| | | Deadline<br>31 August 2017<br>23:59 CET |
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| | **Comments Template on<br>Consultation Paper on EIOPA's first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation** | |
| Name of Company: | KPMG | |
| Disclosure of comments: | Please indicate if your comments should be treated as confidential: | Public |
| | Please follow the following instructions for filling in the template:<br>⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool<br>⇨ Leave the last column empty.<br>⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph or a cell, keep the row empty.<br>⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below.<br>**Please send the completed template, in Word Format, to CP-17-004@eiopa.europa.eu**<br>**Our IT tool does not allow processing of any other formats.**<br><br>**The numbering of the reference refers to the sections** of the consultation paper on EIOPA's first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation. Please indicate to which paragraph(s) your comment refers to. | |
| **Reference** | **Comment** | |
| General Comment | We appreciate the opportunity to comment on the above Consultation Paper. We have consulted with, and these comments represent the views of, the KPMG network.<br><br>We are focusing on those aspects that we consider of special importance. Please consider our silence on other questions not as an implicit agreement. | |

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| 2.4.3 | We agree with the advice that the simplified calculation could be based on homogenous risk groups in case the (re)insurance undertaking can demonstrate that there are no material compensations between policies. | |
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| 3.1 | Currently there are already measures in place to mitigate the over-reliance on external ratings, i.e. art. 4 paragraph 5. It should be clarified wether the current mitigation measures are removed, replaced or extended.<br><br>In developing the advice consistency with banking regulation should be considered. | |
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| 3.3 | **Internal measures and ratings**<br>Reducing reliance on ECAI can be achieved by allowing insurers to develop internal credit risk assessment models. This is therefore a good alternative, the alternative should however be optional and/or proportional. In this way larger (re)insurance undertakings can also use the internal credit assessments for improvement of their internal (credit) risk management, whereas undertakings with less resources do not have to bear the costs. We support EIOPA in further investigating this alternative in the second call for advice, not limited to unrated debt.<br><br>**Market implied ratings and accountancy-based measures** | |

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| | We agree that the approach of using market implied ratings could result in more volatile results. Furthermore, there is potential risk of complexity and inconsistency between (re)insurance undertakings. Multiple methods might be required for different asset classes. (Re)insurance undertakings concentrated in a specific industry or country (e.g. domestic country) could be signficantly impacted, apart from concentration risk, due to an increase in specific market spreads.<br><br>**Other alternatives**<br>In addition to alternatives, the requirement for which (re)insurance undertakings nominate one or more ECAIs, to be used for the calculation of the SCR according to the standard formula, should be revised. For plain vanilla exposures one ECAI rating can be sufficient. The use of multiple ratings results in additional expenses and conctracts, while the benefit of using multiple ratings for plain vanilla exposures is limited. | |
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| 3.4.3 | The proposed simplified approach seems not to significantly decrease the reliance on external credit ratings, which is the aim of the call for advice. The simplification will thereby not reduce the need for undertakings to have ECAI ratings and corresponding contracts and expenses.<br><br>In case implemented, the type of exposures that are in scope for simplification and requirements should be further clarified and specified, e.g. is the application limited to an exposure amount. There may be asset classes for which the use of simplifications is less appropriate than for others.<br><br>With regard to the internal credit assessments, we support EIOPA in further investigating this alternative in a later stage, not limited to unrated debt. | |
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| 4.3 | We encourage EIOPA to set up a public database, harmonized or combined with EBA, listing all the regional governments and local authorities within the Union which relevant competent authorities treat as exposures to their central governments. However, the list should not be closing and it should be regularly checked if new entries may be nessecary. | |
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| 4.4.3 | We agree with EIOPAs advice. We encourage EIOPA to continuously seek for consistency with the banking regulation with regard to the treatment of RGLA guarantees and exposures guaranteed by a third party by aligning the list of RGLAs in Commission Implementing Regulation (EU) 2015/201 and the list from the banking framework. This will lead to the treatment of the respective guarantees being treated as guarantees issued by the member states central governments of the jurisdiction in which they are established.<br>We also aggree with the suggestions as regards the intermediate treatment for « non-listed « RGLA, the treatment of guarantees from member states central governments an RGLA on type 2 mortgage loans and the treatment of partial guarantees (leading i.a. to the regocnition of Nationale Hypotheek Garantie (NHG) as an eligible guarantee as if it were guaranteed by the central government). | |
| 4.4.4 | We agree with the proposed changes of the Delegated Regulation.<br>However, we suppose that EIOPA should also pay attention to a possible extension of the provision of art. 180 paragraph 10 on guaranteed type 1 securitisation positions : Currently the stress release to 0% is only applicable on guarantees provided by the European Investment Fund or the European Investment Bank. Economically guarantees by other institutions or non –EEA central governments and central banks may lead not to an identical but a very similar risk reduction effect ; so one might wonder if a reduced (even if not 0%) is appropriate in these cases too. | |
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| 5.3 | In the context of feedback statement on the main comments we would have expected that answers respectively advices are included, e.g. to the comments mentioned in par. 233 and 235.<br>paragraph 251 : « ADT » should be « ADC »<br>paragraph 264 : Could EIOPA give more detailed guidance than « Adjustments to the data are possible » ? What kind of adjustments are allowed, particularly when there is a lack of historical data experience with the ADC in place ? | |
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| 6.3 | Several respondents emphasize the need for a specific mandate for the application of look-through. We do not necessarily agree with this. As long as the actual risk exposure is clear, look-through can be applied. The criterion should be whether the risk is equal to the risk in a direct investment in the underlying exposure. However, even if theoretically the best solution, the application of look-through approach should not be made mandatory in any case (materiality reasons may be an argument against applying the look-through approach).<br><br>We agree that the existence of leverage is not necessarily a problem for the application of look-through. | |
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| 6.4.3 | In principle, we agree with the advice as from an economic/risk view the look-through approach is always the theoretically best solution. However, in our view there are several points which should be considered : | |

