Summary of Comments on Consultation Paper 77 - CEIOPS-CP-77/09 CEIOPS-SEC-179-09

CP No. 77 - L2 Advice on Simplifications for SCR

CEIOPS would like to thank ABI, ACA , AMICE, Association of Run-Off Companies, CEA, CRO Forum, Deloitte, DIMA , ECIROA, FEE, FFSA, GDV, Groupe Consultatif, ICISA, ILAG, Institut des actuaires , Lloyds, Munich Re, PricewaterhouseCoopers LLP, and Unum

The numbering of the paragraphs refers to Consultation Paper No. 77 (CEIOPS-CP-77/09)

No.	Name	Reference		Comment	Resolution
1.	ABI	General Comment	1.	We believe that undertakings should be in the position to implement simplifications, which are commensurate to their risk profile	Agreed
			2.	We do not agree with the omission of simplifications such as the interest rate and spread risk simplifications.	Noted but the arguments for not including the simplifications stand
			3.	The omission of the interest rate risk simplification does not seem consistent with Article 85(h) of the Level 1 text.	Disagree. Art 86(h) does not impose simplifications. Further, the article is about technical provisions.
			4.	Simplifications based on any new calibrations of the standard formula relative to QIS4 will need to be tested under QIS5	Agreed. This will be done under QIS5.
			5.	If the calibration of the standard formula is changed compared to QIS4, then simplifications have to be changed accordingly. Because the relationship between these two calculations may be non-linear then the respective changes may be different and will have to be tested in QIS5.	See remark 1.4.
			6.	Insurers should not have to precisely quantify the model error of the simplifications they use As per our response to CP45, we agree that insurers should be responsible for the appropriateness of the proportionality assessment. However, insurers should not have to precisely quantify the model error inherent in any simplifications they use, as this would largely	This is consistent with the advicee given. An exact quantification of the model error is not required. See §3.47

				negate the purpose of a simplified calculation.	
2.	ACA	General Comment	1.	Simplified formula should not include the 'Technical provision' which implies a proportion of the SCRs. We suggest the use of the Best Estimate instead of the 'technical provision'.	Agreed.
			2.	We do agree with the position of CEA:" The possible simplifications that could be used by undertakings should not be restricted to the simplifications suggested in this consultation paper. Undertakings should be allowed to use simplifications whenever it's duly justified. "	Agreed. The simplifications in the CP are not a closed list. As part of Level 3 guidance other simplifica-tions can be evisaged.
3.	AMICE	General Comment		These are AMICE's views at the current stage of the project. As our work develops, these views may evolve depending in particular, on other elements of the framework which are not yet fixed. ☐ AMICE Members would like to reiterate that Simplifications are at the core of the proportionality principle – a principle that AMICE continuously emphasises on behalf of its many small and medium-sized members. It must be acknowledged that, in addition to the central dimensions of proportionality ("nature, scale, and complexity of risks"), the framework directive explicitly calls for not overburdening small and medium-sized insurers, thus introducing an element of size as follows: "Proportionality" when displaying in the new placing of Recital 19 ("should not be too burdensome for small and medium-sized insur-ance undertakings") immediately after Recital 21 ("proportionate to the nature and the complexity of the risks") and the insertion of par 4 in Art.29 ("The Commission shall ensure implementing measures include the principle of proportionality, thus ensuring the propor-tionate application of the Directive, in particular to very small in-surance undertakings.").	Noted.

				☐ The application of the principle of proportionality should follow the principle-based feature of the Solvency II framework. This means that proportionality should not be applied using a prescribed approach and should not constitute a hard rule.	Noted. See remark on point 2.2
				☐ In our opinion, nature and complexity should be defined following a qualitative approach and the definition of scale would resemble that of materiality. AMICE members believe that the potential use of thresholds, either absolute or relative, and the methodology for its calculation should be defined in Level 2.	Noted, and has been done where considered appropriate
				☐ The list of simplifications included in this consultation paper should act as a guidance of general accepted solutions, that avoid an excessive burden not only on SMEs but also on undertakings with non-risky profiles irrespective of their size, and which are used to approximate the valuation methodology which is consistent with the general principles of Solvency II. In this regard undertakings should be allowed to use alternative simplifications if deemed necessary	Noted. See remark on point 2.2
				☐ AMICE members welcome the introduction of the paragraph stating that undertakings should not be required to quantify the degree of model error in precise quantitative terms or to re-calculate the value of its technical provisions using a more accurate method in order to demonstrate that the difference between the result of the chosen method and the result of a more accurate method is immaterial.	Noted.

				☐ AMICE members welcome the definition of scale in terms of SCR; In general terms, AMICE believes that any definition of "scale" should provide an "ex-ante" quantification of the risks of the undertaking; The scale of risks should be measured by using very simplified approaches to the SCR. If such quantification leads to the conclusion that the scale of the risks combined with their nature and complexity is small, a simplified valuation method can be applied.	Noted.
4.	Association of Run-Off Companies	General Comment		In general, when determining the solvency capital requirement (including the use of the standard formula) for run-off business, some form of simplification is sometimes necessary, as compared with "live" business, due to difficulties in obtaining the full data necessary for advanced methods. An acknowledgement to this effect, together with a reference to the specific types of simplification that are acceptable in a run-off context, would be helpful. For example, we think that a separate section could be added within the current paragraphs 3.125 to 3.148, to deal with specific SCR simplifications that might be appropriate in a run-off context. Paul Corver, the Chairman of the Association of Run-off Companies, wrote to Karel Van Hulle on 17 November 2009 and introduced these concerns. In 2010 we are prepared to work with CEIOPS to assist with the development of run-off specific guidance.	See remark 2.2.
5.				Confidential comments deleted.	

6.	CEA	General Comment	1	The CEA welcomes the opportunity to comment on the Consultation Paper (CP) No. 77 on SCR Standard Formula - Simplified calculations in the standard formula.	Noted.
			2.	It should be noted that the comments in this document should be considered in the context of other publications by the CEA.	Noted.
			3.	Also, the comments in this document should be considered as a whole, i.e. they constitute a coherent package and as such, the rejection of elements of our positions may affect the remainder of our comments.	Noted.

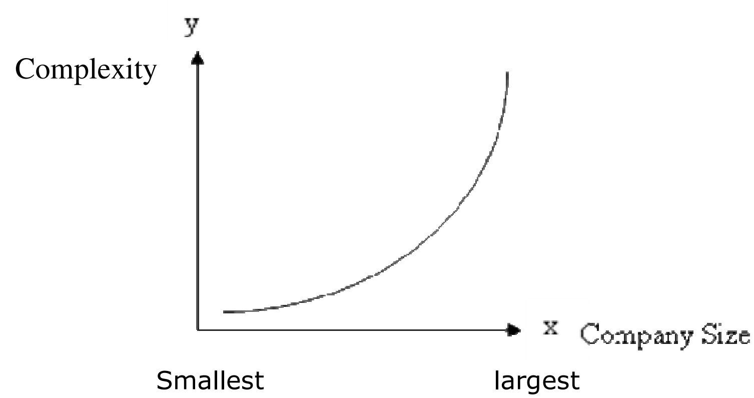
			4.	These are CEA's views at the current stage of the project. As our work develops, these views may evolve depending in particular, on other elements of the framework which are not yet fixed.	Noted.
			5.	Moreover, it should be noted that this consultation has been carried on an extremely short time frame which has not allowed a complete analysis of all the advice. Therefore, the following comments focus only on the main aspects of Ceiops' advice and are likely to be subject to further elaboration in the future.	Noted.
			6.	We strongly support the adoption of simplifications	Noted.
			7.	We would not support the omission of simplifications which were used in QIS4, i.e. in particular the interest rate and spread risk simplifications. Furthermore, we would propose to extend the ability to use simplifications further.	Noted. See remark 1.3 and remark 2.2
			8.	We note that in the particular case of spread risk simplifications, the scale of investments in credit derivatives and structured products as compared to the entire undertaking may be such that a simplification is warranted, despite the fact that these may be complex products. We believe that a key component of Solvency II is that undertakings should be allowed to use simplifications, as these will be calibrated such that they result in a more prudent capital requirement than the standard formula but could result in a significant decrease in the costs for insurers to comply with the Solvency II requirements. For example, if an insurer has contracts with 3 reinsurers with different external ratings it should be possible for them to use the simplified calculations of default risk, risk margin and so on assuming the worst rating for all reinsurers. Additionally if a rating,	Disagreed. As explained in paragraph 3.67, the nature and complexity of the risks inherent in these instruments make it inappropriate to allow for simplifications. We repeat however the validity of the resolution on remark 2.2.: the simplifications in the CP are not a closed list. As part of Level 3 guidance other simplifications can be evisaged.

				other than the worst, changes during the year no recalculation of capital requirements would be necessary.	
			9.	We should also state that we were surprised that this paper does not consider the counterparty risk module as the counterparty risk methodology tested in QIS4 was excessively complex.	See paragraph 3.75
			10.	As the CEA stated in its advice on CP45, specific formulae for simplified methods should not be specified in level 2.	Noted.
			11.	The possible simplifications that could be used by undertakings should not be restricted to the simplifications suggested in this consultation paper. Undertakings should be allowed to use simplifications whenever it's duly justified.	Noted. See remark 2.2
			12.	It seems that Ceiops intends to specify the simplifications given in this paper at level 2. The CEA advocates that only the criteria for choosing simplified methods are needed under level 2, rather than the actual simplifications themselves. These criteria should strike the balance between the need for the harmonised use of simplifications and the flexibility required by the different practical situations. Undertakings should be able to identify which are the most appropriate methods to be used, based on the specificities of their risk profile without being restricted by rigid criteria set in Level 2 and with relative thresholds being used as a guide for both supervisors and undertakings as to the likely suitability of a particular simplified approach.	See remark 2.2
			13.	In this regard the CEA notes that the advice given on Non-life specifications in CP76 is helpful as it is structured in terms of a description, scope, calculation approach and criteria for application. The same approach should be used for the Technical Provisions simplifications in this paper.	Noted. However, simplifications in this CP deal with SCR modules and not technical provisions.
			14.	Simplifications based on any new calibrations of the standard formula relative to QIS4 will need to be tested under QIS5	See remark 1, paragraph 4

