EUROPEAN INSURANCE
AND OCCUPATIONAL PENSIONS AUTHORITY

12 June 2014

Errata to the Technical Specifications for the Preparatory Phase

Version of 30 April 2014

	Reference	Wording in Technical Specifications	Corrected Wording
1	TS (II) - 1.2.2.1	The adjustment has been determined on the basis of the difference between rates capturing the credit risk reflected in the floating rate of interest rate swaps and overnight indexed swap rates of the same maturity, where both rates are available from deep, liquid and transparent financial markets. The calculation of the adjustment has been based on 50 percent of the average of that difference over a time period of one year. Where necessary The adjustment is subject to a cap and a floor to ensure that it is not lower than 10 basis points or higher than 35 basis points.See Appendix DC1 for further details on the adjustments applied for the different reference dates.	The adjustment has been determined on the basis of the difference between rates capturing the credit risk reflected in the floating rate of interest rate swaps and overnight indexed swap rates of the same maturity, where both rates are available from deep, liquid and transparent financial markets. The calculation of the adjustment has been based on 50 percent of the average of that difference over a time period of one year. Where necessary The adjustment is subject to a cap and a floor to ensure that it is not lower than 10 basis points or higher than 35 basis points.~~See Appendix DC1 for further details on the adjustments applied for the different reference dates.~~
2	TS (II) - 1.2.2.2	For the purposes of the preparatory phase, the Credit Risk Adjustment for government bonds at the various reference dates are as set out in Appendix DC1.	For the purposes of the preparatory phase, the Credit Risk Adjustment for government bonds at the various reference dates are **not provided. However, EIOPA will provide CRA values as part of the technical information mentioned in Article 77e of Directive**

			2009/138/EC.
3	TS (II) - 1.3.1	For the purpose of the preparatory phase, EIOPA has provided the relevant risk free curves including Volatility Adjustment for major currencies. These curves were determined as follows: • Basic risk-free curves were constructed according to the methodology set out in section 1.2 above; • The Volatility Adjustment for each major currency (and country, where relevant) was calculated using the reference portfolios and formulae set out in Appendix VA1 and the Fundamental Spreads set out in Appendix DC1; • The Volatility Adjustment was added to the zero coupon spot rates of the basic risk-free curve in the liquid part of the curve only (i.e. only until the LLP); • The resulting rates were input to the Smith-Wilson extrapolation model again to produce the full zero-coupon curves of the relevant risk-free rate including Volatility Adjustment.	For the purpose of the preparatory phase, EIOPA has provided the relevant risk free curves including Volatility Adjustment for major currencies. These curves were determined as follows: • Basic risk-free curves were constructed according to the methodology set out in section 1.2 above; • ~~The Volatility Adjustment for each major currency (and country, where relevant) was calculated using the reference portfolios and formulae set out in Appendix VA1 and the Fundamental Spreads set out in Appendix DC1;~~ • The Volatility Adjustment was added to the zero coupon spot rates of the basic risk-free curve in the liquid part of the curve only (i.e. only until the LLP); • The resulting rates were input to the Smith-Wilson extrapolation model again to produce the full zero-coupon curves of the relevant risk-free rate including Volatility Adjustment.

4	TS (II) - 1.5.5.2	The fundamental spreads for each asset class, rating and duration have been provided by EIOPA (see Appendix FS1and DC1 for more detail).	The fundamental spreads for each asset class, rating and duration **will be** provided by EIOPA, **as part of the technical information mentioned in Article 77e of Directive 2009/138/EC.**
5	TS (II) - 1.5.5.4	The 'expected cash-flow' of an asset means the cash-flow of the asset adjusted to allow for either: (a) the probability of default of the asset that corresponds to the element of the fundamental spread set out in Appendix DC1, or (b) where no reliable credit spread can be derived from the default statistics, as per paragraph FS.2 of Appendix FS1, the probability of default of the asset that corresponds to the entirety of the fundamental spread.	The 'expected cash-flow' of an asset means the cash-flow of the asset adjusted to allow for either: (c) the probability of default of the asset that corresponds to the element of the fundamental spread ~~set out in Appendix DC1,~~ or (d) where no reliable credit spread can be derived from the default statistics, as per paragraph FS.2 of Appendix FS1, the probability of default of the asset that corresponds to the entirety of the fundamental spread.
6	TS (II) - Appendix VA1	The spread referred to in the previous paragraph should be corrected to remove the portion of that spread that is attributable to a realistic assessment of expected losses, unexpected credit risk or any other risks, of the assets. This portion has been calculated in the same manner as the Fundamental Spread for the matching adjustment. The Fundamental Spreads for each asset class, credit quality and duration	The spread referred to in the previous paragraph should be corrected to remove the portion of that spread that is attributable to a realistic assessment of expected losses, unexpected credit risk or any other risks, of the assets. This portion has been calculated in the same manner as the Fundamental Spread for the matching adjustment. ~~The Fundamental Spreads for each asset class, credit quality and duration~~

