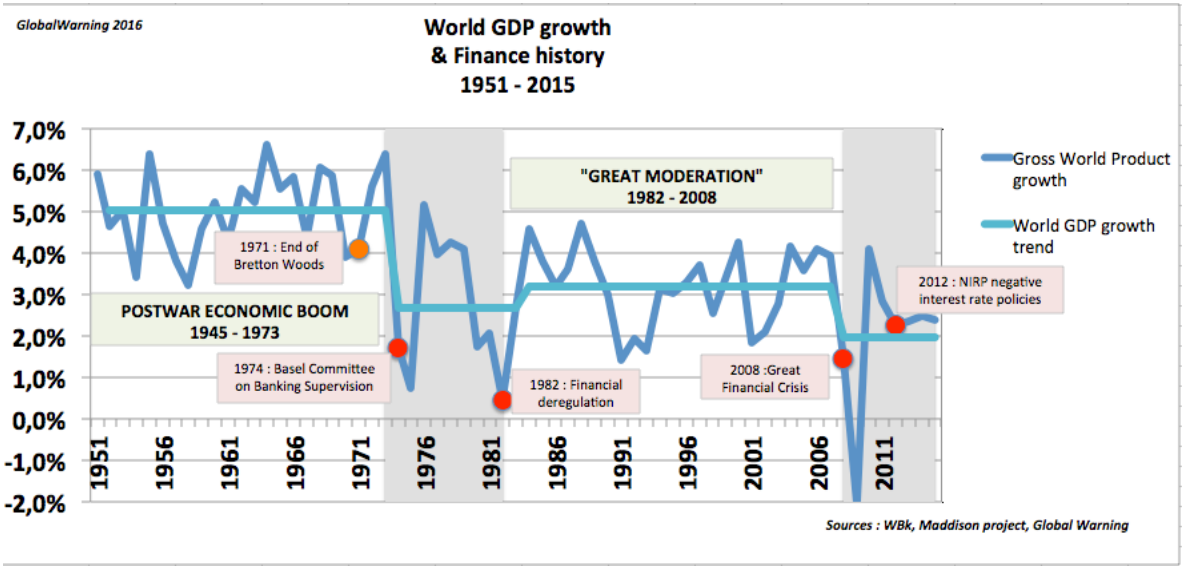
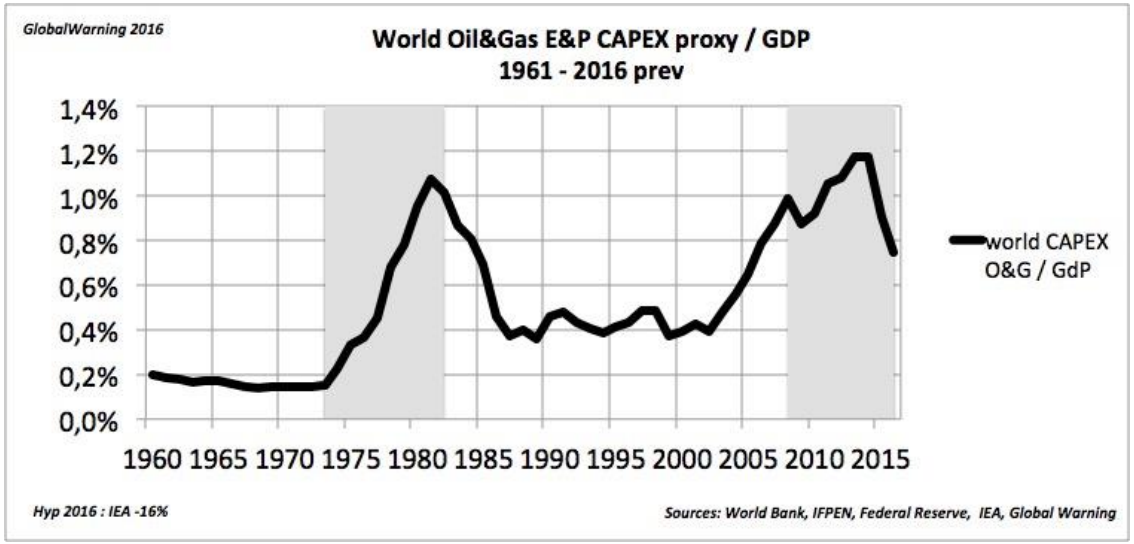
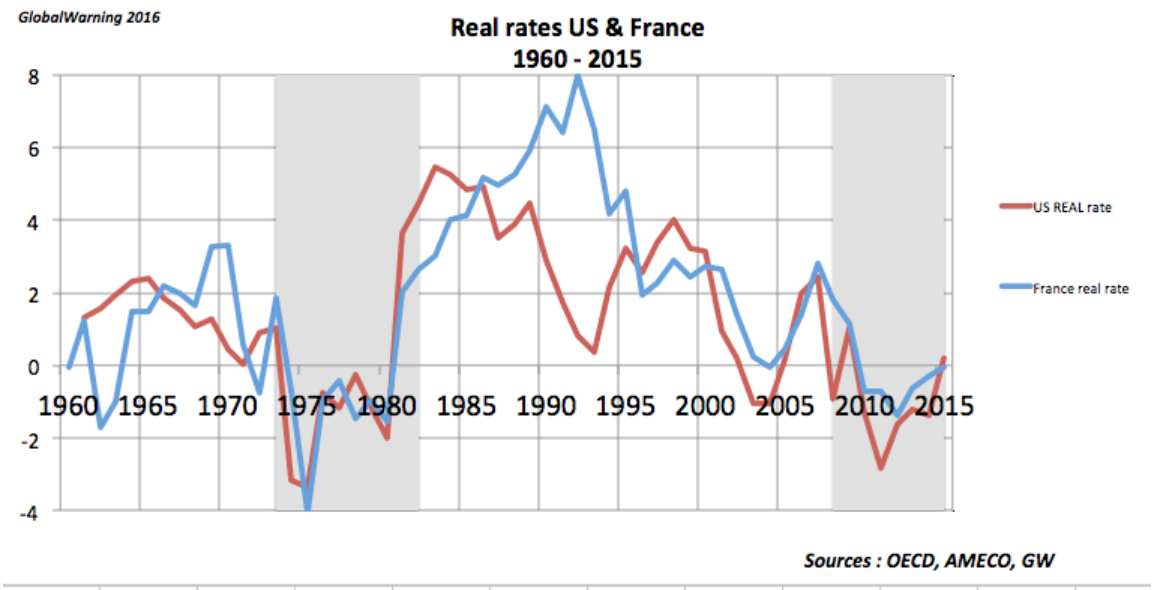
Comments Template on the Consultation Paper on the methodology to derive the UFR and its implementation		Deadline 18 July 2016 23:59 CET
Name of Company:	Global Warning	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
	Please follow the following instructions 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-16-003@eiopa.europa.eu **Our IT tool does not allow processing of any other formats.** The numbering of the paragraphs refers to on the Consultation Paper on the methodology to derive the UFR and its implementation.	
Reference	**Comment**	
General Comment	Here are so graphics of econoic history which seem to me relevant about our current weird situation of 0 real interest rates worldwide in the advanced economy.	