			15.	If the calibration of the standard formula is changed compared to QIS4, then simplifications have to be changed accordingly. Because of the relationship between these two calculations may be non-linear then the respective changes may be different and will have to be tested in QIS5.	See remark 6.14
			16.	We request that Ceiops provides the details of the simplifications for health revision risk	Agreed.
			17.	No details are given as to how health revision risk is changing to combine inflation and enlargement of the scope to all kind of benefits. We cannot comment on this simplification without this information.	See revised Advice on the health underwriting risk module (point 3.90)
			18.	Insurers should not have to quantify the model error of the simplifications they use	See § 3.47
			19.	As per our response to CP45, we agree that insurers should be responsible for the appropriateness of the proportionality assessment. However, insurers should not have to quantify the model error inherent in any simplifications they use.	See § 3.47
			20.	Furthermore, if the scale chosen is accepted during the review process and if the risk is small according to this scale, then nature and complexity should not matter when deciding on the simplified methods.	See 5.5. d)

7.	CRO Forum	General Comment		A How should an undertaking demonstrate that there is reasonable assurance that the model error implied by the application of the simplified method is immaterial (priority: medium) It is not clear how this can be demonstrated by quantitative means and we propose that this is included instead within the Pillar II requirements.	See remark 5.5 a)
				B Simplifications should also be allowed for the modeling of structured products and credit derivatives in case of low scale investments and thus a low materiality (priority: medium)	See remark 6.8.
				C The threshold for materiality of 5% of the overall SCR before adjustment for the loss absorbing capacity of technical provisions and deferred taxes is considered to be too low. We recommend this to be set at 10% per legal entity while the 5% threshold is more appropriate at group level (priority: medium)	See remark 5.5 c)
				D The assessment of proportionality should be performed for every run of the standard formula, but at least once a year (priority: medium) If the scale chosen is accepted during the review process and if the risk is small according to this scale, nature and complexity should not matter when deciding on the simplified methods. SCR might not be an appropriate "scale" to decide on simplification because the SCR would have to be determined without simplification.	See remark 5.5 d)
8.	DIMA	General Comment		DIMA welcomes the opportunity to comment on this paper.	
			1.	Comments on this paper may not necessarily have been made in conjunction with other consultation papers issued by CEIOPS.	Noted.

			2.	DIMA notes that there are references to simplifications for the SCR in other consultation papers which are not mentioned here, such as counterparty risk. It would be helpful to have all simplifications in one document.	See paragraph 3.75
9.	ECIROA	General Comment	1	ECIROA strongly believes that a proportionality principle cannot be expressed in mathematical forms. From a common sense point of view and due to the diversity of insurance undertakings, each and every single company has to be assessed on its own scale, nature and complexity. It is not possible to accept the description, where besides scale "nature and complexity of risks are closely related". There are three different criteria:	Noted.
			2	Scale — determining the size/amount of a risk Nature — determining the risk, either from Underwriting or Market or, with a huge variety of single risks and different curve shapes (based on line of business, sub lines, country, jurisdiction, costumer groups, retail-commercial-industry-FI's etc., investment strategies (asset classes / again different per country)). All of these have to be aligned and added up.	Noted.

				Complexity describes how "easy" it is to understand i.e. to know about details of a company or group and all their interdependencies. This might be expressed in a table such as this:  This means: with increasing company size, the complexity is growing steeply. This demonstrates why large insurers will have a lot more difficulty presenting a consistent / transparent / true picture of a big group in comparison to small undertakings. The more or less identical use of uncertainty and model error is not acceptable.	Disagree. CEIOPS fails to see the direct relation between the size of the company and the complexity of the risks it insures.

			3	Uncertainty is a basis which allows more or less aggressive / volatile / conservative / restrictive strategies, i.e. wilful act and decision to use the parameters and calibration an insurance company wants to start with. = i.e. ex ante.	Noted.
			4	Model errors are discovered always ex post and may be distinguished between those based on a wilful decision and those caused by a negligent or unexpected mistake	Noted.
10.	FEE	General Comment		We have considered as we have been developing our detailed responses to individual Consultation Papers whether there are any matters which come to mind as generic observations that CEIOPS and the European Commission might find helpful. We are mindful that the general principle underlying the regulatory framework is to develop Level 2 and Level 3 regulation and guidance which supports the intention of the Directive. Whilst we recognise the challenge faced by CEIOPS in sustaining where possible a principles based regulatory framework, our sense is that the detail developed in most of the Consultation Papers have tended to be more prescriptive than might initially have been envisaged. There is little doubt that to achieve consistency of application a degree of clarification is necessary. Accountants and auditors face the same challenge when interpreting Accounting Standards with many correspondents seeking greater clarity. However, the temptation to publish detailed supplementary guidance or rules should be strenuously avoided where possible.	Noted. The comment rightiously points to the development of Level 2 and Level 3 regulation and guidance. CEIOPS reminds that it is up to the EU Commission to decide upon what is to be withheld as Level 2 regulation.

				We suggest that the European Commission in making the final Level 2 regulation might best be focused on narrowing down rather than extending the guidance proposed by CEIOPS where possible. This would have the added advantage of reducing the apparent and ever increasing weight of the regulatory text.	Noted.
11.	FFSA	General Comment	1	In this consultation paper CEIOPS is restricting the scope of simplifications for SCR calculation without providing valuable reasons for such restrictions, such as for the interest rate risk module.	See remark 1.2
			2	FFSA considers that any simplified method allowed for under QIS4 should be maintained unless CEIOPS provides clear evidence that these methods are not aligned with the proportionality principle or they do not reflect the risk profile of the undertaking.	The reasons for not retaining a number of simplifications are clearly stated in the CP.
			3	In line with proportionality principle, FFSA considers that undertakings should be allowed to use other simplifications, not necessarily specified in this consultation paper, when duly justified.	See remark 2.2
			4	FFSA is surprised as this paper does not consider the counterparty risk. The counterparty risk methodology tested in QIS4 was too complicated to be applied. The ACAM feedback on this point was that no company applied the whole calculation. FFSA considers that the consultation paper should have mentioned that.	See remark 8.2
12.				Confidential comments deleted.	

13.	GDV	General Comment	1.	GDV recognises CEIOPS' effort regarding the implementing meas-ures and likes to comment on this consultation paper. In general, GDV supports the detailed comment of CEA. Nevertheless, the GDV highlights the most important issues for the German market based on CEIOPS' advice in the blue boxes. It should be noted that our comments might change as our work develops.	Noted.
			2.	Based on our experience during the previous two consultation waves we also want to express our concerns with regard to CEIOPS decisions: - restricting the consultation period of the 3rd wave to less than 6 six weeks - splitting the advice to the EU-commission in two parts ((1) first+second wave and (2) third wave) although both parts are highly interdependent - not taking into account many comments from the industry due to the high time pressure (first+second wave)	Noted.
			3.	These decisions could reduce the quality of the outcome of this consultation process. Therefore we might deliver further comments after we fully reviewed the documents.	Noted.

			4.	From our point of view, it could be foreseen that especially the calibration of the QIS5 will not be appropriate nor finalised when beginning in August 2010.	Noted.
			5.	We would not support the omission of simplifications which were used in QIS4, i.e. in particular the interest rate and spread risk simplifications.	See remark 1.2
				We are surprised that this paper does not consider the counterparty risk module as the counterparty risk methodology tested in QIS4 and the CEIOPS proposals in CP 51 in combination with CP44 were excessively complex.	See remark 8.2
				The possible simplifications that could be used by undertakings should not be restricted to the simplifications suggested in this consultation paper. Undertakings should be allowed to use simplifications whenever it's duly justified.	See remark 2.2

			6.	We believe that a key component of Solvency II is that undertakings should be allowed to use simplifications, as these will be calibrated such that they result in a more prudent capital requirement than the standard formula but could result in a significant decrease in the costs for insurers to comply with the Solvency II requirements. For example, if an insurer has contracts with 3 reinsurers with different external ratings it should be possible for them to use the simplified calculations of default risk, risk margin and so on assuming the worst rating for all reinsurers. Additionally if a rating, other than the worst, changes during the year no recalculation of capital requirements would be necessary.	See remark 6.8
			7.	It seems that CEIOPS intends to specify the simplifications given in this paper at level 2. The GDV advocates that only the criteria for choosing simplified methods are needed under level 2, rather than the actual simplifications by formulas themselves. Thresholds should only be used as a rough guide but should not be part of level 2 or level 3.	See remark 2.2
			8.	Insurers should not have to quantify the model error of the simplifications they use. As per our response to CP45, we agree that insurers should be responsible for the appropriateness of the proportionality assessment. However, insurers should not have to quantify the model error inherent in any simplifications they use.	See remark 1.6
				Furthermore, if the scale chosen is accepted during the review process and if the risk is small according to this scale, then nature and complexity should not matter when deciding on the simplified methods.	See remark 5.5.d)

14.	Groupe Consultatif	General Comment	1.	We generally welcome the mentioned simplifications. The Groupe Consultatif does not believe as a general principle that acceptable simplifications should be enumerated at either Level 2 or Level 3 other than as examples. Instead there should at Level 2 be a general principle that undertakings may adopt simplifications in calculation of SCR provided that the undertaking can show that the simplification is no lower than application of the corresponding element(s) of the standard formula.	See remark 2.2
			2.	From our point of view, it is better to define an appropriate Standard formula, even if it is slightly advanced, and to allow companies to use simplifications. This is to prefer to the solution to simplify the standard formula to its utmost.	Noted.
			3.	Additionally to the delivered simplification we see it as important, that actuarially accepted and best practice solutions will also be accepted as simplifications.	See remark 2.2
			4.	As we would suggest limiting the non-standard simplifications on best practice simplifications, we do not think that comparability might be considerably affected. Furthermore we think that the benefits outweigh the decrease of comparability which is already given through the standard simplifications. Benefits are for examples that certain feature (e.g. in certain countries) might be better captured through simplifications which are based on general industry knowledge.	Agree. This is the general idea. Best practice simplifications may be part of Level 3 guidance.

