	Comments Template on Discussion Paper on the review of specific items in the Solvency II Delegated Regulation	Deadline 3 March 2017 23:59 CET
Name of Company:	European Association of Public Banks (EAPB)	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
	Please follow the following instructions for filling in the template: ⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇨ Leave the last column empty. ⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph or a cell, keep the row empty. ⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. **Please send the completed template, in Word Format, to CP-16-008@eiopa.europa.eu** **Our IT tool does not allow processing of any other formats.** The numbering of the questions refers to the discussion paper on the review of specific items in the Solvency II Delegated Regulation.	
Reference	**Comment**	
General Comment	The European Association of Public Banks (EAPB) explicitly welcomes EIOPA's consultation on key issues of the Solvency II Delegated Regulation in the light of the expected review in 2018. EAPB gathers over 30 member organisations which include promotional banks such as national or regional public development banks and local funding agencies, public financial institutions, associations of public banks and banks with similar interests from 17 European Member States and countries, representing directly and indirectly the interests of over 90 financial institutions towards the EU and other European stakeholders. Especially for **promotional banks** the Solvency II regime can be of high importance as	

such institutions are entirely or partly refinancing themselves through financial instruments. In this context, institutional investors such as **insurance companies** are playing an important role as investors into these instruments. Depending on the respective national structure of a promotional bank, these financial instruments can be either guaranteed by central, regional or local governments. In case the guarantees are provided by regional or local governments (RGLA) the current treatment under the Solvency II framework seems very unfavorable as capital requirements can be very high and thus, disincentivize investments by insurance companies. EAPB believes that the current regulatory treatment of **exposures to promotional banks which are guaranteed by RGLA** is prudentially unjustified.

First of all, this is due to the **specific nature and low-risk business model of promotional banks**. Promotional banks are institutions set up by public authorities either at national, regional or local level. Their primary goal is not to make profit or to maximize market share but to act on behalf of the state and in the common interest by supporting the structural, economic and social policy goals of their owners. They are active in those fields where financing needs cannot solely be satisfied by market players and complement the market where free market outcomes are regarded as insufficient and socially not acceptable. Hence, promotional banks can ensure that indispensable investment projects are being realized, while involving market players in the financial transaction. Their business activities are long-term oriented and their tasks usually include the financing of small and medium-sized companies, infrastructure and the social housing sector. Promotional banks also provide special programs for environmental protection, agriculture and for financing technology and innovation. Moreover, they often channel co-funded programs and projects of international financial institutions, such as the EIB Group. The central, regional or local government that set up a promotional bank has the obligation to protect its economic basis and to maintain its viability throughout its lifetime. Further, promotional banks have direct or indirect, explicit or implicit guarantees from their public owners. Therefore, promotional banks generate no risk for the financial market stability and display very specific low-risk business models with a limited scope of activity according to EU-state aid rules, their statutes and the relevant public laws. Promotional

| | banks have also been safe havens for investors in financial crisis and afterwards due to their stability, low risk profile and consequently high rating.

Second, the treatment under the Solvency II framework is in strong contrast to the respective **treatment under the CRR** which in the case of some RGLA allows for a 0% risk weight under the credit risk standardized approach. From our point of view, the same risk should be addressed by the same rules in the Solvency II Delegated Regulation.

Third, the assessment of the issuer risk concerning exposures guaranteed by RGLA by **capital markets participants** is another crucial aspect which should be taken into account. In this context, investors' assessments show that exposures guaranteed by RGLA are often seen as carrying the same issuer risk as exposures which are guaranteed by central governments. For instance, this can be seen in similar yield shifts and only slightly differing interest rate gaps when comparing such financial instruments. This assessment by investors is also commonly reflected by renowned external rating agencies which often assign exposures which are guaranteed by RGLA within the EU with the same rating as the respective central government. Consequently, there is no difference in risk which would justify the current differences in the prudential treatment.

Finally, EAPB would like to note that insurance companies are long-term investors which is why the maturity of the financial instruments that they invest in is usually considerably longer than 10 years. Promotional banks which receive such a long-term funding can use these funds for long-term projects in line with their public policy objectives. Keeping incentives for insurance companies to invest in promotional banks would therefore also have **societal benefits**.

EAPB therefore would like to take this opportunity to comment on several questions in section 3 of EIOPA's discussion paper which focus on aspects which have major implications for promotional banks. | |
| Q1.1 | | |

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Q3.3	The risk mitigating effect of a partial guarantee should be recognized in the SCR standard formula calculations in the same way as in Art. 213 and 215 CRR in order to create a level playing field between insurance companies and credit institutions.	
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Q3.8	EAPB represents the view that guarantees issued by RGLA must be taken into account in the market risk module. In case the guarantees issued by RGLA are fulfilling the conditions in Art. 215 of the Solvency II Delegated Act, it seems unjustified that only guarantees of a central government are taken into account for the calculation of the market risk module. This especially holds true as Implementing Regulation (EU) No. 2015/2011 stipulates that there is no difference in risk between exposures to certain RGLA and exposures to the central government of the jurisdiction in which they are established. Further, the current treatment under the Solvency II framework strongly	

	deviates from the respective treatment in the CRR even though the risk stemming from the exposures is essentially the same. Therefore, EAPB suggests including RGLA which are mentioned in the list of Art. 1 of the Implementing Regulation (EU) No. 2015/2011 also in the list in Art. 187 (3) of the Solvency II Delegated Act. This would adjust the current regime in a way that avoids an unreasoned discrimination of insurance companies compared to credit institutions investing in such assets and would allow for a 0% risk factor for market risk concentration for RGLA which are considered as having the same level of risk than the central government which is prudentially justified.	
Q3.9		
Q3.10	From EAPB's point of view, the differences between the Solvency II framework and the CRR are not justified as insurance companies need to invest into liquid assets in a comparable way as credit institutions.	
Q3.11	EAPB would like to point out that the differences regarding the treatment as central government (the list in the ITS and the EBA database are not identical) creates unintended consequences (e.g. un-level playing field between insurance companies and credit institutions) which should be avoided. EAPB would suggest reviewing and broadening the list in the current ITS (by also including all types of local governments, for which there is no difference in risk with the central governments in the jurisdiction in which they are established, which in some Member States include associations of municipalities) and aligning the EBA database with the ITS.	
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