	Comments Template on the Consultation Paper on the methodology to derive the UFR and its implementation	Deadline 18 July 2016 23:59 CET
	1. Economic and financial history since WWII / 	

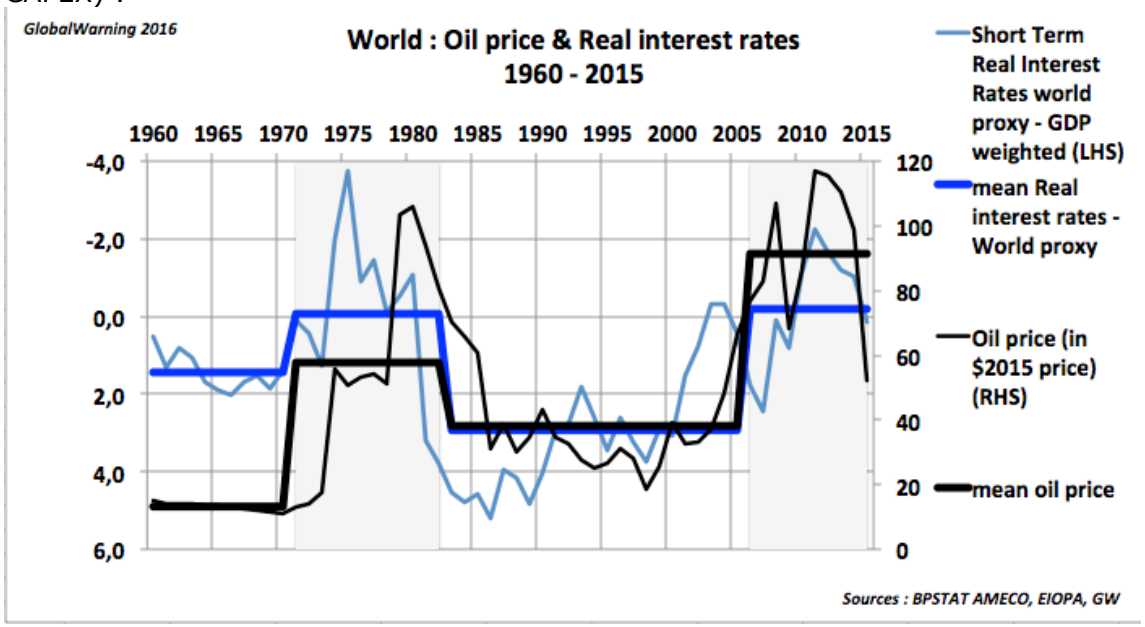
2. CAPEX Investments in Oil&GAs Exploration&Production, the « haert » of the economic engine, as it provides fuel for the « real economy ».