		are in Appendix DC1.	~~are in Appendix DC1.~~
7	TS (I) - SCR.5.92	Mktspbonds = the capital requirement for spread risk of bonds and loans other than residential mortgage loans fulfilling the criteria as set out in SCR.6.42	Mktspbonds = the capital requirement for spread risk of bonds and loans other than residential mortgage loans fulfilling the criteria as set out in SCR.**6.54**
8	TS (I) - SCR.5.93	**Spread risk on bonds and loans other than residential mortgage loans** SCR.5.93. The capital requirement for spread risk of bonds and loans other than residential mortgage loans is determined as the result of a pre-defined scenario :	**Spread risk on bonds and loans other than residential mortgage loans that meet the requirements in SCR 6.54** SCR.5.93. The capital requirement for spread risk of bonds and loans other than residential mortgage loans **that meet the requirements in SCR 6.54** is determined as the result of a pre-defined scenario :
9	TS (I) - SCR.5.94	The spread risk shock on bonds and loans other than residential mortgage loans is the immediate effect on the net value of asset and liabilities expected in the event of an instantaneous decrease of values in bonds and loans other than non-residential mortgage loans due to the widening of their credit spreads:	The spread risk shock on bonds and loans other than residential mortgage loans **that meet the requirements in SCR 6.54** is the immediate effect on the net value of asset and liabilities expected in the event of an instantaneous decrease of values in bonds and loans other than non-residential mortgage loans due to the widening of their credit spreads:
10	TS (I) - SCR.5.95	To determine the spread risk capital requirement for bonds and loans other than residential mortgage loans, the following factors F^{up} should be used:	To determine the spread risk capital requirement for bonds and loans other than residential mortgage loans **that meet the requirements in SCR 6.54**, the following factors F^{up} should be used:
11	TS (I) - SCR.5.96	Collateralised bonds and loans for which a credit assessment by a nominated ECAI is not available and where the collaterals of those bonds and loans meet the criteria set out in section SCR.11 on risk mitigation techniques, shall be assigned a risk factor stressi according to the following:	Collateralised bonds and loans for which a credit assessment by a nominated ECAI is not available and where the collaterals of those bonds and loans meet the criteria set out in section SCR.11 on risk mitigation techniques, shall be assigned a risk factor $\boldsymbol{F^{up}}$ according to the following:

		(a) where 50% of the instantaneous loss results in a value of the bond or loan that is lower than the risk-adjusted value of the collateral, stressi shall be equal to the difference between the value of the bond and the risk-adjusted value of the collateral. (b) where 50% of the instantaneous loss results in a value of the bond or loan that is higher than the risk-adjusted value of the collateral, stressi shall be determined in accordance with SCR.5.93. The risk-adjusted value of the collaterals shall be calculated in accordance with section SCR.6.54-SCR.6.59.	(**a) where the risk-adjusted value of collateral is higher than or equal to the value of the bond or loan i, Fup shall be equal to half of the risk factor that would be determined in accordance with SCR.5.95;** **(b) where the risk-adjusted value of collateral is lower than the value of the bond or loan i, and where the risk factor determined in accordance with SCR.5.95 would result in a value of the bond or loan i that is lower than the risk-adjusted value of the collateral, Fup shall be equal to the average of :** **(i) the risk factor determined in accordance with SCR.5.95, and** **(ii) the difference between the value of the bond or loan i and the risk-adjusted value of the collateral, divided by the value of the bond or loan i;** **(c) where the risk-adjusted value of collateral is lower than the value of the bond or loan i, and where the risk factor determined in accordance with SCR.5.95 would result in a value of the bond or loan i that is higher than or equal to the risk-adjusted value of the collateral, Fup shall be determined in accordance with SCR.5.95.** The risk-adjusted value of the collaterals shall be calculated in accordance with section **SCR.6.55-SCR.6.62**.
12	TS (I) - SCR.5.98	The shock factors of function Fup will be multiplied with the modified duration of a bond. For variable interest rate bonds, the modified duration used in the calculation should be equivalent to a fixed income bond with coupon payments equal to the forward interest rate. If the modified duration is less than 1 year, it should be treated as 1 year.	~~The shock factors of function Fup will be multiplied with the modified duration of a bond.~~ For variable interest rate bonds, the modified duration used in the calculation should be equivalent to a fixed income bond with coupon payments equal to the forward interest rate. If the modified duration is less than 1 year, it should be treated as 1 year.