			5.	This CP provides a number of simplifications of the standard formula that will be particularly useful for small insurers with only limited computational capabilities. Existence of simplifications is crucial for translation of the Proportionality Principle into level 2 guidance.	Noted.
			6.	We see it as important that the suggested simplifications are evaluated with the QIS5 results.	Agree and this will be done.
			7.	When is expected to launch a new line of business is important to know its additional capital charge. One procedure could be to runs QIS on the (all portfolio + expected new business) and look for the marginal change on SCR and MCR respect the last situation (sensibility analysis). But if the insurer hasn''t a ""smart information architecture"" it will be a cumbersome task. Further advice is needed here.	Noted. See CP or data quality.
			8.	We would like to point out, that the aspect of data quality is also important within the context of simplifications.	Noted.
			9.	In general we think that the principles are described in detail and this will serve as an appropriate and sound basis for the judgement of the different risks considered in calculation of the SCR.	Noted.
			10.	On the other hand it is not clear when and how to adapt the principles in practice.	Noted.
			11.	This could lead to confusion and misunderstandings in the calculations of SCR. There is also a high risk that the size of the SCR will	CEIOPS is not sure it correctly understands the point as it has

				be very sensitive to the assumptions and that the SCR will change significantly over time, and also deviate between different companies with similar portfolio. The principles should in our opinion be followed by more specific guidelines. We will also emphasize that in case of a LOB with a ""simple"" risk-structure it will be quite easy to perform calculations according to standard actuarial methods, even with the use of approximations.	well defined the conditions that are to be met to apply the simplifications.
			12.	The paper continues to seek to clarify the use of simplification and the circumstances in which they may be used. We note the difficulty in the assessment of the error and/or its materiality without doing the full calculation (refers to step 2). In our opinion this level 2-paper is far to detailed in introducing specific, alternative methods. This should be done in level 3, which also would have make it more easy to allow for adjustments that are appropriate on a national level.	See remark 2.2
			13.	We are conscious of the difficulty of identifying when and how a company should be allowed to use a simplified or non-simplified method. We also find it difficult to distinguish between simplified and non-simplified methods as recognised by CEIOPS there is no ''hard'' definition. The process of proving that a simplified method is appropriate may in many ways be more difficult/ time consuming than carrying out the non-simplified method in the first place. There is also a matter around consistency and what the SCR ultimately captures if different approaches are taken for different sub-modules within the SCR.	Noted.
			14.	In addition having to demonstrate this on a quarterly rather than annual basis makes it even more difficult (subject to 3.56 of Document DOC-47-09 (formerly CP55))	Noted.

			15.	The discussion of the phrase ‶nature, scale and complexity″ in CP77 does not seem to make the interpretation easier in any particular situation, for a supervisor or (re)insurer or captive.	Noted.
			16.	Furthermore, we have noticed that there is no simplified method for the SCR non-life underwriting risk. Although in some cases simplification could be introduced for catastrophe risks according to 3.122, this is inconsistent with the assessment in CP76 3.40 where it is stated that catastrophes would be considered complex (which we typically believe to be the case).	There is no simplification because of the straight forward standard methodology. Advice on this will follow as stated in paragraph 3.122
			17.	From a consistency perspective the process should be the same for simplifications of technical provisions and the SCR. Hence we would expect that an equal amount of steps to be required (currently only 2 out of the 3 steps set out for technical provisions in CP76 apply to the SCR).	Disagreed. Where for technical provisions, the backtesting exercise is easily feasible, this is not the case for SCR as CEIOPS does not see what against the outcome of the simplification should be backtested again having in mind that the outcome f the application of the standard formula is not an option.
			18.	Most simplifications are based upon QIS4. How is this articulated with the CP issued since QIS4?	See remark 1.5
			19.	Who approves simplifications: insurer, supervisor, possibility of an expert judgement?	
15.	Institut des actuaires	General Comment	1.	Most simplifications are based upon QIS4. How is this articulated with the CP issued since QIS4?	See remark 1.5.

			2.	Who approves simplifications: insurer, supervisor, possibility of an expert judgement?	The supervisor approves the use of simplifications as part of the supervisory review process.
16.	Lloyds	General Comment	1.	Overall there remains a great deal of subjectivity regarding the application of proportionality and simplifications. Lloyd''s would propose that clarity is at least made as to who within an undertaking is expected to make decisions on proportionality regarding the SCR. (This is clear for technical provisions where the responsibility would sit with the actuarial function)	Agreed. The ideas of the paragraphs 3.28 - 3.29 of CP 76 were included in the advicei.
			2.	There are two important points on proportionality that require emphasis: Firstly, it is stated that, as the complexity of risks increases, then so should the complexity of modelling. This ignores the data limitations that are often associated with complex risk. The point should be restated thus: as the complexity of risk increases then so should the level of expertise required to assess it and underlying modelling to the extent available data allows.	Noted.
			3.	Secondly, it is important that when assessing materiality of model error an undertaking is not required to calculate a non-simplified approach as this would defeat the objective of simplification. This is clear in paragraph 3.47 but not in paragraph 3.132.	Agreed.
17.	Munich Re	General Comment		We fully support all of the GDV statements and would like to add the following points:	
			1.	The assessment of proportionality should be performed for every run of the standard formula, but at least once a year.	Agreed (ad in 3.12)

			2.	If the scale chosen is accepted during the review process and if the risk is small according to this scale, nature and complexity should not matter when deciding on the simplified methods.	See remark 5.5.d)
			3.	If an undertaking wants to apply a simplification the SCR should not be the "scale", whether it is appropriate to apply the simplification. If the SCR has already been determined without simplification in order to determine the "scale" no further simplification seems necessary.	See remark 5.5.d)
18.				Confidential comments deleted.	
19.	PricewaterhouseCoopers LLP	General Comment		1. In general, we agree with the principles underlying this Consultation Paper. The paper provides nonprescriptive principles on the use of simplifications for the SCR. There is a risk of potentially a wide range of interpretations. We recommend that further guidance is provided in Level 3 text to ensure harmonisation.	Noted.

				2. Furthermore, as no formal approval process is envisaged, we would be interested to see CEIOPS opinion on when the supervisor would determine whether he agrees with the proportionality assessment carried out by the undertaking and what actions might be required when he disagrees.	See paragraphs. 4.5 and 4.9 of CP 18
20.				Confidential comments deleted.	
21.	Unum	General Comment	1.	Simplifications based on any new calibrations of the standard formula relative to QIS4 will need to be tested under QIS5	See remark 1.4
			2.	If the calibration of the standard formula is changed compared to QIS4, then simplifications have to be changed accordingly. Because the relationship between these two calculations may be non-linear then the respective changes may be different and will have to be tested in QIS5.	See remark 1.5
22.	DIMA	3.3.		This section creates significant uncertainty as to when entities shall be entitled to use simplifications, as the consultation paper refers to the simplified model result not deviating materially from the non-simplified calculation. Although the paper acknowledges in section 3.47 that entities are not expected to undertake the non-simplified calculation in order to determine the materiality of any variance and suggests some quantitative determinants (e.g. 3.52), in practice great uncertainty will surround the appropriateness of using simplifications.	Noted.
23.	DIMA	3.4.		See 3.3.	
24.				Confidential comments deleted.	
25.	CRO Forum	3.12.		Additionally, the assessment of proportionality should be performed for every run of the standard formula, but at least once a year.	Agreed. See revised text.
26.	Groupe Con-	3.12.		We welcome the general approach to define simplifications on a	Noted.

	sultatif			sub-modul/modul basis to ensure comparability. We agree that the assessment of the proportionality of the use of SCR should be performed on a sub-module basis. On the other hand this could lead to unpredictable uncertainty about the overall results, and potential inconsistency between different elements of the SCR.	 Agreed, See revised text.
27.	Munich Re	3.12.		Additionally, the assessment of proportionality should be performed for every run of the standard formula, but at least once a year.	Agreed. See revised text.
28.	ICISA	3.16.		Regarding the comment: “credit insurance business would often be “fat tailed”, i.e. there would be the risk of occasional large (outlier) losses occurring, leading to a higher degree of complexity and uncertainty of the risk”. We understand that there is a CEIOPS Task Force investigating Catastrophe Risk. We suggest that empirical evidence supporting the above statement is reviewed by the Task Force.	Noted. The statement is intended to provide an illustrative example.
29.	Lloyds	3.16.		It is useful that examples are provided but it should be noted that for more complex forms of insurance there is often less data available meaning that simplifications may be necessary. The method used can only be as good as the data available.	Agree.
30.	Lloyds	3.19.		We agree that as the complexity of risks increases so does the difficulty in predicting outcomes. However, more complex risk can also be associated with sparse data. In this instance it is wrong to assume the complexity of modelling should increase. The approach should be that as the complexity of risk increases then so should the level of expertise and modelling only to the extent available data allows.	Agree. Paras. 3.19 and 3.20 were revised to reflect the observation that the use of more complex methods may be restricted in cases where there is a scarcity of data.
31.	Lloyds	3.20.		See comment under 3.19.	See resolution to comment 30.

32.	CEA	3.21.		If the scale chosen is accepted during the review process and if the risk is small according to this scale, nature and complexity should not matter when deciding on the simplified methods. Nature and complexity should rather be used to assess the amount of simplification acceptable, i.e. guide the choice of the simplified method.	CEIOPS considers it important that undertakings assess the nature and complexity of the risks in undertaking a proportionality assessment. Sole reliance on a "scale" criterion (in terms of the "size" of the risk) may be dangerous where the nature and complexity of the risks is not properly known, and is unlikely to lead to better risk management.
33.	CRO Forum	3.21.		If the scale chosen is accepted during the review process and if the risk is small according to this scale, nature and complexity should not matter when deciding on the simplified methods. Nature and complexity should rather be used to assess the amount of simplification acceptable, i.e. guide the choice of the simplified method.	See resolution to comment 32.
34.	Munich Re	3.21.		If the scale chosen is accepted during the review process and if the risk is small according ot this scale, nature and complexity should not matter when deciding on the simplified methods. Nature and complexity should rather be used to assess the amount of simplification acceptable, i.e. guide the choice of the simplified method.	See resolution to comment 32.
35.	ABI	3.22.		We believe that undertakings should be in the position to use simplified methods, which are most appropriate for their risk profile.	See remark 2.2
36.	CEA	3.22.	1.	Thresholds should only be used as a rough guide but should not be part of level 2 or level 3	Noted. CEIOPS has considered the use of thresholds (in context of the calculation of technical provisions) in its consultation paper CP 76.

