

**Comments Template on EIOPA-CP EIOPA-CP-14-049
Draft proposal for Level 3 Guidance on the implementation of the long term guarantees measures**

**Deadline
02.Mar.2015
23:59 CET**

| | | |
|--|--|--------|
| Company name: | CFO Forum and CRO Forum | |
| Disclosure of comments: | EIOPA will make all comments available on its website, except where respondents specifically request that their comments remain confidential. Please indicate if your comments on this CP should be treated as confidential, by deleting the word Public in the column to the right and by inserting the word Confidential. | Public |
| <p>Please follow the instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in column "Reference". ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below. <ul style="list-style-type: none"> ○ If your comment refers to multiple paragraphs, please insert your comment at the first relevant paragraph and mention in your comment to which other paragraphs this also applies. ○ If your comment refers to sub-bullets/sub-paragraphs, please indicate this in the comment itself. <p>Please send the completed template to Consultation_Set2@eiopa.europa.eu, in MSWord Format, (our IT tool does not allow processing of any other formats).</p> <p>The paragraph numbers below correspond to Consultation Paper No. EIOPA-CP-14-049.</p> | | |
| Reference | Comment | |
| General Comment | | |
| 1.1. | | |
| 1.2. | | |
| 1.3. | | |
| 1.4. | | |

| Comments Template on EIOPA-CP EIOPA-CP-14-049 Draft proposal for Level 3 Guidance on the implementation of the long term guarantees measures | | Deadline 02.Mar.2015 23:59 CET |
|---|---|---|
| 1.5. | | |
| 1.6. | 1. We would interpret "amount of adjustment" as "amount of adjustment to relevant risk-free interest rate", and not "amount of adjustment to Own Funds" i.e. assuming interest rate down stress is biting, then we would expect SCR with VA is lower than SCR without VA. We would suggest that EIOPA update the wording to clarify by referencing instead to "amount of adjustment to relevant risk-free interest rate". | |
| 1.7. | | |
| 1.8. | | |
| 1.9. | | |
| 1.10. | | |
| 1.11. | | |
| 1.12. | | |
| 1.13. | <p>1. LTG measures are completely part of the framework and should not be removed through EIOPA guidelines. This would clearly go beyond the level 1 / 2 requirements.</p> <p>Article 77(2) on calculation of technical provisions in the Directive is crystal clear on the fact that the Best Estimate Liabilities should be determined using the relevant risk free rate curve.</p> <p><i>Matching Adjustment</i></p> <p>Article 77b (1).Insurance and reinsurance undertakings may apply a matching adjustment to the relevant risk-free interest rate term structure to calculate the best estimate of a portfolio of life insurance or reinsurance obligations, including annuities stemming from non-life insurance or reinsurance contracts subject to prior approval by the supervisory authorities where the following conditions are met:[...]</p> <p><i>Volatility Adjustment</i></p> <p>Article 77d (1).Member States may require prior approval by supervisory authorities for insurance and reinsurance undertakings to apply a volatility adjustment to the relevant risk-free interest rate term structure to calculate the best estimate referred to in Article 77(2).</p> <p><i>Transitional measure on rates</i></p> | |

**Comments Template on EIOPA-CP EIOPA-CP-14-049
Draft proposal for Level 3 Guidance on the implementation of the long term guarantees measures**

**Deadline
02.Mar.2015
23:59 CET**

| | | |
|-------|--|--|
| | <p><i>Article 308c (1). Insurance and reinsurance undertakings may, subject to prior approval by their supervisory authority, apply a transitional adjustment to the relevant risk-free interest rate term structure with respect to admissible insurance and reinsurance obligations.</i></p> <p>No additional retreatment is foreseen on the Future Discretionary Benefits (FDB) calculation. It would clearly contradict level 2 text on the FDB stating that:</p> <p><i>Article 24 Future discretionary benefits</i></p> <p><i>Where future discretionary benefits depend on the assets held by the insurance or reinsurance undertaking, undertakings shall base the calculation of the best estimate on the assets currently held by the undertakings and shall assume future changes of their asset allocation in accordance with Article 23. The assumptions on the future returns of the assets shall be consistent with the relevant risk-free interest rate term structure, including where applicable a matching adjustment, a volatility adjustment, or a transitional measure on the risk-free rate, and the valuation of the assets in accordance with Article 75 of Directive 2009/138/EC.</i></p> <p>In addition, the calculation of the BEL may necessitate complex stochastic modelling. Adjusting the likelihood that policyholders will exercise contractual options within the model would prove highly challenging and costly to implement, and would imply a further set of model / assumption changes. We would also note that applying the wording from the Guideline as drafted would typically reduce conservatism. We would therefore suggest that appropriate, pragmatic simplifications be permissible.</p> <p><i>Recital 15 of DAs</i></p> <p><i>(15) The choice of the method to calculate the best estimate should be proportionate to the nature, scale and complexity of the risks supported by the insurance or reinsurance undertaking. The range of methods to calculate the best estimate includes simulation, deterministic and analytical techniques. For certain life insurance contracts, in particular where they give rise to discretionary benefits depending on investment returns or where they include financial guarantees and contractual options, simulation methods may lead to a more appropriate calculation of the best estimate.</i></p> | |
| 1.14. | 1. We understand the intention of this guideline is to clarify that spread risk is not taken into account in the calculation of the risk margin. However, the proposed wording also requires firms to calculate the risk margin using | |

