

**Comments Template on EIOPA-CP EIOPA-CP-14-049  
Draft proposal for Level 3 Guidance on the implementation of the long term guarantees measures**

**Deadline  
02.Mar.2015  
23:59 CET**

Company name:	Actuarial Association of Europe (AAE)	
Disclosure of comments:	EIOPA will make all comments available on its website, except where respondents specifically request that their comments remain confidential.  Please indicate if your comments on this CP should be treated as confidential, by deleting the word Public in the column to the right and by inserting the word Confidential.	Public
<p>Please follow the instructions for filling in the template:</p> <ul style="list-style-type: none"> <li>⇒ <b>Do not</b> change the numbering in column "Reference".</li> <li>⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph, keep the row <u>empty</u>.</li> <li>⇒ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below. <ul style="list-style-type: none"> <li>○ If your comment refers to multiple paragraphs, please insert your comment at the first relevant paragraph and mention in your comment to which other paragraphs this also applies.</li> <li>○ If your comment refers to sub-bullets/sub-paragraphs, please indicate this in the comment itself.</li> </ul> </li> </ul> <p><b>Please send the completed template to <a href="mailto:Consultation_Set2@eiopa.europa.eu">Consultation_Set2@eiopa.europa.eu</a>, in MSWord Format, (our IT tool does not allow processing of any other formats).</b></p> <p>The paragraph numbers below correspond to Consultation Paper No. EIOPA-CP-14-049.</p>		
<b>Reference</b>	<b>Comment</b>	
General Comment	Please clarify which guidelines refer to companies applying the standard formula and which guidelines refer to all companies, i.e. standard formula, internal model and partial internal model users.	
1.1.		
1.2.		
1.3.		

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1.4.		
1.5.		
1.6.		
1.7.	Page 6: (Guideline 2, art 1.7): In the current drafting it is not very obvious that the specific guideline only applies to spread risk in the standard formula. Even though article 1.2. notes that the guidelines focus on the interaction of LTG measures with the SCR calculated in accordance with the standard formula, we would suggest to reiterate this in the guideline or the paragraphs supporting a guideline.	
1.8.		
1.9.		
1.10.	Typo: "Where the amount of the transitional <sup>al</sup> deduction ..."	
1.11.		
1.12.		
1.13.	<p>The guideline states that for future discretionary benefit calculations, the increase in the risk free rate (due to VA, MA or transitional measure) should <u>not</u> impact the assumptions on the likelihood that policyholders will exercise options.</p> <p>Our reading of this is that, if you model dynamic policyholder behaviour, you will need to calculate a shadow fund / asset share that receives a return equal to the risk free rate excluding VA, MA, transitional in order to work out whether a policyholder will take up a contractual option. Therefore, practically, this is very difficult to achieve and doesn't feel like it would cause a significant change in result.</p> <p>Notwithstanding the above point, we suggest some amendments: Please substitute "When calculating <b>future discretionary benefits</b>, insurance and reinsurance undertakings should ensure..." by "When calculating <b>technical provisions</b>, insurance and reinsurance undertakings should ensure ..."</p>	

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	<p>since assumptions on policyholder behaviour have an impact on the whole insurance contract.</p> <p>The explanatory text for Guideline 6 (2.7.) is crucial and helpful in order to interpret Guideline 6. We suggest to insert its key message directly in the Guideline 6 and add accordingly: "Undertakings should avoid creating an immediate link between the assumptions on lapse rates and the use of long term guarantee adjustments and transitional measures. Where, in practice, surrender models rely on the level of the relevant risk-free interest rate term structure, undertakings should ensure that assumptions on policyholder behaviour are still realistic given the increase of the relevant risk-free interest rate term structure caused by the use of long term guarantee adjustments and transitional measures."</p>	
1.14.	<p>Guideline 7: This states that, in the risk margin calculation, the reference undertaking does not apply the MA, VA or transitional measures.</p> <p>The intention of this guideline is presumably to suggest that you do not have to include credit risk on matching adjustment portfolios in the risk margin. However, the wording is ambiguous. This could be interpreted as, upon transfer of the obligations to the reference undertaking they will have an immediate increase in their technical provisions, which should be allowed for.</p> <p>However, we do not believe that this is the intention of this guideline – and Policy Issue 4 confirms that the intention is as we mentioned above, i.e. that the reference undertaking invests in risk free assets (with no credit risk). The guideline needs to be clearer to show that this is the intention.</p>	
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1.22.		
2.1.		
2.2.		
2.3.		
2.4.		
2.5.		
2.6.		
2.7.	The explanatory text is crucial and helpful in order to interpret guideline 6.	
Annex		
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