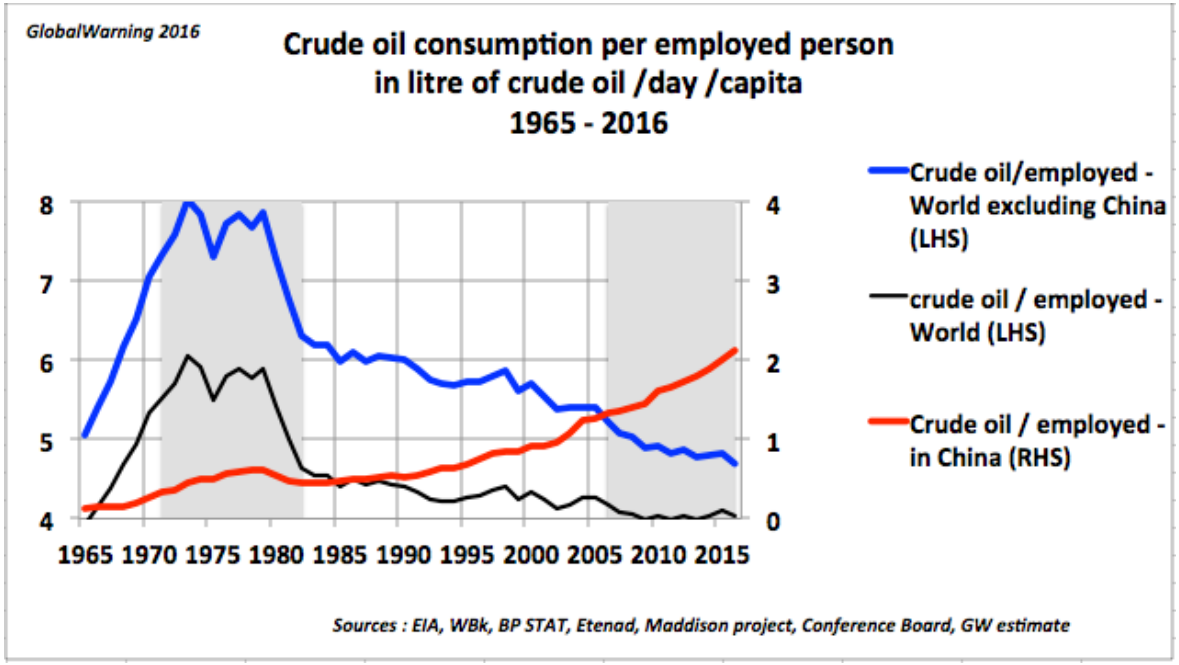


3. Real interest rates in USA and France.
Coupled economy, as most advanced economy are. Very obvious periods.



4. A corelation between real interest rates and oil prices (which triggers Oil&GAs CAPEX) :

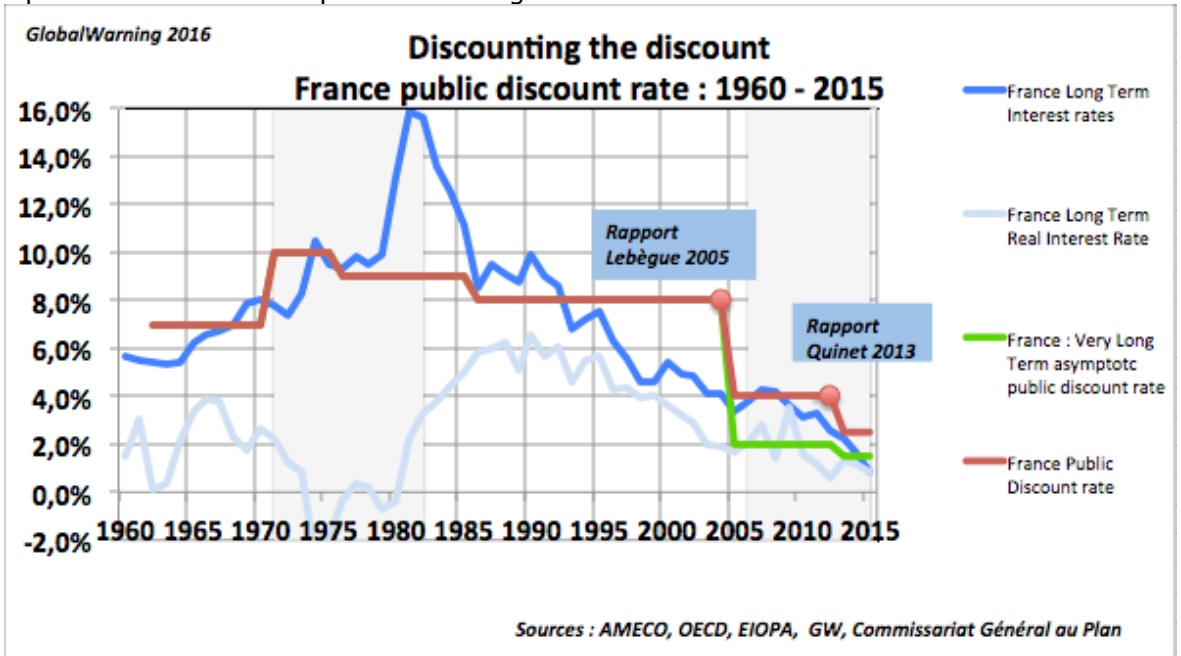


	5. CONCLUSION Advanced economy needs very low interest rates, even negative ones, in time of oil constraints : - the first oil shock - the rise of China. Here are oil consumption per worker, for China and for the rest of the world, post WWII :  	
Q1. (pg. 56)	The approach seems sound. Provided the forecast of expected real rate is sound. See §203 comment.	

	Macroeconomists have been unable to provide wise explanations about the so-called economic "secular stagnation". They have been unable to explain what is really the components of the so-called "Solow residual", which should explain 70% of long-term economic growth, when capital and labour only provide explainations for a meagre 30%. With some other macroeconomists, we suppose that the importance of energy in economic growth is strongly underestimated. As the most efficient energy carrier, oil is of crucial economic importance, far beyond its only price.	
