	Comments Template on Consultation Paper on EIOPA's second set of advice to the European Commission on specific items in the Solvency II Delegated Regulation	Deadline 5 January 2018 23:59 CET
Name of Company:	KPMG	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
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Reference	**Comment**	
General Comment		
Introduction		
1.1		
1.1.1	<u>Par. 20:</u> We suggest to formulate criteria for when a recalibration is necessary. In this case, we do not understand why EIOPA has chosen less than 100 valid data points from undertakings or less than 20 countries as leading for a necessary recalibration of parameters.	

1.2.1		
1.2.2	Par. 29: It is not clear when the data is not considered sufficiently reliable. Although in par. 28 some examples are mentioned there are no criteria. To define criteria on this may help to communicate the results of the recalibration.	
1.2.3		
1.2.4	Par. 44: In 1.2.3 it is shown that the new sample is better than the 2011 JWG sample. However the gross-to-net ratio of JWG is considered to derive a final figure. We do not understand why JWG is considered sufficient for the use of this ratio.	
1.3		
1.3.1		
1.3.2	Par. 52: The automated elimination of outliers leads to less volatility in the outcomes. Especially given the 3 times automated elimination we think it would be good to disclose how many outliers were eliminated per group.	
1.3.3		
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1.4.2		
2.1		
2.2	Par. 79: Recital (45) – A further explanation of the difference between 'future earned premiums' and 'expected premiums' could be helpful.	
2.3	Par. 84: The explanation provided for the need of further adjustments to the calculation of the volume measure in addition to the correction of the gap might be misleading: At least a material	

	increase of the non-life underwriting risk SCR as a consequence of correcting the gap is not an argument against the consistency with the one year view assumption as such.	
2.4.1		
2.4.2	The identified gap contains either expected risk and unexpected risk 1 & 2 or expected risk and unexpexted risk 1. The introduction and calibration of an Aplha is adding complexity as well as parameter uncertainty. Could the introduction of a seprate variable e.g. FP (future < 12 months, s) align the gap and keep the one year view in a more appropriate way?	
2.4.3		
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3.3	Model risk is mitigated in the analysis by using both the Lee-Carter and the CBD model and taking the averages over the outcoming weights. Parameter risk is mentioned, but is assumed to be taken into account via the two models and the seven datasets. We believe that the parameter risk still exists. Theoretically, the combination could still result in a significant overestimation or underestimation of the uncertainty in the longevity risk.	
3.4.1		
3.4.2	— The data period 1985-2013/2014/2015 is selected (with the exception for Germany for which 1990 onwards is used), the selected countries are rather different of nature, and the ages 40-90 are used. We are missing the rationale for this selection. — Furthermore, in the analysis it is mentioned that the Solvency II Directive prescribes that mortality and longevity risks should reflect the risk of loss. The sensitivitiy of this risk of loss typically depends on the composition of the portfolio (younger or older participants). Based on the graph on page 56 the shock around the age of 60 (25% for mortality and 20% for longevity) are considered representative for the entire population. For younger participants this shock will underestimate the 99,5% percentile and for older participants this will an overestimate. There may be different choices than to use the point of age 60 as the benchmark, and using only one age may give incorrect results for insurers with a particularly young/old portfolio.	

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3.4.3		
4.1	Par. 258: it is stated that the 10 year scenario is "deleted". See our comment on 4.5.3.	
4.2		
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4.4		
4.5.1		
4.5.2	Par. 273: it is stated that the 10 year scenario is "deleted". See our comment on 4.5.3.	
4.5.3	- In par. 282 and 283 it is stated that the 10 year scenario is "deleted". However, "moved to the 1 year and permanent scenario" would be a better description as the calibrated percentage for the 1 year scenario increases from 5% to 16.5% and the permanent disability from 1.5% to 3.5%. - In par. 283, 2nd bullet, it is stated "retain 3.5 % for the permanent disability scenario". We would suggest to replace "retain" by "increase" as the percentage increases from 1.5%. - What is the rationale behind the increase to 3.5%? Now it is in line (and even higher than) the WTC percentage, but in the former calibration a deviation from WTC was not needed?	
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5.4.2.3	We support the advice to allow for a simplified approach.We would recommend to provide additonial guidance on how to apply the proposed simplification. At this moment, it is not clear ho to derive the potential loss from the top-5 exposure for each risk type. Do only these need to be considered?	
5.5.1		