			2.	As in our reply to CP45, companies should determine whether the use of simplified methods is appropriate or not. Furthermore, companies should be able to identify which are the most appropriate methods to be used, based on the specificities of their risk profile without being restricted by rigid criteria set in Level 2 and with relative thresholds being used only as a guide for both supervisors and undertakings as to the likely suitability of a particular simplified approach.	See remark 2.2
37.				Confidential comments deleted.	
38.	Unum	3.22.		Firms should be in the position to use simplified methods, which are most appropriate for their risk profile.	See remark 2.2
39.	CEA	3.23.		This measure presented (likelihood x impact) is a measure of expected loss, not of unexpected loss, which the SCR is meant to reflect. We request that the wording is changed to “likelihood of risk”.	Agreed. Indeed, this potential approach to determine “scale” (in terms of the expected loss) differs from the approach set out in para. 3.24. The wording of the para. was revised to clarify this. No change in the formula was made since the text already specifies that “likelihood” refers to the likelihood of the risk being realised.
40.	Lloyds	3.23.		The proposed approach seems reasonable but the assessment of both elements (likelihood and impact) is likely to be very subjective at times.	Agreed. However, the alternative suggestions to define “scale” (e.g. the SCR) equally involve calculations which require input which is rather subjective at times, i.e.

					this does not seem to be a specific property of the approach set out in 3.23 – therefore this is not explicitly reflected in the text.
41.				Confidential comments deleted.	
42.	CRO Forum	3.24.		SCR might not be an appropriate "scale" to decide on simplification because the SCR would have to be determined without simplification.	See resolution to comment 46.
43.	Munich Re	3.24.		This is confusing. If an undertaking wants to apply a simplification the SCR should not be the "scale", whether it is appropriate to apply the simplification. If the SCR has already been determined without simplification in order to determine the "scale" no further simplification seems necessary.	See resolution to comment 46 – the idea would be that an initial/preliminary calculation of the SCR may be sufficient to indicate "scale" following the definition set out in 3.24.
44.	AMICE	3.26.	1.	We agree with CEIOPS that a reference volume measure should be defined in order to measure the scale of risks. We understand that a benchmark should be defined both at undertaking and risk level (when the undertaking wants to use a simplification in one module or sub-module only). CEIOPS states that in many cases the SCR itself can provide a volume measure. In that case we wonder how CEIOPS envisages the SCR to be calculated, i.e following a standard approach or by applying simplifications;	Noted. Agreed. See also resolution to comment 45.. Cf. resolution to comment 46.

			2.	In general terms, AMICE believes that any definition of "scale" should provide an "ex-ante" quantification of the risks of the undertaking; The scale of risks should be measured by using very simplified approaches to the SCR. If such quantification leads to the conclusion that the scale of the risks combined with their nature and complexity is small, a simplified valuation method can be chosen. This process will guide when simplifications can be used and will avoid the existing circularity existing in the QIS4 definition of thresholds.	Noted. This is broadly consistent with the intended meaning (see also added para.). However, we would not necessarily see the need to introduce "very simplified approaches" (as a separate class of methods?) for this purpose.
45.	CEA	3.26.		The scale of should be seen in the context of the entire undertaking The suggested benchmark should be an undertaking level, not on sub-risk level.	Not agreed – this will depend on the context in which the assessment is made. For example, in case the undertaking has to assesss whether it would be appropriate to use a simplified approach to measure mortaility risk for a certain part of its overall life business portfolio, an appropriate benchmark would be the overall amount of mortality risk, rather than the SCR of the undertaking as a whole.
46.	Lloyds	3.26.		In this instance, using the SCR as a volume measure in order to determine the scale of the risk under consideration seems to introduce circularity. In order to calculate the overall SCR, calculations would already have been carried out for each risk category, and if this has already been done employing simplifications would no longer be necessary. This approach is still applicable for technical provisions.	Agreed. However, provided a degree of pragmatism is accepted this problem could be solved - all that would be required is for insurers to estimate the relative sizes of the various components of their SCR that would be calculated using the simplifications. See added para. which reflects

					this consideration.
47.				Confidential comments deleted.	
48.	CRO Forum	3.27.		See 3.24	See resolution to comment to 3.24.
49.	Groupe Consultatif	3.27.		Further advice is needed here on the formula ""Scale == likelihood * … Scale == SCR/…. ""	Agreed. However, in view of the principles-based approach proposed in paras. 3.28 and 3.29 (which stress that a definition of "scale" should not be "hard-coded" on level 2), it
50.	Munich Re	3.27.		See 3.24.	See resolution to comment to 3.24.
51.	Groupe Consultatif	3.31.		It is unclear what the colours mean, further advice is needed here.	Agreed. However, the risk matrix is given here for illustrative purposes only – the colours shall indicate to what extent the use of simplified methods would be likely to be appropriate.
52.	CRO Forum	3.36.		In general, it is very hard for undertakings to quantify which impact on the "true" SCR the application of the simplification will be. Moreover, if an undertaking wants to apply the simplification it is very likely that the undertaking will not be able to determine the "true" SCR without engaging in "disproportionate" efforts.	Noted. Cf. resolution to comment 53. A reference was added to the para. to clarify that it is not intended that undertakings should be required to determine the "true" SCR in order to assess model error.

53.	Groupe Consultatif	3.36.		We believe it will be quite difficult to be sure that the resulting estimate by a simplified method is expected not to diverge materially from the ““true”” calculation only by using a qualitative judgement. The use of ““immaterial”” in the context of model error may also be impossible to handle in practice. The ““true”” value is fundamentally unknowable.	Agreed. Therefore, the (clearly non-exhaustive) list of potential tools to assess model error as given in 3.45 contains both quantitative and qualitative elements. We agree that further technical guidelines would be helpful to foster a common understanding of this concept. Yes – still, a range of quantitative and qualitative tools are available (and are being used by actuaries as part of best practice) to assess the model error inherent in the calculation at least to some extent.
54.	Lloyds	3.36.		The paragraph states that the simplified calculation should be seen as proportionate if the resulting estimate is not expected to diverge materially from the ““true”” calculation, i.e. if the model error implied by the change of method is immaterial. This paragraph should refer to paragraph 3.47 which makes it clear an undertaking is not required to calculate the model error, as this would include calculating the non-simplified approach as well.	Agreed. Reference to para. 3.47 was added in a footnote.
55.	Munich Re	3.36.		In general, it is very hard for undertakings to quantify which impact on the “true” SCR the application of the simplification will be. Moreover, if an undertaking wants to apply the simplification it is very likely that the undertaking will not be able to determine the “true” SCR without engaging in “disproportionate” efforts.	See resolution to comment 52.

56.	CEA	3.39.		It should be noted that the treatment of model errors should not be "symmetrical" - only if there is a risk of the simplified approach leading to a lower SCR than the 99.5th percentile should there be cause for concern.	Noted.
57.	FEE	3.39.		We encourage using the concept of "materiality" for Solvency II. Nevertheless we would see some need to clarify how that concept might be applied to Solvency II-requirements especially what the relevant parameter would be to measure materiality.	Noted. Agreed. CEIOPS considers that such further clarification could be achieved by developing technical and actuarial guidelines supporting this concept.
				With respect to the wording, we suggest to use the term International Financial Reporting Standard (IFRS) instead of International Accounting Standards (IAS) as used in 3.39.	Agreed, change made.
58.	Lloyds	3.39.		We welcome the intention to align the definition of materiality with that used in IFRS, consistent with the definition set in CP55.	Noted.
59.	PricewaterhouseCoopers LLP	3.39.		We welcome the intention to align the definition of materiality with that used in IFRS, consistent with the definition set in CP55.	Noted.
60.				Confidential comments deleted.	
61.	CEA	3.40.		Please see comments to Para 3.26.	Cf. resolution of comment to 3.26.
62.	Lloyds	3.40.		This proposal is very subjective.	Noted.
63.				Confidential comments deleted.	
64.	Lloyds	3.41.		The requirements on materiality do need to be clearly made. The final sentence should be clearer on what is expected. This could be	Agreed. See revised wording, which partly follows the sugges-

				replaced with ""The undertaking should define the criteria for materiality and clearly document the basis on which the decision to use a simplified approach was made. For example, outlining the assessment that any expected misstatement of the SCR is immaterial.'"'	tion made.
65.	Groupe Consultatif	3.43.		(SRP == Supervisory Review Process)	Wording revised to include full description.
66.	Groupe Consultatif	3.44.		It is necessary that justification of using simplification will not be more burdensome than the standard calculation itself. Otherwise, use of simplification would not reduce undue burden of full calculation, which is the main reason for using it.	This para. is not specific for the use of simplified methods, but is intended to apply generally.
67.	AMICE	3.47.		AMICE members welcome the introduction of this paragraph stating that undertakings should not be required to quantify the degree of model error in precise quantitative terms or to re-calculate the value of its technical provisions using a more accurate method in order to demonstrate that the difference between the result of the chosen method and the result of a more accurate method is immaterial.	Noted.
68.				Confidential comments deleted.	
69.	CEA	3.47.		We agree it is important that the undertaking is not required to quantify the degree of model error in precise quantitative terms Undertakings should only perform a qualitative assessment of the model error level. We believe that Para 3.47 should be also included in the blue box as a draft advice (see also our comment on Para 3.132).	Noted. Agreed.
70.	CRO Forum	3.47.		Undertaking should demonstrate that there is reasonable assurance that the model error implied by the application of the simplified method is immaterial – it is not clear how this is demonstrated,	Agreed that further guidance/technical standards are needed to foster a common un-

				other than by quantitative means.	derstanding of this task. Level 3 guidance on the subject will be provided.
71.	Deloitte	3.47.		We agree that quantifying model error will not be easy. However, it is not clear how companies can demonstrate the model error is not material without actually performing the standard formula. We suggest CEIOPS provide guidance at Level 3 on possible ways to assess the model error following the principle of para. 3.47	Noted. Cf. resolution to comment 70.
72.	FEE	3.47.		We share the opinion that it will not be easy in practice to perform an assessment of the model error, although we would rather use the term estimation error instead of model error (3.47).	Noted. A footnote was added in 3.36 to clarify the intended meaning of "model error" (which is used synonymously to "estimation error")
				Consequently, a quantitative proportionality requirement might be reasonable. However, the example given in paragraph 3.52 according to which the simplified calculation for a sub-module can only be used if the requirement obtained by means of the simplification does not exceed 10% of the Basic Solvency Capital Requirement, would increase the risk of an underestimation of capital requirements, as the undertaking might be inclined to reduce the result of the simplified approach for the sub-module below the 10% threshold. This comment also applies to paragraph 3.52.	Noted. Agreed. The approach in 3.52 is only provided as an illustrative example.
73.	FFSA	3.47.		1. Model risk error 2. CEIOPS states that "the undertaking should not be required to quantify the degree of model error in precise quantitative terms, or to re-calculate the value of the capital charge using the non simplified method in order to demonstrate that the difference between	Agreed. This is a correct interpretation of the text.