Q2. (pg. 56)	No. At the macroeconomic level we are experiencing is a huge transition which started in the 1970s. The formula gives too much weight to the distant past, and softens the structural decrease in real interest rates. The two oil crisis period were a turning point in world history. Growth has slowly declined since that time. This has accelerated in the advanced economy since the birth of China might in the 2000s.	
Q3. (pg. 56)	The weight are much too high. The inertia parameter 0,99% is too high. To give such weight to the 70s and the "golden" sixties is irrelevant.	
Q4. (pg. 56)	By itself, economist should undertake a new analysis of inflation. High inflation was a rare global event in world economic history. It is a symptom of energy importance that such a weird period happened in the 1970s, when the world faced oil contsriants, twice. Since that transition time, inflation figures has got smaller and smaller, and unconventionnal monetary policies have been unable to revive inflation, nowhere.	
Q5. (pg. 56)	The question is not relevant if the first starting calculus is adequate. If not, and overoptimistic assumptions are made in the formula, this proposed threshold could be trigered too often.	
Q6. (pg. 56)		
Q7. (pg. 56)	It is urgent to revise the UFR, which level is in july 2016 ridiculous, from an asset owner point of view. From a liability and credit point of view, other revisions have been undertaken in many countries in order to assess what would be the « correct »	

discount rate for investments, especially public investments.