<table>
<tr>
<td>13</td>
<td>TS (I) - SCR.5.99</td>
<td>For exposures to bonds issued by (re-) insurance undertakings that do not meet their MCR, the following shock factors shall apply:
<table>
<tr><th>duration_i (years)</th><th>risk factor FUP_i</th></tr>
<tr><td>up to 5</td><td>7.5 %. duration_i</td></tr>
<tr><td>More than 5 and up to 10</td><td>37.5% + 4.2%.(duration_i -5)</td></tr>
<tr><td>More than 10 and up to 15</td><td>58.5% + 0.5%.(duration_i -10)</td></tr>
<tr><td>More than 15 and up to 20</td><td>61.0% + 0.5 %.(duration_i -15)</td></tr>
<tr><td>More than 20</td><td>Min(63.5% + 0.5%.(duration_i - 20);1)</td></tr>
</table>
</td>
<td>For exposures to bonds issued by (re-) insurance undertakings that do not meet their MCR, the following shock factors shall apply:
<table>
<tr><th>duration_i (years)</th><th>risk factor FUP_i</th></tr>
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<tr><td>More than 20</td><td>Min(63.5% + 0.5%.(duration_i - 20);1)</td></tr>
</table>
For exposures to bonds issued by (re-) insurance undertakings for which a credit assessment by a nominated ECAI is not available and that (re-) insurance undertakings meet the following requirements,
<ol type="a">
meet their MCR,
the Solvency ratios are determined according to the

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requirements set out in these specifications (Solvency II ratios),

c. the Solvency ratios are determined consistently to the scenario under consideration.

the following mapping between solvency ratios and credit quality steps should be applied to determine the risk factors listed in SCR.5.95,

Solvency ratio	**196%**	**175%**	**122%**	**95%**	**75%**	**75%**
Credit quality step	**1**	**2**	**3**	**4**	**5**	**6**

Where the solvency ratio falls in between the solvency ratios set out in the table above, the value of F^{up} shall be linearly interpolated from the closest values of F^{up} corresponding to the closest solvency ratios set out in the table above. Where the solvency ratio is lower than 75%, F^{up} shall be equal to the factor corresponding to the credit quality steps 5 and 6. Where the solvency ratio is higher than 196%, F^{up} shall be the same as the factor corresponding to the credit quality step 1.

