

**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:	AFA Försäkring	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph or a cell, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, <u>in Word Format</u>, to CP-17-006@eiopa.europa.eu</p> <p>Our IT tool does not allow processing of any other formats.</p> <p><u>The numbering of the reference refers to the sections</u> of the consultation paper on EIOPA's second 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.</p>		
Reference	Comment	
General Comment		
Introduction		
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7.3	We think EIOPA should reconsider the points made in §§ 451 and 452 and its assessment in §§ 454 and 455. Market consistency of the stresses is desirable.	
7.4.1		
7.4.2	EIOPA should clarify what will happen if the discount curve is under the static interest rate floor. It seems counterintuitive that the "downward stress" should be positive to reach the floor.	
7.4.3	We agree that the relative approach is inappropriate in a low yield environment. A more complex model such as B, will always fit historical data better than a simpler one such as A, but when it	

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	comes to prediction, simpler models often beat complex models. In general we also value less complex models since they aid understanding and decision making. Of the two proposed models we think that A is overly prudent in a low yield environment and would therefore prefer B in spite of its complexity.	
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10.4.2.3	The idea behind the yield criterion is sound though it would be better to consider the spread over government or swap rather than the yield. There are two main reasons: (a) loans and bonds that pay a floating coupon don't fit well within the framework and (b) yields comprise of term premia and credit spreads, and differing term premia between the indices of A and BB bonds shouldn't be included in a credit risk measure.	

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	<p>We find the reasoning in § 683 illogical. The spread risk of a bond should be related to the creditworthiness of the borrower. If that improves, surely the spread risk of bonds issued earlier decreases pari passu with newer bonds</p> <p>We also think that the yield (or spread) criterion should be based not only on yield (or spread) at the time of issuance but on the most recent transactions whether on the primary or secondary market. This would solve the problem raised in § 686 (if the two borrowers have loans or bonds that trade with equal frequency on the secondary market).</p>	
10.4.2.4		
10.4.2.5	With regards to the financial ratios we think the threshold approach is better than the weighted-average approach, especially the version suggested in § 666.	
10.4.3	We think borrowers incorporated in all of the OECD and not only in the EEA should be considered.	
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11.4.2	<p>The key ratios used in the Beta method are based on 5 years, for example Average Operating Margin 5 years. Most of the companies owned by AIFs don't have a 5 years history. So for most companies these key ratios don't exist. Also since these companies are unlisted the information is not easy to acquire. In the cases where a 5 year history exists we would need the fund manager to supply us with the information. The fund managers would probably not guarantee the correctness of the information and we on the other hand would not be able to verify the information. We also want to stress that the Beta method is very complicated. It is not feasible to implement in production since it uses too much input for each company.</p> <p>In the stress period loss method it is difficult to classify the companies to a specific sector. Most companies don't have an exact match to a sector. It would be useful to have an "other" category for companies that are difficult to map. This method also means that we have to analyse the whole balance sheet for each company in order to classify items to the formula for the relative</p>	

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	leveraged-adjusted company risk. This also needs to be done 4 times a year which is extremely time consuming, hence it is not possible to do this kind of thorough analyses.	
11.4.3	In addition to our feedback in 11.4.2 we don't see that the financial risk in the company is affected by the location of the employees. It is also difficult to find out if the majority of the company's employees are located in EU/EEA. EIOPA had another suggestion how to reduce the stress for AIFs earlier. According to the delegated act 201535 article 168 (6) AIFs could, in some cases, be handled as equity type 1. There was a suggestion that fund managers outside of EU could get an approval to have third party passport according to AIFMD and would then also be able to use equity type 1 stress. What happened to this suggestion?	
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12.3.2	Volatility is an irrelevant criterion for categorising an equity investment as strategic. High volatility might be a desirable feature for a strategic equity investment if the correlation with other investments is negative.	
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13.4.3	We strongly concur with EIOPA's advice in §§ 1049–1056 and welcome the proposed amendments to the Delegated Regulations. The advice in §§ 1045–1047 is also sound.	
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14.4.3	It is a good suggestion that the risk is lower for cleared derivatives.	
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15.4.3	We agree with EIOPA's advice.	
15.4.4	We agree with EIOPA's proposals for new articles. We would however like to remind of the advice EIOPA gave in the previous consultation (CP 17/004), i.e. that the look through approach should be extended to investment related undertakings, which we fully endorse.	
16.1		
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16.3.2	<p>We believe that risks should be treated equally at the group and solo levels. We also believe that it is inappropriate to make exemption from the look through approach for related undertakings such as wholly owned property companies. The look through approach should be used for these companies both on solo and group levels completely according to the EIOPA advice in CP 17/004.</p> <p>The reason is, as we pointed out in earlier consultations, that real estate in Sweden for tax reasons practice are owned in the form of subsidiary limited liability property companies. Every single property company consists of one single property and thus it is uncomplicated to use the look through approach on these companies since they only contain property risk, sometimes with leverage. To use equity type 2 stress for property companies as is specified today, is to</p>	

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	overestimate their true risk greatly.	
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18.4.3	We agree with EIOPA's advice.	
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