I provide here an exemple of how long term discount evolved in France :

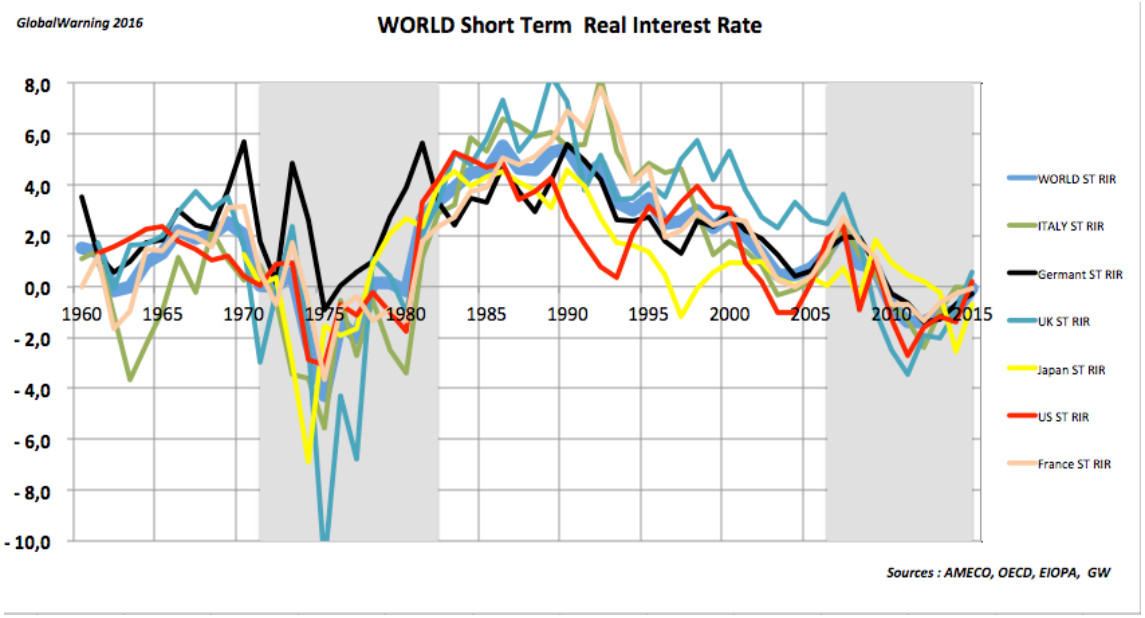


On the graph one can see France real long term interest rates, as well as France public infrastructures discount rates. On can see how both went down in unisson after the 1970-1982 period.

Paragraph 1.		
Paragraph 2.		
Paragraph 3.		

Paragraph 4.		
Paragraph 5.		
Paragraph 6.		
Paragraph 7.	The shape of the UFR provided is weird. It is even more so since EIOPA publication date. The curve at the end of the LLP (last liquid point) is meaningless. It signifies : - trust in the 2% inflation target achievement is low … - 2,2% real interest rate is just unreal. For instance, France OAT 30 ans rate is 0,9620% as of 14/07/16 Interestingly, EIOPA itself has feel obliged to propose a stress test scenario called « Low for long ». According to such a « plausible scenario » : *3. Stress test framework 3.1 Low for Long (LY)* *19 This scenario assesses the impact of a long-lasting low yield scenario with low rates for all maturities.* *20 It is based on a situation of secular stagnation. Savers facing a lack of long term investment opportunities and permanently low productivity growth - combined with a scarcity of risk free assets - drive down yields at all maturities.* *In view of this EIOPA designed a specific low curve of the risk free rate developed on the lowest spot rate observed in the market in recent periods. Due to the low-for–long nature of the scenario, the extrapolated part of the curve, defined according to the Solvency II methodology, is projected utilizing a reduced ultimate forward rate defined according to the assumption of the scenario.* *(…)* *assuming an extreme scenario of no-growth in the next 60 years for the EA, the ultimate forward rate (UFR) set at 2.0% according to the inflation target set by ECB;*	