**Comments Template on EIOPA-CP EIOPA-CP-14-049
Draft proposal for Level 3 Guidance on the implementation of the long term guarantees
measures**

**Deadline
02.Mar.2015
23:59 CET**

| | | |
|-------|--|--|
| | <p>an SCR projection that excludes the VA or MA. Whilst we welcome the clarification on credit risk we strongly disagree with the use of a different SCR without VA or MA for this Risk Margin calculation, which goes beyond the level 1 / 2 requirements and is not consistent with what has been tested when developing the Solvency II rules (e.g. in LTGA).</p> <p>To address this we suggest that the guideline is amended along the following lines to just clarify that credit risk does not need to be included in the risk margin when applying the LTG measures.</p> <p>“1.14. When calculating the risk margin, insurance and reinsurance undertakings should assume that the reference undertaking does apply the same long-term guarantee measures as the transferring undertaking. However, for the purposes of determining the level of market risk to include within the risk margin calculation in accordance with Article 38(1)(i)(ii) calculating the risk margin in accordance with Article 38 of the Implementing Measures, insurance and reinsurance undertakings that apply a matching adjustment, a volatility adjustment, a transitional measure on the risk-free rate or a transitional measure on technical provisions should assume that the reference undertaking does not apply any of these measures.”</p> <p>This is consistent with Article 37 (2) which states that where insurance and reinsurance undertakings calculate their Solvency Capital Requirement using an approved internal model and determine that the model is appropriate to calculate the Solvency Capital Requirement referred to in Article 38(2) for each point in time over the lifetime of the insurance and reinsurance obligations, the insurance and reinsurance undertakings shall use the internal model to calculate the amounts SCR(t) referred to in paragraph 1.</p> <p>It is clear that for users of approved IM, the SCR calculated using this internal model should be used. If the model has been approved with LTG measures adjusting the relevant risk free rate curve, those LTG measures should not be excluded from the calculation of the risk margin.</p> | |
| 1.15. | | |
| 1.16. | | |
| 1.17. | | |
| 1.18. | | |
| 1.19. | | |
| 1.20. | | |

**Comments Template on EIOPA-CP EIOPA-CP-14-049
Draft proposal for Level 3 Guidance on the implementation of the long term guarantees
measures**

**Deadline
02.Mar.2015
23:59 CET**

| | | |
|-------|--|--|
| 1.21. | | |
| 1.22. | | |
| 2.1. | | |
| 2.2. | | |
| 2.3. | | |
| 2.4. | | |
| 2.5. | | |
| 2.6. | | |
| 2.7. | | |
| Annex | | |
| 1. | | |
| 2. | | |
| 3. | | |
| 4. | | |
| 5. | | |
| 6. | | |
| 7. | | |
| 8. | | |
| 9. | | |
| 10. | | |
| 11. | | |
| 12. | | |
| 13. | | |
| 14. | | |
| 15. | | |

**Comments Template on EIOPA-CP EIOPA-CP-14-049
Draft proposal for Level 3 Guidance on the implementation of the long term guarantees
measures**

**Deadline
02.Mar.2015
23:59 CET**

| | | |
|-----|--|--|
| 16. | | |
| 17. | | |
| 18. | | |
| 19. | | |
| 20. | | |
| 21. | | |
| 22. | | |
| 23. | | |
| 24. | | |
| 25. | | |
| 26. | | |
| 27. | | |
| 28. | | |
| 29. | | |
| 30. | | |
| 31. | | |
| 32. | | |
| 33. | | |
| 34. | | |
| 35. | | |
| 36. | | |
| 37. | | |
| 38. | | |
| 39. | | |
| 40. | | |

**Comments Template on EIOPA-CP EIOPA-CP-14-049
Draft proposal for Level 3 Guidance on the implementation of the long term guarantees
measures**

**Deadline
02.Mar.2015
23:59 CET**

| | | |
|-----|--|--|
| 41. | | |
| 42. | | |
| 43. | | |
| 44. | | |
| 45. | | |
| 46. | | |
| 47. | | |
| 48. | | |
| 49. | | |
| 50. | | |
| 51. | | |
| 52. | | |
| 53. | | |
| 54. | | |
| 55. | | |
| 56. | | |
| 57. | | |