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| | - With respect to the investment mandate, we recognise the benefit of a specific mandate. However, we think look-through should also be applied when the investments are clearly identifiable, i.e. when the risk exposure is clear, in the absence of a mandate.<br>- It is not clear to us how to approach an investment vehicle that has an investment mandate from more than one insurance company. We would appreciate further guidance on this.<br>- It may be good to provide a backup option when the underlying information is not available. The objective should be to come to a more realiable risk estimate without excessive increase of the administration costs for the undertakings concerned. | |
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| 7.3 | On paragraph 384, we agree with the assessment that expert judgement should not be applied to missing data, but only to adjust existing data.<br><br>On paragraph 390, we challenge the reasons given for not further assessing method c&d from paragraph 386. In principle, making the trends and cycles explicit in the modelling will improve modelling quality. Although this indeed requires a long set of data, allowing undertakings to choose from such models, provides an opportunity to better align the parameters with the undertaking. We do agree with the observation from 387 that increasing the number of models to choose from, also increases the burden for undertakings to explain which model is most appropriate for them. Therefore we would propose to further assess these methods to balance the pros and cons.<br><br>On paragraph 404, we challenge the rejection of the country specific shocks on mortality on the reasoning given. Different countries have different life expectancies, different health care systems and in general life expectancies and mortality rates might be more or less volatile. We suggest to research whether mortality and longevity risks are equal over countries or not and then decide whether country specific shocks are required. | |

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| 7.4.3 | On paragraph 449, the list of risks for which stakeholders have proposed methods, is incomplete. Stakeholders have also proposed the possibility to develop standardized methods for natural catastrophe risk (see paragraph 397-399). For both natural catastrophe risk and mortality/longevity risk, it was earlier stated that methods for USP may be considered at a later stage (paragraph 399 and 403 respectively). We propose to rephrase the advice in paragraph 449 such as to reflect the fact that further work is currently on-going regarding the calibration of mortality and longevity risk and regarding natural catastrophe risk, rather than stating that the methods have been assessed as not being appropriate. | |
| 7.4.4 | Following equation (7) from the derivation in paragraph 438, the term "2(b_2-b_1)(mu_2-mu_1)" in the formula for NP' should read "2(b_2-b_1)(mu_2-mu)" in sub 5) of the new article. | |
| 8.1 | We support the continued use of IAS 12 as a basis for recognising and valuing deferred tax assets and liabilites in SII.<br><br>We consider there are adequate safeguards in IAS 12 to prevent inappropriate DTA valuations. IAS 12 (and the supporting Basis for Conclusions, last updated in January 2016) gives some guidance on recovering assets for more than their carrying value which may be relevant when forcasting future investment yields.  We suggest that EIOPA should seek to rely on the work of the IASB in this respect.<br><br>Retaining the link to IAS 12 helps ensure quality and consistency as it builds on rules familiar to insurance undertakings, their tax departments and auditors.  It also avoids the need for EIOPA to have their own detailed rules on tax. Departing from IAS 12 and applying a new simplified approach could mean that there is no guidance capable of dealing adequately with complex cases. EIOPA's role should be limited to providing guidance on how IAS 12 should be interpreted and applied in a SII context. | |