				the result of the simplified method and the result of the non simplified method is immaterial. Instead, it would be sufficient for the undertaking to demonstrate that there is reasonable assurance that the model error implied by the application of the simplified method (and hence the difference between those two amounts) is immaterial." FFSA understands that undertakings should only perform a qualitative assessment of the model error level.	
74.	Groupe Consultatif	3.47.		We welcome the clarification that in practice the assessment of a model error might lead to difficulties and that in these cases a qualitative justification of the appropriateness is sufficient.	Noted.
75.	Lloyds	3.47.		This paragraph states that in order to estimate model error the undertaking should not be required to re-calculate values using the non-simplified method. We agree with this;; otherwise it defeats the objective of simplified approaches. It is suggested that the undertaking demonstrates that the model error implied by application of the simplification is immaterial. This approach remains very subjective and it is not clear from the consultation paper how an undertaking would go about demonstrating this immateriality.	See remark 70.
				The implementing measures should require an undertaking to identify who would be responsible for this decision. We would appreciate further clarification as to what is meant by ""reasonable assurance that the model error implied…….is immaterial"". ""Reasonable assurance"" is likely to generate a wide range of interpretation between undertakings and therefore lead to inconsistent assessments.	This is related to governance issues which are not covered in this paper. CEIOPS expects that the development of supervisory "level 3" guidelines as well as additional technical and actuarial standards will provide further clarification of

					the concept introduced in 3.47.
76.				Confidential comments deleted.	
77.	Pricewater-houseCoop-ers LLP	3.47.		We request clarification as to what is meant by "reasonable assurance that the model error implied…….is immaterial". "Reasonable assurance" is likely to generate a wide range of interpretation between undertakings and therefore may not produce consistent assessments.	See remark 75
78.				Confidential comments deleted.	
79.	CEA	3.49.		As in our response to CP45, we agree that insurers should be responsible for the appropriateness of the proportionality assessment.	Noted
80.	Deloitte	3.49.		This paragraph suggests there will be no approval process for using simplifications to the standard formula. We are not sure if the regulators will be comfortable with this approach and whether requiring firms to demonstrate proportionality should be developed as a formal approval process? This would then avoid the potential risk of cherry-picking	No formal approval process is foreseen but in the exercise of its general powers the supervisors can intervene if he is of the opinion that the simplification unduly used.
81.	AMICE	3.50.		We strongly support CEIOPS definition of scale in terms of the SCR. However, we would prefer relating SCR to the vulnerability of the risk over one-year to a 1 in 200 confidence level as defined in the Level 1 text rather than to the "worst case" scenario.	Noted.
82.	Groupe Consultatif	3.50.		Restrictions for the likely estimation error need to be just qualitative. Quantitative assessment would require a parallel calculation	The content of the remark is not conflicting with paragraph 3.47

				using non-simplified method. This would mean excessive reporting burden and conflicts with 3.47.	
83.	CEA	3.51.	1.	We recommend that qualitative limitations to apply to all risks subject to simplifications	Noted.
			2.	Specific proportionality requirements could be of a quantitative or a qualitative nature. Some risks do not have a limitation on the size of the simplified calculation results and this may be to the advantage of companies especially when no approval process is required.	Noted.
84.	CEA	3.54.		It should be up to the undertaking to assess what is an "undue burden".	Agreed but there is of course the assessment by the supervisor that may correct the assessment of the undertaking.
85.	Deloitte	3.54.		We welcome the point about avoiding situations where companies can cherry-pick favourable situations. However, if the standard formula has been used in the past, does this mean that companies must use this going forward? For example, it may not be an undue burden to use the standard formula for year end reporting but it may be for interim reporting. In such a case, would it be possible to use simplifications when performing interim calculations?	CP 55 paragraph 3.52 and the following expand on the use of a simplification. CEIOPS believes that if simplifications can be used for the yearly calculation, these simplifications are also allowed for interim calculations. The obligation to do an interim calculation does not imply however the right to use simplifications.
86.	Groupe Consultatif	3.54.		We agree that cherry-picking must be avoided.	Noted.
87.	ILAG	3.54.		We believe that for certain modules simplification should be permitted anyway as long as the effect is not material.	Noted.
88.	DIMA	3.55.		DIMA feels that this will result in increased and more onerous modelling requirements which are likely to be a significant issue for smaller companies.	CEIOPS does not see relevance of the remark.

89.	ABI	3.58.		We do not support the removal of interest risk simplifications Firstly, it may be overly onerous to require all companies to discount liabilities using the full yield curve and then secondly to carry out stresses on the full yield curve. Particularly for smaller companies this could cause implementation issues. Furthermore, the omission does not seem consistent with Article 85(h) of the Level 1 text.	See remark 1.2.
90.	AMICE	3.58.		CEIOPS writes that as it is very likely that the relevant risk-free interest rate term structure according to Article 76(2) of the Level 1 text will not be flat, a differentiation by maturity will be an essential requirement under Solvency II. Therefore, the simplification should not be included in the Implementing Measures. There should be some allowance for using this simplification linked to fulfilment of the nature, scale and complexity conditions which define the application of the principle of proportionality.	See remark 1.2.

91.	CEA	3.58.	1.	We do not support the removal of interest risk simplifications It may be overly onerous to require all companies to discount assets and liabilities using the full yield curve and then to carry out stresses on the full yield curve. Particularly for smaller companies this could cause implementation issues. From our perspective the use of simplifications should still be available, subject of course to the principle of proportionality. The restrictions for use of this simplification which were listed in QIS4 i.e. not to be used for life technical provisions, did ensure that for types of business where interest rate is material the full yield curve is considered. We request to keep the interest rate simplification for that business for which interest rate risk is immaterial. A prudent parallel shift should be retained.	Disagree. Sufficient reason for not withholding this simplification have been given. Remark 2.2. continues however to apply.
			2.	We should note on this topic anyhow that we would not expect the implementing measures to contain a specific and exhaustive list of permitted simplifications. The Level 2 implementing measures should not place restrictions on the simplifications which can be used or restrict the use of simplifications for certain areas altogether.	See remark 2.2
92.	DIMA	3.58.		DIMA feels that this will result in increased and more onerous modelling requirements which are likely to be a significant issue for smaller companies.	See remark 2.2
93.	Groupe Consultatif	3.58.		Despite using not exactly flat yield curve a simplification using modified duration would be reasonable for assets and liabilities with fixed (interest-rate insensitive) cash flows.	See remark 2.2

94.	ILAG	3.58.		This seems unnecessarily harsh, particularly for small organisations which are unlikely to be able to afford a sophisticated economic scenario generator.	See remark 2.2
95.	CEA	3.59.		See comments to Para 3.58. We would request the addition of the text "… as part of the implementing measures" as we would not expect an exclusion of the possibility to use simplifications for the interest rate risk sub-module.	Agreed.
96.	FFSA	3.59.		Interest rate risk CEIOPS states in 3.58 that "As it is very likely that the relevant risk-free interest rate term structure according to Article 76(2) of the Level 1 text will not be flat, a differentiation by maturity will be an essential requirement under Solvency II. Therefore, the simplification should not be included in the Implementing Measures." FFSA believes that undertakings should be allowed to use such simplification. CEIOPS dos not provide a valuable reason for not using such method. The parallel shift in the yield curve (- 40% ; + 55%) allows for significant moves in the yield curve shape.	Disagree. Sufficient reason for not withholding this simplification have been given. Remark 2.2. continues however to apply.
97.	Lloyds	3.59.		We assume referral is made to paragraph 3.58 instead of paragraph 3.56.	Agreed
98.	Pricewater-houseCoopers LLP	3.59.		We assume referral is made to paragraph 3.58 instead of paragraph 3.56.	Agreed
99.	Groupe Consultatif	3.60.		In this extract from QIS4 TS the later published Errata is not considered, i.e.	Agreed

				<table><tr><td>TS.IX.C.20</td><td>The definition of $Hedge_i$ should be amended as follows "$Hedge_i$ = The change in Market value of hedges per i index i under stress (i.e. value of hedges before stress r of hedges after stress). This means that an increase in t the hedge following a change in the market level of vol means that $Hedge_i$ will be a negative figure."</td></tr></table>	

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<tr><td>TS.IX.C.20</td><td>The definition of PostStressLiabilityValue should be amended as follows:

“PostStressLiabilityValue = Change in the value of the liabilities following a change in the value of equities/hedges of RevisedEquityStressTest (i.e. value of liabilities before stress minus value of liabilities after stress). This implies that a decrease in the value of liabilities following the volafactor_i shock will correspond to a positive PostStressLiabilityValue figure.”</td></tr>
<tr><td>TS.IX.C.20</td><td>The second but last formula should read:

„RevisedEquityStressTest = AggregateChangeInEquityValues / PreStressEquityValue“</td></tr>
<tr><td>TS.IX.C.20</td><td>The last formula should read:

“$Mkt_{eq,i}$ = max(AggregateChangeInEquityValue - PostStressLiabilityValue,0)”</td></tr>
<tr><td>TS.IX.C.20</td><td>The last formula should read:

“$Mkt_{eq,i}$ = max(PostStressLiabilityValue + AggregateChangeInEquityValue,0)”</td></tr>
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</td><td></td></tr>
<tr><td>100.</td><td>CEA</td><td>3.61.</td><td></td><td>We agree that the QIS4 equity risk simplification is so similar to the standard calculation that there is no need for this simplification.</td><td>Noted.</td></tr>
</table>

101.	Lloyds	3.65.		We agree with no specific simplification on currency risk. However, proportionality should apply to the non-simplified method outlined in CP47 and this should explicitly consider all significant ““foreign”“ currencies rather than all ““foreign”“ currencies.	Noted.
102.	ABI	3.67.		We do not support the removal of the spread risk simplification for structured products and credit derivatives The scale of investments in credit derivatives and structured products as compared to the entire undertaking may still be such that a simplification is warranted.	See remark 6.8
				A lower exposure threshold could be required, above which the simplified approach would not be allowed.	The paragraph does not discuss threshholds
103.	CEA	3.67.		We do not support the removal of the spread risk simplification for structured products and credit derivatives The scale of investments in credit derivatives and structured products as compared to the entire undertaking may still be such that a simplification is warranted, despite the fact that these may be complex products.	See remark 6.8
104.	Groupe Consultatif	3.67.		We believe that a simplification for spread risk should be enabled also for structured products given that their volume (scale of risk) is low. Compare 3.31	See remark 1.2
105.	Groupe Consultatif	3.68.		In this extract from QIS4 TS the later published Errata is not considered, i.e.	