<table>
<tr>
<td>14</td>
<td>TS (I) - SCR.5.103</td>
<td>
<table>
<tr><td>More than 15 and up to 20</td><td>0%</td><td>0%</td><td>10.9% + 0.5 %.(duration_i -15)</td><td>13% + 0.0 %.(duration_i -15)</td><td>25.0% + 1.0 %.(duration_i -15)</td><td>44.0% + 0.5 %.(duration_i -15)</td><td>44.0% + 0.5 %.(duration_i -15)</td></tr>
</table>
</td>
<td>
<table>
<tr><td>More than 15 and up to 20</td><td>0%</td><td>0%</td><td>10.9% + 0.5 %.(duration_i -15)</td><td>13% + 0.5 %.(duration_i -15)</td><td>25.0% + 1.0 %.(duration_i -15)</td><td>44.0% + 0.5 %.(duration_i -15)</td><td>44.0% + 0.5 %.(duration_i -15)</td></tr>
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<tr>
<td>15</td>
<td>TS (I) - SCR.5.130</td>
<td>The calculation is performed in three steps: (a) relative excess exposure per single name exposure, (b) risk concentration capital requirement per single name exposure, (c) aggregation across single name exposures.</td>
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</tr>
<tr>
<td>16</td>
<td>TS (I) - SCR.5.131</td>
<td>The relative excess exposure per single name exposure is calculated as:
$$XS_i = \max(0, \frac{E_i}{Assets_{xl}} - CT)$$
where the relative excess exposure threshold CT, depending on the credit quality step of single name i, is set as follows:
<table>
<tr><th>credit quality step</th><th>Relative excess exposure threshold (CT)</th></tr>
<tr><td>0</td><td>3%</td></tr>
<tr><td>1</td><td>3%</td></tr>
<tr><td>2</td><td>3%</td></tr>
</table>
</td>
<td>The ~~relative~~ excess exposure per single name exposure is calculated as:
$$XS_i = \max(0, E_i - CT * Assets_{xl})$$
where the ~~relative~~ excess exposure threshold CT, depending on the credit quality step of single name i, is set as follows:
<table>
<tr><th>credit quality step</th><th>~~Relative~~ excess exposure threshold (CT)</th></tr>
<tr><td>0</td><td>3%</td></tr>
<tr><td>1</td><td>3%</td></tr>
<tr><td>2</td><td>3%</td></tr>
<tr><td>3</td><td>1.5%</td></tr>
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<table>
<tr><td>3</td><td>1.5%</td></tr>
<tr><td>4</td><td>1.5%</td></tr>
<tr><td>5</td><td>1.5%</td></tr>
<tr><td>6 or unrated</td><td>1.5%</td></tr>
</table>
</td>
<td>
<table>
<tr><td>4</td><td>1.5%</td></tr>
<tr><td>5</td><td>1.5%</td></tr>
<tr><td>6 or unrated</td><td>1.5%</td></tr>
</table>
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<tr>
<td>17</td>
<td>TS (I) - SCR.5.132</td>
<td>The capital requirement for market risk concentration on a single name exposure i $Conc_i$ shall be equal to the loss in the basic own funds that would result from an instantaneous relative decrease in the value of the assets corresponding to the single name exposure i equal to:</td>
<td>The capital requirement for market risk concentration on a single name exposure i $Conc_i$ shall be equal to the loss in the basic own funds that would result from an instantaneous ~~relative~~ decrease in the value of the assets corresponding to the single name exposure i equal to:</td>
</tr>
<tr>
<td>18</td>
<td>TS (I) - SCR.6.9</td>
<td>The class of type 2 exposures covers the exposures which are usually diversified and where the counterparty is likely to be unrated. The class of type 2 exposure should consist of all exposures which are not covered in the spread risk module, are in the scope of the counterparty default risk module and are not of type 1, in particular:
a) Receivables from intermediaries;
b) Policy holder debtors;
c) Residential mortgage loans
d) Deposits with ceding undertakings, where the number of single name exposures exceeds 15;
e) Commitments received by an insurance or reinsurance undertaking which have been called up but are unpaid as referred to in SCR.6.4 (d), where the number of single name exposures exceeds 15.</td>
<td>The class of type 2 exposures covers the exposures which are usually diversified and where the counterparty is likely to be unrated. The class of type 2 exposure should consist of all exposures which are not covered in the spread risk module, are in the scope of the counterparty default risk module and are not of type 1, in particular:
a) Receivables from intermediaries;
b) Policy holder debtors;
c) Residential mortgage loans which meet the requirements in SCR 6.54;
d) Deposits with ceding undertakings, where the number of single name exposures exceeds 15;
e) Commitments received by an insurance or reinsurance undertaking which have been called up but are unpaid as referred to in SCR.6.4 (d), where the number of single name exposures exceeds 15.</td>
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19	TS (I) - SCR.6.12	The following credit risks shall not be covered in the counterparty default risk module: (a) the credit risk transferred by a credit derivative; (b) the credit risk on debt issuance by special purpose vehicles, whether as defined in Article 13(26) of Directive 2009/138/EC or not; (c) the underwriting risk of credit and surety ship insurance or reinsurance (d) the credit risk on mortgage loans which do not meet the requirements for mortgage loans (see Art.105 (6) of Directive 2009/138/EC39).	The following credit risks shall not be covered in the counterparty default risk module: (a) the credit risk transferred by a credit derivative; (b) the credit risk on debt issuance by special purpose vehicles, whether as defined in Article 13(26) of Directive 2009/138/EC or not; (c) the underwriting risk of credit and surety ship insurance or reinsurance (d) the credit risk on mortgage loans which do not meet the requirements for mortgage loans **which meet the requirements in SCR 6.54.**
20	TS (I) - SCR.6.54	***Additional information on mortgage loans treated as type 2 exposures*** SCR.6.54. Retail loans secured by mortgages on residential property (mortgage loans) shall be treated as type 2 exposures under the counterparty default risk provided the following requirements are met:	***Requirements for mortgage loans to be considered as type 2 exposures*** SCR.6.54. Retail loans secured by mortgages on residential property (mortgage loans) shall be treated as type 2 exposures under the counterparty default risk provided the following requirements are met:
21	TS (I) - MCR.6.	The values of the absolute floor *AMCR* are: (i) EUR 2 500 000 for non-life insurance undertakings, including captive insurance undertakings, save in the case where all or some of the risks included in one of the classes 10 to 15 listed in Part A of Annex K are covered, in which case it should be no less than	The values of the absolute floor *AMCR* are: (i) EUR 2 500 000 for non-life insurance undertakings, including captive insurance undertakings, save in the case where all or some of the risks included in one of the classes 10 to 15 listed in Part A of **Annex I of the Solvency II Directive 2009/138/EC** are covered, in

		EUR 3 700 000,	which case it should be no less than EUR 3 700 000,