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| | EIOPA have found that 75 % of LACDT is supported by DTLs. We expect that this figure will change in future due to a number of factors including the implementation of IFRS 17; the run-off of DTLs relating to SII transitional provisions and greater focus on modelling of future profits. | |
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| 8.5.2 | Carry back of tax losses – it may remove confusion if the SII Regulations or Guidance made clear that the instantaneous shock loss takes place immediately after the balance sheet date (as opposed to on the balance sheet date). | |
| 8.5.3 | We consider that it may only be necessary to demonstrate future compliance with the MCR/SCR if future new business is to be used to support LACDT. A poorly capitalised company closed to new business and in run off can remain a going concern and have taxable profits. | |
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| 8.5.3.2 | paragraph 534 : We consider it consistent with the economic principles of the SII balance sheet that DTAs are valued. IAS 12 offers the best available framework for arriving at a reasonable approximation of an economic value for DTAs. This economic view implies that DTAs can be supported by reference to future new business (provided that the profits can be evidenced to the standard required by IAS 12). We do not consider this to be inconsistent with the valuation principles of SII (similarly, no one argues that IFRS DTAs are inconsistent with the valulation basis applying to the rest of the IFRS balance sheet).<br><br>paragraph 535 et sqq.: We agree that it is appropriate to distinguish between the time horizon over which new business is forecast and the time horizon over which profits emerge.<br><br>We consider averaging or haircuts may be a practical and pragmatic way to simplify the calculation in many cases (but this should be subject to a derogation so that different approaches could be applied where appropriate).<br><br>We want to put emphasis on the fact that IAS 12 principally allows for longer horizons for projecting future profits to text recoverability ; this is especially true for jurisdictions in which there is no time limit for using loss carry forwards. | |
| 8.5.3.3 | paragraph 547: We do not agree with the argument that future assets returns should not be taken into account as future profits. Consider a simple case where a risk free asset of euro 1000 representing excess capital was held and the yield was 1 %. There would be taxable income of 10 per year. This income can support a DTA and there is no inconsistency with the SII balance sheet or valuation basis.<br><br>We believe that the yield applied to assets when forecasting future profits should be consistent with the post-stress scenario (so, for example, the risk free rate may be higher or lower than pre-stress). The explanatory notes to the EIOPA Guidelines on tax state that it should be assumed that an asset cannot be recovered for more than its carrying value. This is inconsistent with IAS 12 and reality. For example, consider a Government bond with coupon rate of 1 % and say the market | |

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| | risk free interest rate was 1.5 %. The market value of that bond would be below its par value. But it would be clear that the bond could be sold or redeemed, in future, at more than its current fair value. In some jurisdictions, these future increases in fair vlaue would be taxable profit. Thus the post-stress yield currve, not the coupon rate should be used when forecasting taxlabe proftis. We suggest the Guidiedlines are modified to bring them into line with IAS 12.<br><br>paragraph 556: We wish to clarify the meaning of the statement that none of the NSAs consider the risk margin as a source of future profit. We understand that the paragraph is referring to forecast future releases of risk margin and that some NSA’s accept that such releases can be used to support the DTA on the risk margin itself. Furthermore, if such releases are used for that purpose they cannot be used to support any other DTA.<br><br>We note that the new IFRS 17 includes a risk adjustment which has some similarites to the SII risk margin. In jurisdictions where taxable profits are based on IFRS profits, part of the SII risk margin will case to be a temporary difference.<br><br>paragraph 558 : We do not agree with the argument that the risk margin is a permanent difference and does not give rise to DTAs. This is because IAS 12 requires an assumption to be made that all assets and liabilities are settled at their balance sheet value (IAS 12 paragraph 10). Thus, there is a temporary difference and hence potentially a DTA. | |
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