				TS.IX.F.19 — The formula for structured credit products should read: "$Mkt_{sp}^{struct} = MV^{struct} * Dur^{struct} * \Sigma (\%Mv_i^{struct} G(rating_i))$" TS.IX.F.19 — Below "MV = Total market value…" add the following line: "MV^{struct} = Total market value of structured credit products portfolio" The last formula should be corrected to $MV^{bonds} \bullet \sum_i (Mv_i^{bonds} \bullet F(rating, maturity))$ (i.e. include the indication "bonds").	Agreed
106.	ABI	3.69.		We believe that the simplification for spread risk should be available in the standard formula.	Noted.
107.	ACA	3.69.		Question should be asked in QIS5.	Noted.
108.	AMICE	3.69.		CEIOPS asks undertakings whether the standard formula should include a simplification for spread risk (as tested in QIS4). AMICE members reject any proposal to delete any of the simplifications tested in QIS4.	Noted.
109.				Confidential comments deleted.	
110.	CEA	3.69.		We welcome the simplification for spread risk and request that it is maintained This simplification appears to be reasonable and to provide a good approximation. If the proportionality principle is met, we believe there is no reason to delete this option which could avoid burdensome calculations.	Noted.

111.	CRO Forum	3.69.		We would assume that for most of the companies a separation of the bond portfolio according to rating and modified duration should not be an undue burden so that the proposed simplification should be used only in exceptional cases.	Noted.
112.	Deloitte	3.69.	1.	Feedback on OPTION 1: The standard formula includes a simplification for spread risk as defined above. We believe that it is important to understand that spread risk also has a certain interaction with counterparty risk. According to the framework directive there is some degree of freedom in allocating risk. Therefore, should the simplification for spread risk be included in the standard formula as a subsection of market risk, then it should not be included in the counterparty risk to ensure that this risk is not double counted. If it is explicitly included in the standard formula under market risk then some freedom in allocation is lost which can be seen as contradictory to the framework directive. In CP 51 it was clear that CEIOPS proposed a simplification of counterparty risk calculation based on the disproportionate complexity in the counterparty risk calculation seen in the results of QIS 4. We would propose that if this simplification is included in the standard formula that it should form a subsection of the counterparty risk calculation to aid in minimizing the complexity of the counterparty risk calculation.	Noted.
			2.	Feedback on OPTION 2: The standard formula does not include a simplification for spread risk. If the simplification is not included in the standard formula we believe that due to the interaction between spread risk and counterparty risk that the simplification calculation for spread risk may be	Noted.

				proportionate for numerous insurers in the market and conclusively lead to a simplification which is frequently used. In paragraph 3.54 it was stated that simplifications should only be used when the standard SCR calculation is an undue burden and if the standard SCR calculation can be made easily it is not disproportionate. Therefore we may end up in a situation that when we exclude this simplification in the standard formula that the standard SCR calculation will be an undue burden in a number of cases.	
			3.	We believe that the simplified calculation set out in paragraph 3.68 will require the same amount of data as that required by the standard formula for spread risk of bonds set out in paragraph 4.155 of CP70. Under both the simplification and the standard formula there will be a requirement for the individual bond data. For the simplification, this will be required to calculate the average maturity of the non-government bond portfolio. Further, we believe there could be an extra requirement if using the simplified calculation because one needs to group data. For these reasons, we believe option 2 is the most appropriate option i.e. no simplification for spread risk on bonds.	Noted.
113.	DIMA	3.69.		DIMA believes the standard formula should include a simplification for spread risk.	Noted.
114.	FFSA	3.69.		Credit spread risk: CEIOPS asks undertakings' opinion on including the simplification for bonds into the standard formula.	
			1.	FFSA would like CEIOPS to include the simplification for bonds. As according to previous experience, this simplification appears to be reasonable and seems to provide a good approximation. If the proportionality of simplification is met, FFSA thinks there is no reason to delete this option which could avoid burdensome calculations.	Noted.

			2.	In addition, the suggested simplifications in QIS4 for structured products and credit derivatives should be maintained.	Noted.
115.				Confidential comments deleted.	
116.	Groupe Consultatif	3.69.		In our opinion, the standard formula should include simplification for spread risk in order to facilitate simplified calculation performed by small insurers, i.e. we prefer Option 1.	Noted.
117.	Lloyds	3.69.		The suggested simplification seems very similar to the non-simplified method, which is straightforward to apply. Also, the information necessary to perform the simplified calculation is similar to the information required for the standard formula. The standard formula does not need to include a simplified method for spread risk for bonds.	Noted.
118.	PricewaterhouseCoopers LLP	3.69.		We do not see a need for the suggested simplification for spread risk. The information necessary to perform the simplified calculation is similar to the information required for the standard formula.	Noted.
119.				Confidential comments deleted.	
120.	Unum	3.69.		We believe that the simplification for spread risk should be included in the standard formula.	Noted.
121.	ACA	3.70.		See 3.69	
122.				Confidential comments deleted.	
123.	PricewaterhouseCoopers LLP	3.76.		(also applies to 3.77 to 3.103) We would assume that when an undertaking is able to provide a best estimate of the liability and the information necessary for the simplification, such as the modified duration of the liability and the firm-specific average death rates or first year movements between healthy and sick), the undertaking should also be able to perform the calculation necessary for the	Noted.

				standard formula. Therefore, it is questionable whether this simplification will be appropriate for any of the risks mentioned – see 3.133.	
124.	ACA	3.85.		The formula includes the 'Technical provision' which in turn includes a proportion of the SCRs. We suggest the use of the Best Estimate instead of the 'technical provision'. In order to keep a prudent formula, the 'technical provision' could be approximated by the BE multiplied by a corrective factor in order to take account of the risk margin.	Agreed.
125.				Confidential comments deleted.	
126.	ACA	3.102.	1.	Except if we do not understand properly the definition of the parameter 't', we believe that the parameter 't' should be replaced by (1 – t).	Diagreed. CEIOPS believes the confusion may come from the definition of t, the expected termination rate that is the movement from sick to healthy or death over the next year.
			2.	The formula includes the 'Technical provision' which in turn includes a proportion of the SCRs. We suggest the use of the Best Estimate instead of the 'technical provision'. In order to keep a prudent formula, the 'technical provision' could be approximated by the BE multiplied by a corrective factor in order to take account of the risk margin. A link could be made with CP76 - 3.274 (5).	Agreed.
127.				Confidential comments deleted.	

128.	Unum	3.102.		The formula for the disability risk the claims duration is longer is incorrect. There is no reason why the termination rate “t” should decrease further with age. The 1.1 is termed “projected disability increase which is the wording from the inception assessment. The technical provisions of a claims closed block will decrease to zero at the end of the duration n, so taking one year and multiplying by n does not make sense	Partially agreed. t is affected by both mortality and termination degree. As this is a simplification, it is not to be expected that the formulas perfectly describe the risk pattern and its evolution.
129.	Groupe Consultatif	3.104.		… * n(exp) * (0.1 + 0.005*n(exp). See 3.107 Where (n(exp)) == average…. Perhaps an explicit formula could be useful.	$(\sum i \times RE_i)/RE$ with RE= $\underline{\sum RE_i}$)
130.	Lloyds	3.104.		We do not think that the suggested simplification is easier to compute than the standard formula, given the fact that the best estimate of the liability should include a projection of the expenses cash flows.	Noted.
131.	PricewaterhouseCoopers LLP	3.104.		(also applies to 3.105 to 3.107) We are not sure whether the suggested simplification is in fact easier to compute than the standard formula, given the fact that the best estimate of the liability should include a projection of the expenses cash flows.	Noted
132.	ACA	3.106.		Missing () in the formula	Agreed

133.				Confidential comments deleted.	
134.	ACA	3.107.		See 3.106	
135.				Confidential comments deleted.	
136.	Groupe Consultatif	3.107.		…*n(exp) * 10% + …. Where is 0.005*n(exp), see 3.104.	See remark 129
137.	Groupe Consultatif	3.108.		The revision risk should be listed in the advice (3.5) after 3.143.	Agreed
138.	PricewaterhouseCoopers LLP	3.113.		We are not sure whether the reference to section 3.4.2.4 is correct. We understand that the simplifications for the health underwriting risk module are now in line with the ones for the life underwriting risk module.	Agreed. See revised Advice.
139.	ABI	3.118.		We note that CEIOPS has not provided any details for the use of simplifications in the health revision risk module.	Noted
140.	CEA	3.118.		We request that Ceiops provides the details of the simplifications for health revision risk No details are given as to how health revision risk is changing to combine inflation and enlargement of the scope to all kind of benefits. We cannot comment on this simplification without this information.	See revised Advice on the health underwriting risk module (point 3.90)
141.	Unum	3.118.		We note that CEIOPS has not provided details for the use of simplifications in the health revision risk module.	Noted.
142.	Groupe Consultatif	3.123.		3.123 deals with simplifications for captives which is tackled by CP 79.	Noted.
143.	Institut des actuaires	3.123.		3.123 deals with simplifications for captives which is tackled by CP 79.	Noted.