5.5.2.1		
5.5.2.2		
5.5.2.3	We agree with the proposed change.	
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5.7.1		
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5.7.2.3	We agree with the proposed change.	
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6.3.3.3	Agree with option 5, in favour of formulation 1.	
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6.4.3.1		
6.4.3.2	We support the approach to investigate the calibrations of the risk zone weights and the new country specific scenarios.	
6.4.3.3		
6.5.1		
6.5.2	We agree that a complete re-design of the SF approach to take into account differences in contractual limits would make the calculation disproportionally complicated.	
6.5.3.1		
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17.1	Par. 1266: We agree that proportionality is important and should apply to LACDT in the same was as it applies to certain other aspects of the Solvency II balance sheet and SCR.	
17.2		
17.3		
17.4.1		
17.4.2	Par. 1286: The paper states that DTA can be justified by reference to reversing DTLs and future fiscal profits. In addition, a DTA in respect of a temporary difference between the Solvency II and fiscal balance sheets can be justified by reference to the reversal of such DTAs (if they are more likely than not to reverse). In other words, if future Solvency II profits are likely to be earned which will not be taxable, a DTA can be supported. Economically, the DTA is the value placed on the ability to make tax free profits in future. Another perspective is to say that the DTA could reverse either by way of tax base aligning with SII base, or the SII base aligning with the tax base – only one of these would impact cash tax payable. Par. 1300: It is suggested that new business profits may be reduced by reference to the extent of	

| | compliance with MCR and SCR. Elsewhere, it is suggested that future profits of new business should be reduced to a fixed percentage, e.g. to 50%, of the pre stress level. It is not clear if it will always be appropriate to apply both restrictions at the same time. Clarity may be needed on whether it is volume or rate of profitability of new business which is expected to reduce. For some types of business, volumes may fall post a shock event but profitability as a percentage of premiums may increase. Overall, profitability might go up or down. It may be appropriate to have a rebuttable presumption that volumes fall if capital is scarce. The rate of profitability should be considered separately.
Par. 1317: If a 50% threshold is introduced, we agree that is appropriate to allow a higher figure if there is a good justification for it. If a threshold is set, it would be helpful if it were clear that it was a presumption which could ordinarily be relied upon (so only in exceptional cases, if it were clear that 50% were unrealistic, would an amount lower than the threshold be used).
Par. 1325: We agree that, as a practical matter, a 5 year limit may be appropriate in many cases. However, IAS 12 does not place a specific time limit and, in some cases, companies can rely on more than 5 years for DTA recognition under IFRS. Therefore, we would prefer the assumption that 5 years is the maximum to be capable of being rebutted if there is a good justification for this. In particular, if guidance only applied to Standard Formula firms, the ability to rebut this assumption may help keep a level playing field with Internal Model companies.
Par. 1333: If there is good justification, we consider that it may be appropriate to assume a yield in excess of the risk free rate. For example a professionally-managed and well-diversified portfolio of equities is more likely than not to yield more than the risk free rate (if not, why would insurance companies hold equities?). IAS 12 refers to probable returns not risk free returns. Use of the post-stress risk free rate may be an appropriate simplification with a higher figure used only if there is a good justification for this. Under the standard formula, the appropriate post stress risk free rate may be the one which is consistent with the contribution that the relevant market modules or sub-modules make to the BSCR (this wording is intended to echo the wording at article 207(5) of the SII Regulation).
Par. 1334: We consider that using the post-shock interest rate is more logical and consistent than using the pre-shock interest rate. We do not necessarily agree that the type of hedging EIOPA mentions in 1334 (i.e. hedging designed to manipulate LACDT) is a material concern. The pre-tax | |

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	impact of such hedging would normally be larger than the tax impact and the pre-tax impact may also impact the BSCR. Par. 1365: We suggest that any requirement for published disclosure be modelled on the requirement in IAS12. Thus any existing guidance from the IASB or accounting firms may then be relevant.	
17.4.3		
18.1	-	
18.2	-	
18.3	In the assessment of the first stakeholders proposal (The CoC rate should be fixed at the level that corresponds to current market conditions) it is argued that this proposal does not ensure that the risk margin is sufficient where liabilities run off over a longer time period that includes market condition different from current conditions. Although we can agree with that statement, we are not convinced the current and final proposed methodology will ensure this. So, it would be good to address that aspect and explain why the current methodology is nevertheless appropriate.	
18.4.1	-	
18.4.2	-	
18.4.3	EIOPA's advice to calculate the ERP is to use historic return models. This is mainly based on the argument that forward looking models, such as dividend discount models have volatile results that heaviliy depend on assumptions made. Allthough we acknowledge these shortcomings of forward looking models, solely basing ERP on historic returns has limited forward-looking value. We suggest considering to incorporate both outcomes (in the form of some sort of weighted average) to include forward looking elements, but limit the volatility and assumption dependence of forward looking models. More in general, it might be considered to formalise the process of calculating the CoC, so that the outcome is reperformable and predictable. For this, a clear set of rules regarding input, methodologies, rounding, update frequencies, etc needs to be determined. Furthermore, to prevent too sudden changes in the level of the risk margin (and thus cause undesired volatility in	

	financial statements) it might be considered to also incorporate a set of rules that capture maximum movements in CoC rates per update. However, formalising the process as described above should not change the fact that a fix CoC rate is published as part of the delegated regulation.	
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19.4.3	Par. 1477: It is stated here that further write down should be required upon worsening of the SCR ratio. We ask EIOPA to develop advice regarding the situation in which the SCR ratio improves.	
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