	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:	The Swedish Society of Actuaries		
Disclosure of comments:	Please indicate if your comments should be treated as confidential: Public	Public	

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Reference	**Comment**	
General Comment	• We welcome that the proposed methodology to derive the UFR is transparent and that it provides the calculation of a stable and predictable UFR. • We believe that the current UFR of 4.2% should be kept until the Solvency II standard formula has been reviewed. In particular, it must be ensured that the methodology and assumptions underpinning the discount rate is not changed elsewhere. • It is in our view inappropriate to round the inflation target. The reason for this is that the inflation target is normally an important assumption for modelling inflation rates in cash flow projections used in the calculation of technical	

	provisions. From a valuation point of view, it is inconsistent to round or adjust the inflation target in the UFR but allowing for it elsewhere in the calculation of technical provisions. Therefore, the expected inflation in UFR should be based on unadjusted currency specific inflation. The same argument can be used against limiting the annual change in UFR, which is likely to be driven by a change in the inflation target. However, we believe that a stabilized UFR is a more important objective and agree with the proposed limit to the annual change of the UFR of 20 bps in this regard.	
Q1. (pg. 56)	• We believe there is a risk that a general European UFR will not be proper for small countries. We find it important that not only expected inflation but also the real interest rates can be country specific. This could be achieved by letting the national FSA decide whether the default UFR from EIOPA is suitable in their country and else calculate an UFR by the same method (i.e. using a similar time period and type of averaging), but based on national data.	
Q2. (pg. 56)	• We believe that the widening window approach, i.e. to fix the start date and using weights for averaging real rates, is unnecessarily complicated as there are no evidences that the inclusion of past economic cycles from 1960 is most appropriate for calculating an UFR. We think that a rolling window approach using 50 years' worth of data and equal weights would take both of the desired goals, i.e. stability in the UFR and the representativeness of the time period used, into account in a more simple and transparent way.	
Q3. (pg. 56)	• We believe that a rolling window approach using 50 years' worth of data and equal weights should be used (see Q2).	
Q4. (pg. 56)	• It is in our view inappropriate to use inflation buckets for the expected inflation rate. The reason for this is that the inflation target is normally an important assumption for modelling inflation rates in cash flow projections used in the calculation of technical provisions. From a valuation point of view, it is inconsistent to adjust the inflation target in the UFR but allowing for it elsewhere in the calculation of technical provisions. Therefore, the expected inflation in the UFR should be based on unadjusted currency specific inflation targets.	

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Q5. (pg. 56)	• Although this may imply the inconsistent use of economic assumptions in the cash flow projection and the discount rate, we believe that a stabilized UFR is a more important objective and agree therefore with the proposed approach.	
Q6. (pg. 56)	• We agree with the proposed approach, although we do not believe rounding is particular needed due to the small volatility in expected real rates.	
Q7. (pg. 56)	• Firstly, we believe that a revised methodology for UFR should be implemented first after it can be ensured that the discount rate will not be changed otherwise in the near future. We believe therefore that the current UFR of 4.2% should be kept until the Solvency II standard formula has been reviewed. • Secondly, provided that the timing of introducing a new UFR is right, we agree that the proposed implementation of the methodology according to option 2 is appropriate.	
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