144.				Confidential comments deleted.	
145.	Association of Run-Off Companies	3.125.		See "General Comment", above.	
146.	Association of Run-Off Companies	3.126.		See "General Comment", above.	
147.	CRO Forum	3.126.		We understand that simplifications would be possible for full internal models, too, following the assessment of nature, scale, complexity and materiality of risks.	Agreed. The methodoly used of course has to answer all the conditions set for the internal model.
148.	FEE	3.126.		According to paragraph 3.126, the undertaking is responsible to determine the SCR by using appropriate methods, taking into account the nature, scale and complexity of the risks. The range of potential methods is given by a selection ranging from internal models through partial internal models, undertaking specific parameters, standard formula to simplifications. It has to be pointed out that the original idea was to create a reasonable standard formula which should be used by all undertakings. However, an undertaking should be encouraged by prudent calibration of the standard formula to develop an internal model to prove a lower solvency requirement. In order to allow for the application of the internal model the supervisory authorities should have approved the internal model of the undertaking. The approach taken now is more demanding for the undertaking as well as for the supervisory authority, as it has to be proven, for each individual undertaking, whether a more sophisticated approach has to be applied.	Paragraph 3.126 simply gives a hierarchy in the methodologies undertakings may use. Undertakings are free to use the methodologie they think appropriate given their specific features. The conditions that have to met are identical from one undertaking to another and this ensures equal treatment and thus comparability.

				Even though we welcome that some flexibility is given for going from a "simple" standard model to more advanced models, we would like to point out that comparability between undertakings will be very limited. This might be contradictory to Article 109 which asks for implementing measures in order to ensure that the same treatment is applied by all insurance and reinsurance undertakings.	
149.	Association of Run-Off Companies	3.127.		See "General Comment", above.	
150.	Association of Run-Off Companies	3.128.		See "General Comment", above.	
151.	Groupe Consultatif	3.128.		Process of assessment whether using a simplification is proportionate should not be more demanding than using a non-simplified method.	Agreed.
152.	Association of Run-Off Companies	3.129.		See "General Comment", above.	
153.	CEA	3.129.		In the future we request that Ceiops discusses the approval process for the assessment with the industry in order to guarantee transparency and comparability.	Noted.
154.	CRO Forum	3.129.		The assessment of nature, scale and complexity of the risk should be done in a transparent and comparable way. Furthermore, CEIOPS should set up an approval process for the assessment to guarantee Solvency II standards.	See remark 19.2.
155.	Lloyds	3.129.		We agree that as the complexity of risks increases so does the diffi-	Assume comment is made with

				culty in predicting outcomes. However, more complex risk can also be associated with sparse data. In this instance it is wrong to assume the complexity of modelling should increase. The approach should be that as the complexity of risk increases then so should the level of expertise and modelling only to the extent available data allows.	respect to para. 3.20. See revised wording of this para. and resolution given to comments relating to 3.20.
156.	Munich Re	3.129.		The assessment of nature, scale and complexity of the risk should be done transparently and comparable. Furthermore, CEIOPS should set up an approval process for the assessment to guarantee Solvency II standards.	See remark 19.2.
157.	Association of Run-Off Companies	3.130.		See "General Comment", above.	
158.	Groupe Consultatif	3.130.		In this step the insurer shall asses and shown whether a specific……	Agreed
159.	Association of Run-Off Companies	3.131.		See "General Comment", above.	
160.	FEE	3.131.		Paragraph 3.131 explains that simplifications introduce additional estimation uncertainty, which makes it more difficult to verify that it is suitable to achieve the objective of deriving a 99,5% VaR. As the potential simplification is a deviation from the standard formula and by definition should simplify the calculation, it has to be pointed out that the need to prove that the result is in line with the theoretical concept of a 99,5% VaR should not be higher than for the standard formula itself.	Noted
161.	Groupe Consultatif	3.131.		Where simplified approaches……. Is important to consider the fact of test (model error) do not become more complex than use a simply ""not simplified way"" . It seams 3.132 and 3.133 try to smooth the path.	Noted

162.	ABI	3.132.		Insurers should not have to precisely quantify the model error of the simplifications they use As per our response to CP45, we agree that insurers should be responsible for the appropriateness of the proportionality assessment. However, insurers should not have to precisely quantify the model error inherent in any simplifications they use, as this would largely negate the purpose of a simplified calculation.	See remark 1.6. This is consistent with the content of para. 3.47. Wording from that para. was added to blue box to clarify this.
163.	AMICE	3.132.		This paragraph seems to be in contradiction with paragraph 3.47 AMICE members reiterate their position that the quantification of the model error should not define the application of the proportionality principle but the appropriateness of the valuation method to evaluate the solvency capital requirements.	Disagree. Paragraph 3.47 clearly explains what is expected from the undertakings. For clarification, parts of 3.47 were added to the advice given in the blue box.
164.	Association of Run-Off Companies	3.132.		See "General Comment", above.	
165.				Confidential comments deleted.	

166.	CEA	3.132.	1.	Companies should not have to quantify the model error inherent in any simplifications they use Ceiops requests "assessment" of model error. This would seem excessively burdensome and so out-of-line with the intention of using simplifications in the first place. Instead the proportionality criteria should be used to avoid circumstances where model error might be excessive thereby avoiding the need to quantify it. We request that the text is clarified in this regard, as per Ceiops' own clarification in Para 3.47. Without question Ceiops should not require insurers to also calculate the SCR without simplifications in order to determine whether a simplification should be allowed.	See remark 1.6. Wording of 3.47 was added to "blue box" to further clarify intended meaning.
			2.	Furthermore, we note that "model error" associated with a simplification should only be a concern if there is a risk of materially underestimating the SCR at the undertaking level. Overestimation should not be a cause for concern (for the supervisor).	Agreed.

			3.	We request consistency with CP76 (Para 3.113) which requires only assessment of proportionality, namely: "The undertaking should not be required to quantify the degree of model error in precise quantitative terms, or to re-calculate the value of technical provisions using a more accurate method in order to demonstrate that the difference between the result of the chosen method and the result of a more accurate method is immaterial. Instead it would be sufficient for the undertaking to demonstrate that there is reasonable assurance that the model error implied by the application of the chosen method (and hence the difference between these two amounts is immaterial)."	See remark 1.6 Agreed. Cited wording (which is consistent with para. 3.47 in this paper) was added to the "blue box".
167.	CRO Forum	3.132.		It is not clear how the assessment of the model error should be performed. A full quantitative assessment would require the standard approach to be implemented which would supersede the simplification. Any requirements on this assessment should be rather addressed within Pillar II. It is not clear, how the insurer should assess the model error, when the "true" SCR is not quantifiable. This is a circular statement. Moreover, it is not clear, under which circumstances the model error should be regarded as non-material.	cf. resolution to comments to 3.20 and to comment 166.
168.	GDV	3.132.		Companies should not have to quantify the model error inherent in any simplifications they use Ceiops requests "assessment" of model error. This would seem excessively burdensome and so out-of-line with the intention of using simplifications in the first place. Instead the proportionality criteria should be used to avoid circumstances where model error might be excessive thereby avoiding the need to quantify it. We request that the text is clarified in this regard, as per Ceiops' own clarification in	See remark 1.6. and resolution to comments 166 and 167.

				Para 3.47. Without question Ceiops should not require insurers to also calculate the SCR without simplifications in order to determine whether a simplification should be allowed. Furthermore, we note that "model error" associated with a simplification should only be a concern if there is a risk of materially underestimating the SCR at the undertaking level. Overestimation should not be a cause for concern (for the supervisor). We request consistency with CP76 (Para 3.113) which requires only assessment of proportionality, namely: "The undertaking should not be required to quantify the degree of model error in precise quantitative terms, or to re-calculate the value of technical provisions using a more accurate method in order to demonstrate that the difference between the result of the chosen method and the result of a more accurate method is immaterial. Instead it would be sufficient for the undertaking to demonstrate that there is reasonable assurance that the model error implied by the application of the chosen method (and hence the difference between these two amounts) is immaterial."	
169.	Groupe Consultatif	3.132.		We believe that when assessing the model error the companies should not be required to calculate the model error in precise quantitative terms by using the non simplified methods. There would be sufficient if the company in other ways can demonstrate that the model error is non-significant. These views are expressed in paragraph 3.47 and should also be incorporated in this advice.	Agreed, wording was added.
170.	Lloyds	3.132.	1.	This paragraph should state that an undertaking does not explicitly have to calculate the non-simplified in order to assess the model error materiality (as per 3.47). This is an important point.	Agreed, wording was added.

			2.	It is suggested that the undertaking demonstrates that the model error implied by application of the simplification is immaterial. This approach remains very subjective and it is not clear from the consultation paper how an undertaking would go about demonstrating this immateriality. The implementing measures should require an undertaking to identify who would be responsible for this decision on the SCR.	See remark 5.5.a)
171.	Munich Re	3.132.		It is not clear, how the insurer should assess the model error, when the "true" SCR is not quantifiable. This is a circular statement. Moreover, it is not clear, under which circumstances the model error should be regarded as non-material.	See remark 1.6. and resolution to comments above.
172.				Confidential comments deleted.	
173.	Unum	3.132.		Firms should not have to precisely quantify the model error inherent in any simplifications they use This would seem excessively burdensome and so out-of-line with the intention of using simplifications in the first place. Instead the proportionality criteria should be used to avoid circumstances where model error might be excessive thereby avoiding the need to quantify it.	See remark 1.6. and resolution to comments above.
174.	Association of Run-Off Companies	3.133.		See "General Comment", above.	
175.	Groupe Consultatif	3.133.		We believe that the companies should not be forced to calculate the model errors stemming from different simplifications methods exactly. Thus there will be no possibility to quantify between different simplification methods. See also comment under 3.132.	See remark 1.6

				We agree with the preference of the standard calculation in cases where both methods turn out to cause the same level of work.	
176.	ILAG	3.133.		I would like to see a specific agreement that where a particular module or sub-module is of immaterial size (less than 5% of the business perhaps) then simplification should be permitted.	For the modules where treshholds apply, these have been given (e.g § 3.136)
177.	Association of Run-Off Companies	3.134.		See "General Comment", above.	
178.				Confidential comments deleted.	
179.	CEA	3.134.	1.	We assume that the "not" in the third bullet should be deleted.	Agreed.
			2.	We note that bullets 1 and 3 are a repetition of the directive and so do not seem necessary – same comment for the other simplifica-tions.	Noted.
			3.	Bullet 2 inappropriately limits the application of the simplification A requirement for the credit ratings of long and short bonds to be no less than 1 rating apart appears too restrictive. Insurers should still be allowed to use simplifications for a set of more diversified bonds as long as the scale of the holding is proportionate. We rec-ommend that no limits of this kind are set.	See revised text § 3.136
180.	CRO Forum	3.134.		It should read: "The standard calculation of the expense risk sub-module is not an undue burden for the undertaking."	Disagreed.