	Comments Template on the Consultation Paper on the methodology to derive the UFR and its implementation	Deadline 18 July 2016 23:59 CET
Paragraph 8.		
Paragraph 9.		
Paragraph 10.		
Paragraph 11.		
Paragraph 12.		
Paragraph 13.	I agree. UFR should be changed as fast as long-term macroeconomic expectations.	
Paragraph 14.		
Paragraph 15.		
Paragraph 16.	I totally agree. As well as revision of discount rates, UFR should be a global warning signal, and prepare a change of mind regarding long term finance. UFR Change would have a small impact on P&C Insurance. But its effect on savings (life insurance, pensions) could be huge and help trigger a wave of investments in « useful » and « real economy » infrastructures.	
Paragraph 17.	Typo : « may result »	
Paragraph 18.		
Paragraph 19.		
Paragraph 20.		
Paragraph 21.		

Paragraph 22.	The short term interest rates look as follows :  It is obvious that the 1960 starting point is biased. The « golden » sixties were special time, as were the 1970s with the 2 oil shocks. With the recent oil schock due to China, it seems low real interest rates are here to stay. Figures for 206 should be weak once again. The difference between GT1 (1970-1982) and GT2 (2006-2016) when real interest rates have been very low is that in the first period, inflation and nominal IR where high ; when in the second period, both were low.	
Paragraph 23.		
Paragraph 24.		
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Paragraph 29.		
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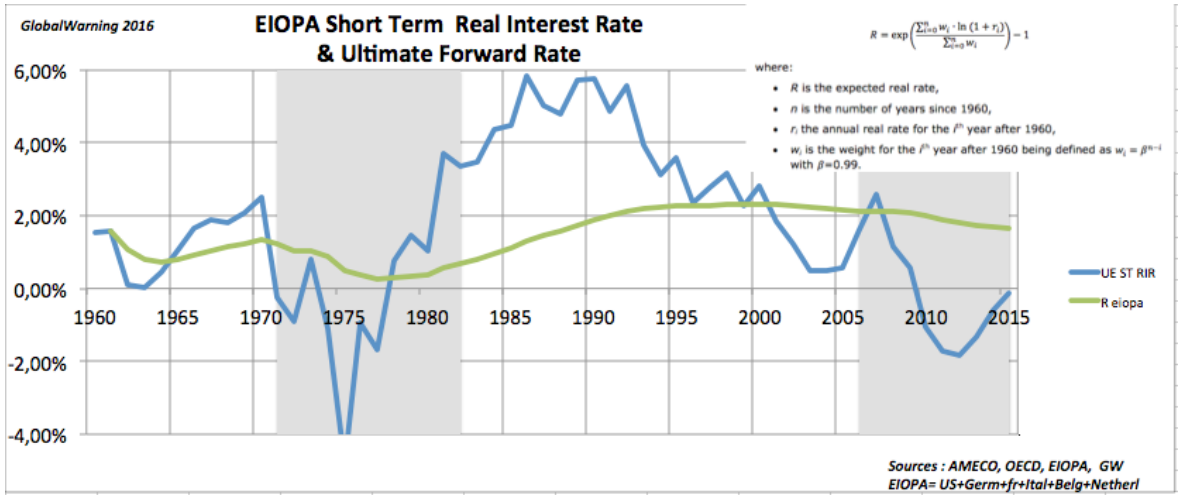
Paragraph 37.		
Paragraph 38.	It is clear from the last 40 years that forward rates provide no guidance to the level of future rates. It is the case for intrest rates as it is also true for oil price futures. Besides , macroeconomic models failure is nowaday well known and DGSE macroeconomic models (so frequent in the recent past) which forget money and credit seem weird.	
Paragraph 39.		
Paragraph 40.		
Paragraph 41.		
Paragraph 42.		
Paragraph 43.	There is no such thing as « stationnary » phenomenon since WWII. It is partly true that « *past data may include information which may not be in line with expectations because it relates to outdated markets structures or policy making* ». The world is not « stationnary » indeed, and it has physical constraints : it needs neo-physiocrats thinking !	
Paragraph 44.		
Paragraph 45.	See point $38.	
Paragraph 46.		
Paragraph 47.		
Paragraph 48.		

