IRSG

Frankfurt, 10 February 2015

Draft Pillar 1 GL/ITS

Purpose of today

- To share with all IRSG members preliminary comments developed by members of the Pillar 1 working sub-group.
- Similarly to initiate dialogue with relevant EIOPA technical staff
- [Sub-group members to add comments as they wish]
- To stimulate and invite comments from the wider IRSG membership for inclusion in formal IRSG response in advance of deadline of 2 March.

Pillar 1 Guidelines / ITS

- EIOPA-CP-14-043 GL on Valuation assets and liabilities
- EIOPA-CP-14-049 GL on long term guarantee
- EIOPA-CP-14-057 ITS on regional governments and local authorities treated as exposures
- EIOPA-CP-14-058 ITS on equity index for the equity dampener
- EIOPA-CP-14-059 ITS on adjustment for pegged currencies
- EIOPA-CP-14-060 ITS on health risk equalisation systems standard deviations
- EIOPA-CP-14-061 ITS on the application of the equity transitional

Headline comments

- Generally the guidelines and ITS do not involve potentially controversial issues of principle and are necessary to assure a harmonised implementation of Solvency II
- The guidelines/ITS address complex matters which may or may not be material for any particular firm – firms should be encouraged to apply proportionality judgments.
- Markets can swamp policy (e.g. currency pegs) and the associated risks should not be lost sight of – this is a broader matter than the guidelines/ITS.

14-043 GL on Valuation of assets and liabilities

- The guidelines state or at least imply that only IFRS should always be used for Solvency II – however the Delegated Acts make clear (*Article 9(4)*) that alternative valuation methods (eg local GAAP) are acceptable under proportionality principle. This needs to be reflected in the Guidelines.

14-043 GL on Valuation of assets and liabilities

- Guideline 3
- This is discursive and might usefully be abbreviated with the discussion being transferred to supporting explanatory text.
- Guideline 10:
- is this really acceptable as it may form a basis to further limit the contribution of DTA’s to the capital position? [Suggest delete ‘at a minimum’]

14-049 GL on long term guarantee

- Guidelines 4 and 5:
- The EIOPA stated intention is to avoid deducting twice the Risk Margin (RM) when calculating SCR Operational risk and MCR and we agree with the rationale for this. However their formula is too conservative, instead we suggest to deduct (1-a) RM where ‘a’ corresponds to the portion of transitional deduction (Article 308d of the Directive).

14-049 GL on long term guarantee

- Guideline 7:
- The guideline correctly does not require companies to take into consideration spread risk in the calculation of the risk margin. However, the guidelines states that the capital projections used to calculate the RM should be determined without taking into account the LTG measures the company uses for the SCR calculations. This can significantly increase the RM and potentially goes beyond the Directive and Delegated Acts (article 38) where no requirement is specified. To further support this argument
  - It is important to note that the OII package was negotiated and approved based on the outcome of the LTG Assessment where LTG measures were taken into account in the RM calculation.
  - In their own reporting requirements in Technical Provisions Template XXXX – EIOPA asks for the allocation of the LTG measures impact on the Risk Margin – indicating they are applied to the Risk Margin calculation.

14-057 ITS on regional governments and local authorities treated as exposures

- A number of countries are missing from the list, for example: France, Italy, Switzerland and Norway. The ITS does caveat that the "list of regional governments and local authorities will be finalised in due course depending on the timely provision of additional information from Member States" but it is not clear if we will be able to review the final list before the ITS is adopted
- The analysis should be extended to regional governments and local authorities in third countries. Neither Article 109a (2) (a) of the Directive or Article 85 of the Delegated Acts restrict the application to Member States or to the EEA.
- Should there be some provision for occasional review in the light of market developments?

14-058 ITS on equity index for the equity dampener

- There is no indication of how the symmetric adjustment will be calibrated for Type 2 equities.
- The explanation for the calibration weights should be included in a Technical Annex for transparency reasons - this is now included only in the Impact Assessment.
- Do weights change prospectively? Implication of technical annex is that they do but not clear how or how frequently?

14-059 ITS on adjustment for pegged currencies

- No transparency over data source and methodology - The source of data and the type of exchange rate (Bid/Ask, valuation time) used to calculate the adjusted factors for currency risk should be provided in a Technical annex

14-060 ITS on health risk equalisation systems standard deviations

- There is no transparency in how the standard deviations for premium and reserve risk are derived.
- The details of the calculation and any adjustments which have been made should be disclosed in a Technical Annex. The Impact Assessment indicates that the Dutch Central Bank (DNB) left out the year 2013 in the use of data – why was this the case?
- There appears to be an inconsistency between the calibrations for pan-European and business subject to HRES parameters.
- Even though the methodology is the same, the distributions are different (normal for pan-Euro, log-normal for business) and it should be understood why for clarity.

14-061 ITS on the application of the equity transitional

- The ITS should make clear that, as permitted under the Delegated Acts (*Article 84(3)*), Undertakings are allowed to use approximations, such as the asset allocation, to identify indirect Type 1 equity exposures in collective investment funds in order to meet the “look-through” requirements.
- The purchasing date of equities from third-party asset managers may not be readily available; as it may be that the equities were purchased far into the past, estimates should therefore be permitted

Next steps (suggested)

- Digest today's discussion
- Consider whether there would be value in a conference call discussion with EIOPA technical experts.
- IRSG members to offer comments until 20 February
- Final submission to be circulated for IRSG approval under written procedure in advance of 2 March