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181.	GDV	3.134.	1.	We assume that the "not" in the third bullet should be delete.	Agreed.
			2.	We note that bullets 1 and 3 are a repetition of the directive and so do not seem necessary – same comment for the other simplifications.	Noted.
			3.	Bullet 2 inappropriately limits the application of the simplification	See remark 179.
182.	Lloyds	3.134.		The standard calculation of the spread risk sub-module is relatively straightforward and should not be seen as an undue burden for an undertaking. Therefore we do not believe that it is necessary to include a spread risk simplification for bonds in the standard formula.	Noted.
183.	Association of Run-Off Companies	3.135.		See "General Comment", above.	
184.	Groupe Consultatif	3.135.		The last formula should be corrected to ☐ (i.e. include the indication ""bonds"").	Agreed (Already done)
185.	Association of Run-Off Companies	3.136.		See "General Comment", above.	
186.				Confidential comments deleted.	
187.	CEA	3.136.		We assume that the "not" in the fourth bullet should be deleted.	Agreed
188.	CRO Forum	3.136.		☐ The 5% threshold of the overall SCR before adjustment for the loss absorbing capacity of technical provisions and deferred taxes seems to be low.	Noted

				☐ It should read: “The standard calculation of the expense risk sub-module is not an undue burden for the undertaking.”	Disagree
189.	GDV	3.136.		We assume that the “not” in the fourth bullet should be deleted	Agreed.
190.	Association of Run-Off Companies	3.137.		See “General Comment”, above.	
191.				Confidential comments deleted.	
192.	CRO Forum	3.137.		Compared to QIS 4 the shock factor is changed from 10% to 15% in line with CP49. The increase to 15% seems to be ok as it contains the impact of trend and level uncertainty. However, in general it would be more correct to model simplifications on trend uncertainty and level uncertainty separately.	Noted
193.	Groupe Consultatif	3.137.		We interpret the factor (1.1)((n-1)/2) in the formula as the correction factor to q as the insured population is getting older. This interpretation has bearing to the comments under 3.139 and 3.141.	Noted
194.	Association of Run-Off Companies	3.138.		See “General Comment”, above.	
195.				Confidential comments deleted.	
196.	CEA	3.138.		We assume that the “not” in the fourth bullet should be deleted.	Agreed.

197.	CRO Forum	3.138.		☐ The 5% threshold of the overall SCR before adjustment for the loss absorbing capacity of technical provisions and deferred taxes seems to be low.	Noted
				☐ It should read: "The standard calculation of the expense risk sub-module is not an undue burden for the undertaking."	Disagree
198.	GDV	3.138.		We assume that the "not" in the fourth bullet should be deleted	Agree (adjust text)
199.	Groupe Con-sultatif	3.138.		We don''t understand why the mortality increase should be incorporated in the simplification formula as increased mortality for longevity risks means increased release of risk for the company. 10% increased or 10% decrease (less mortality more longevity)	In the Q&A document that accompanied QIS4 the explanation was given under point 11, 1.
200.	Association of Run-Off Companies	3.139.		See "General Comment", above.	
201.				Confidential comments deleted.	
202.	CRO Forum	3.139.		Unchanged 25% shock compared to the calibration of QIS4 or CP 49. Shock is assumed constant although a shock that increases with duration and age would seem more realistic than a one off permanent stress. Additionally the 25% shock does not seem have really a good motivation as it was derived from not so long historical data and it does not consider the credibility of the table to which it is applied.	See remark 201
203.	Groupe Con-sultatif	3.139.		We are a bit confused regarding this formula as we believe for longevity risk q (probability of death) should be replaced with 1-q (probability of survival). Se also comment under 3.138. Further-	See remark 199.

				more as the population is getting older the factor 1-q decreases and thus the factor (1.1)((n-1)/2) should be replaced by (0.9)((n-1)/2). Finally the longevity risk measure is the negative sum at risk which means that this factor should replace technical provisions in the formula. n == modified duration of liabilities cash-flows. It is unclear how it works in practice. q == Expected average death rate over the next weighted by sum assured. It is unclear how it works in practice.	
204.	Association of Run-Off Companies	3.140.		See "General Comment", above.	
205.	CEA	3.140.	1.	We assume that the "not" in the fourth bullet should be deleted.	Agreed.
			2.	Additionally, we note that the second bullet point of 3.140, discusses "mortality", however we believe this should actually read "disability".	Agreed.
206.	CRO Forum	3.140.	1.	☐ The 5% threshold of the overall SCR before adjustment for the loss absorbing capacity of technical provisions and deferred taxes seems to be low.	Noted
			2.	☐ It should read: "The standard calculation of the expense risk sub-module is not an undue burden for the undertaking."	Disagree
207.	FFSA	3.140.		Disability-morbidity risk In the text, CEIOPS talks about the mortality risk: "the assumed	Agreed

				10% increase in mortality rates underlying the simplification for each annual increase in age is consistent with the mortality assumption used in the calculation of the best estimate liability”. According to the calculation formula and article §3.100, FFSA believes that 10% increase is [more about disability rate than the mortality rate.	
208.	GDV	3.140.		We assume that the “not” in the fourth bullet should be deleted	Agreed
209.	Groupe Consultatif	3.140.		We don’’t understand why the mortality increase should be incorporated in the simplification formula as the significant risk here is disability.	Agreed
210.	ACA	3.141.		See 3.102	
211.	Association of Run-Off Companies	3.141.		See “General Comment”, above.	
212.				Confidential comments deleted.	
213.	CRO Forum	3.141.		Changed in line with CP 49 (distinguishing stress factors for first and subsequent years and allowing for recovery rates). Still there is the question about why the shock for first year and subsequent years should be distinguished.	See remark 212
214.				Confidential comments deleted.	

215.	Groupe Consultatif	3.141.	1.	We believe that regarding the last part of the formula (we interpret this as recovery risk) the effect of an older population means that the termination rates t on one hand is getting higher as the probability of death increases, on the other hand the termination rates t are getting lower as the probability of recovery decreases. The effect is in other words twofold and the factor (1.1)((n-1)/2) should – if we believe that a slower recovery is dominant – be multiplied with probability of non-recovery not the probability of recovery. This means that the factor t should be replaced by 1-t as this is a more correct measure of the recovery risk.	See remark 126.
			2.	Finally we believe that the recovery risk measure is technical provisions for incurred disability claims and not – all (?) – technical provisions for contracts subject to longevity risk.	Agreed
216.	ACA	3.142.		See 3.106	
217.	Association of Run-Off Companies	3.142.		See “General Comment”, above.	
218.	CRO Forum	3.142.		☐ The 5% threshold of the overall SCR before adjustment for the loss absorbing capacity of technical provisions and deferred taxes seems to be low.	Noted
				☐ It should read: “The standard calculation of the expense risk sub-module is not an undue burden for the undertaking.”	Disagree
219.				Confidential comments deleted.	
220.	Association of Run-Off Companies	3.143.		See “General Comment”, above.	
221.				Confidential comments deleted.	

222.	CRO Forum	3.143.		Differences compared to QIS4 and CP 49 concerning the recognition of the increase in expected future expenses by inflation. It remains unclear how the stressed inflation rate is calibrated.	See remark 221
223.	ABI	3.144.		We request clarification as to whether the group SCR or solo SCR should be referred to In this section, as well as in a number of places, the simplification may be used if the capital requirement of the risk in question is less than 5% of the overall SCR. For a group it is not clear if this percentage refers to the SCR of the solo entity or for the SCR of the group as a whole. Also, the individual risk in question will give an undiversified capital requirement but the overall SCR will be diversified (also with offsets for loss-absorption). Is this 5% considering the ratio of undiversified to diversified capital requirements, or is the total SCR to be on an undiversified basis? Clarity would be helpfull.	In principle, both group and solo SCR can be the reference depending on the level on which the simplifiction is applied
224.	Association of Run-Off Companies	3.144.		See “General Comment”, above.	
225.	CEA	3.144.	1.	We request clarification as to whether the group SCR or solo SCR should be referred to	See remark 223
			2.	In this section, as well as in a number of places, the simplification may be used if the capital requirement of the risk in question is less than 5% of the overall SCR. For a group it is not clear if this percentage refers to the SCR of the solo entity or for the SCR of the group as a whole. For entities that are part of a group, the text should refer to the group SCR. The current 5% proposal appears too low to use if the reference is the solo SCR.	See remark 223

226.	CRO Forum	3.144.		☐ The 5% threshold of the overall SCR before adjustment for the loss absorbing capacity of technical provisions and deferred taxes seems to be low.	Noted
				☐ It should read: "The standard calculation of the expense risk sub-module is not an undue burden for the undertaking."	Disagree
227.	GDV	3.144.	1.	We request clarification as to whether the group SCR or solo SCR should be referred to	See remark 223
			2.	In this section, as well as in a number of places, the simplification may be used if the capital requirement of the risk in question is less than 5% of the overall SCR. Thresholds should only be used as a rough guide but should not be part of level 2 or level 3.	See remark 2.2
228.				Confidential comments deleted.	
229.	Association of Run-Off Companies	3.145.		See "General Comment", above.	
230.				Confidential comments deleted.	
231.	CRO Forum	3.145.		We support to reduce the shock from 2.5 per mille to 1.5 per mille in line with the final advice to CEIOPS.	Noted
232.	Groupe Con-sultatif	3.145.		We suggest ""Average annuity factor (on the basis used for techni-cal provisions) for the expected duration over which benefits may be payable in the event of a claim	The Anuity-factor is the average anuity factor.
233.	Association of Run-Off Companies	3.146.		See "General Comment", above.	
234.				Confidential comments deleted.	

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235.	CRO Forum	3.146.		In line with CP 49. Comments on CP49 not taken into account.	Noted.
236.	GDV	3.146.		reverence incorrect	Agreed.
237.	Association of Run-Off Companies	3.147.		See “General Comment”, above.	
238.	Association of Run-Off Companies	3.148.		See “General Comment”, above.	