Paragraph 49.	Your graph (Figure 1) is biased, as it starts in 1980. Here is the complete graph of the UFR :  The low starting UFR is due to negative real interest rates in the 1970s the EIOPA proposal does not comment that, which is a weakness. This graph shows how very high RIR in the 1980s and 1990s have inertia on today rates, which will take time to get to zero with the proposed formula. And especially the 0,99% « control parameter », which « disappears » vey slowly.	
Paragraph 50.		
Paragraph 51.		
Paragraph 52.		
Paragraph 53.		
Paragraph 54.	Too much weight on historical data. Today situation is not a boom and bust cycle. It could be a structural long-term shift.	
Paragraph 55.		
Paragraph 56.		

Paragraph 57.		
Paragraph 58.	I am not sure OECD is a « public institution » ?	
Paragraph 59.		
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Paragraph 80.		
Paragraph 81.		
Paragraph 82.	AS mentioned before, the use of short term RIR is not an issue, compared to long-term RIR. Markets are unable to forecast long term trends.	
Paragraph 83.		
Paragraph 84.		

Paragraph 85.		
Paragraph 86.	The emphasis on long-term economic history is welcome. It should be done by regulators much more often. Unfortunately, the window is just that : the apex of worldwide economic growth in 1970, followed by an irregular but steady decline, now called « secular stagnation ».	
Paragraph 87.	Obvious.	
Paragraph 88.		
Paragraph 89.		
Paragraph 90.		
Paragraph 91.	The EIOPA paper mentions explicitely « all past economic cycles ». There were cycles, augmented since the financial deregulation of the 1980s. But today global trend is no cycle. In other words,secular stagnation is probably a misconception : we have in 2016 a global warning that growth rates could go negative in the no so distant future.	
Paragraph 92.		
Paragraph 93.		
Paragraph 94.		
Paragraph 95.		
Paragraph 96.		
Paragraph 97.		
Paragraph 98.		
Paragraph 99.	This window starting in 1960 is a huge bias.	
Paragraph 100.		
Paragraph 101.		
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Paragraph 120.		
Paragraph 121.		
Paragraph 122.	I see no reason for that. Energy (crude oil) volume could get lower very fast. That could trigger a lasting recession worldwide, which the UFR should take into account. EIOPA should even consider negative UFR and its impact on solvency II.	
Paragraph 123.		
Paragraph 124.		
Paragraph 125.		
Paragraph 126.		
Paragraph 127.		
Paragraph 128.		
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Paragraph 130.		
Paragraph 131.		
Paragraph 132.		

Paragraph 133.		
Paragraph 134.	The point is irrelevant. We are definetely not in a « steady state » economy !	
Paragraph 135.		
Paragraph 136.		
Paragraph 137.		
Paragraph 138.	The proposed UFR rate of 1,7%, instead of today 2,2%, is a progress. It is still far from the mark. (DNB 2013 revision was -0,9%). EIOPA could look ridiculous in a short period of time, if 2016 trends were confirmed …	
Paragraph 139.		
Paragraph 140.		
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Paragraph 179.		
Paragraph 180.		
Paragraph 181.	Fixed guarantee suppose positive economic growth. This is no longer a given. Some countries like Italy, with a very long economic history, and a brillant past, knows that « de-growth » can happen.	
Paragraph 182.		
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Paragraph 194.		
Paragraph 195.		
Paragraph 196.		
Paragraph 197.		
Paragraph 198.	I do agree with the UFR Committee that the level of 4,2% is « insufficently substanciated ».	
Paragraph 199.		
Paragraph 200.		
Paragraph 201.		
Paragraph 202.		
Paragraph 203.	This point is of utmost interest. EIOPA states that for the IAIS (International Association of Insurance Supervisor) : *Following Von Neumann (1932) and Solow (1956), the real interest rates are assumed to be equal to the economic growth in the very long-term, should the economic growth be sustainable (i.e. the economic growth equals the potential growth). The long-term economic growth relies on an economic growth forecast at 50 years.* These growth forecast are worth EIOPA attention. See « Policy challenges for the next 50 years » (OECD 2014), which content is more than challenging !	
Paragraph 204.		
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Paragraph 206.		
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Paragraph 230.		
Paragraph 231.		