knowledgeable willing parties,	

			would have an economical value since the other part (the buyer) would be able to use it against their existing deferred tax liabilities of future taxable profit. In other words, a significant part of these assets (DTAs) could be used to cover acquired commitments also in a winding up process. This is the case of several transactions in the Spanish insurance market during the last years, where the buyers considered the effect of the deferred tax assets of the acquired undertaking as an additional incentive to carry out the transaction. We should bear in mind that the effect of the loss absorbing capacity of deferred tax assets is quite important and therefore the European institutions should consider the negative influence that generates the not recognition of this deferred tax assets in excess of deferred tax liabilities in the motivation of the buy (or in other words, of a financial rescue) of an insurance undertaking in a winding-up situation by other private insurance entity.	
333.			Confidential comment deleted	
334.	CEA, ECO-SLV-09-449	A.1.	☐ We request more information on the proposed methodology to calculate the single equivalent scenario. ☐ We are not completely convinced that the way to assign weights to the different risk is relevant. Indeed we believe that these weights can only be determined using “eigenvectors” or “eigenmatrices” as follows: ☐ The weight of “eigenvectors” should be determined. ☐ Risks should be expressed as a combination of “eigenvectors”. ☐ The weight of each risk would then be determined as the	Noted

			relevant combination of the weight of eigenvectors that is to say something proportional to the eigenvalues. ☐ ☐ It is not clear if the methodology proposed by Ceiops would lead to similar results. Furthermore, we would require more explanation as to the links between this approach and the 2 step modular approach: in a 1st step aggregation of sub-risks (interest with action...), then in a 2nd step aggregation of risks (market with life underwriting...)? ☐ We request more information concerning the table in step 5: ☐ Are the "bang scenario" and the "killer scenario identical? What is the "bang scenario" if not? ☐ What does this percentile mean?	
335.			Confidential comment deleted	
336.	FFSA	A.1.	CEIOPS proposed a methodology that includes a step to derive the weight of risk. Furthermore, it mentions in the second table of step 5 a column named "implied percentile for medium bang scenario" FFSA is not completely convinced that the way to put on weights on the different risk is relevant. Indeed the way of the different risk can be determined from a relevant point of view only with "eigenvectors" or "eigenmatrices" : in a first step, the weight of "eigenvectors" should be determined, and in a second step, risks should be expressed as a combination of "eigenvectors". The weight of each risk would the determined as the relevant combination of the weight of eigenvectors that is to say something	Noted

			proportional to the eigenvalues. It is not clear if the methodology proposed by CEIOPS would lead to similar results. Furthermore, FFSA would required more explanations on the links between, this approach and the "2 steps" modular approach of SCR standard formula: in a 1st step aggregation of sub-risks (interest with action...), then in a 2nd step aggregation of risks (market with life underwriting...)? FFSA requires more information concerning the table in step 5: - Are the "bang scenario" and the "killer scenario identical? What is the "bang scenario" if not? - What does mean this percentile?	
337.	Pearl Group Limited	A.1.	We request more information on the proposed methodology to calculate the "single equivalent scenario" We request more information concerning the table in step 5	Noted
338.			Confidential comment deleted	
339.	CEA, ECO-SLV-09-449	A.3.	We request more information: ☐ Ceiops mentions the "super killer scenario" and the "super mega killer scenario". We request more information about these scenarios.	Noted
340.			Confidential comment deleted	
341.	FFSA	A.3.	CEIOPS mentions the "super killer scenario" and the "super mega killer scenario". FFSA requests more information on those scenarios.	Noted
342.	CEA,	B.12.	This example appears to provide no additional useful information.	Noted

	ECO-SLV-09-449		Ceiops provides an example of using net capital requirements with a uniform reduction in risks; however, it seems quite clear that if different components of a linear combination are reduced in the same proportion, then the linear combination as a whole will decrease of the same proportion. It is unlikely in practice that the loss absorbency of technical provisions will have a uniform effect on each risk and so unlikely that the single equivalent will be the same regardless of whether gross or net inputs are used to construct the scenario.	
343.	FFSA	B.12.	CEIOPS provides an example of using net capital requirements with a uniform reduction in risks. FFSA thinks this example is useless and provided no information: it seems quite clear that if different components of a linear combination are reduced in the same proportion, the linear combination as a whole will decrease of the same proportion.	Noted
344.	CEA, ECO-SLV-09-449	B.13.	Please see comment to Para B.12.	
345.	FFSA	B.13.	See comment B.12	
346.	CEA, ECO-SLV-09-449	B.14.	Please see comment to Para B.12.	
347.	FFSA	B.14.	See comment B.12	
348.	CEA, ECO-SLV-	B.15.	Please see comment to Para B.12.	

	09-449			
349.	FFSA	B.15.	See comment B.12	
350.	CEA, ECO-SLV-09-449	B.16.	Please see comment to Para B.12.	
351.	FFSA	B.16.	See comment B.12	
352.	CEA, ECO-SLV-09-449	B.17.	Please see comment to Para B.12.	
353.	FFSA	B.17.	See comment B.12	
354.			Confidential comment deleted	
355.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	C.3.	Although the rule of 99.5%is the keystone of SII, its application in Life insurance is far from obvious.	Noted
356.			Confidential comment deleted	
357.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	C.10.	Option 1 is still preferable for small companies. A sound calibration could be attained by using a proportional rule : e.g. BSCR after loss absorption = FDB/ BE * BSCR before loss absorption	Noted

358.			Confidential comment deleted	
359.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	C.11.	See C.10.	
360.			Confidential comment deleted	
361.			Confidential comment deleted	
362.	CEA, ECO-SLV-09-449	C.26.	See comments to Para 3.97.	
363.	FFSA	C.26.	CEIOPS requires comments on option 2 and 3. FFSA has already commented on these two options, namely respectively the "modular approach" and the "single equivalent scenario" approach.	Noted