

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:	Federation of European Accountants (FEE)	
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"> ⇒ <u>Do not change the numbering</u> in column "Reference". ⇒ 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>. ⇒ 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"> ○ 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. ○ If your comment refers to sub-bullets/sub-paragraphs, please indicate this in the comment itself. <p>Please send the completed template to Consultation_Set2@eiopa.europa.eu, in MSWord Format, (our IT tool does not allow processing of any other formats).</p> <p>The paragraph numbers below correspond to Consultation Paper No. EIOPA-CP-14-049.</p>		
Reference	Comment	
General Comment	There are a number of important issues where further clarification would be beneficial but which are not addressed in the draft Guidelines. We recommend that guidelines be included on at least the following areas: <ul style="list-style-type: none"> • How the matching adjustment should be treated for group consolidation. For example can it be assumed that the matching adjustment remains unchanged following group consolidation, 	

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	<p>or does the matching adjustment need to be recalculated at a group level if some form of internal reinsurance (or internal asset structuring) has been collapsed at a group level</p> <ul style="list-style-type: none"> To clarify that the volatility adjustment can be used alongside the discount rate transitional measure. Our understanding from the technical specifications for the preparatory phase is that this is the intention. In addition the reference to the volatility adjustment in the final subparagraph of Article 308c(2) would also indicate that this is the case. However, Article 308c(4)(a) indicates that insurers applying the discount rate transitional measure shall 'not include the admissible insurance and reinsurance obligations in the calculation of the volatility adjustment'. Our interpretation is that Article 308c(4)(a) is not intended to imply that the volatility adjustment cannot be applied to obligations subject to the discount rate transitional measure but rather that the impact of the discount rate transitional measure should not be taken into account in determining the quantification of the volatility adjustment in these circumstances. Clarification in this regard would be welcome. 	
1.1.		
1.2.		
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1.6.	This draft guideline does not appear to add anything to the previously published Guideline 4 of EIOPA's Guidelines on the treatment of market and counterparty risk exposures in the standard formula	
1.7.	The Level 1 Directive and the Delegated Acts do not require that the volatility adjustment must remain unchanged following a spread widening stress. Technically an increase of credit spread of assets should give effect to the volatility adjustment and generate a mitigating effect on SCR. Article 77d.6 of Directive 2014/51 (Omnibus 2) states that "the SCR not cover the risk of loss of basic own funds resulting from changes of the volatility adjustment". Through this, the Directive prohibits the consideration of losses but not of gains (i.e. reduction in provisions). Since for the matching adjustment the same is accepted, it should be extended to the volatility adjustment.	
1.8.		

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1.9.		
1.10.		
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1.14.	<p>We are unclear as to the rationale for the reference undertaking not being able to apply the transitional measures or the VA. It would be expected that the reference undertaking would use the volatility adjustment as a substitute for losing the matching adjustment (or apply for its use where the Member State option for supervisory approval of the volatility adjustment has been adopted). As such we are unclear why the calculation of technical provision of the reference undertaking should not benefit from the volatility adjustment within the discount rate given that it is also possible to 'earn' the VA whilst holding risk-free assets such as gilts. If the approach set out in this Guideline is maintained, explanatory text should be added to justify the approach taken.</p>	
1.15.		
1.16.		
1.17.	<p>We are unsure of the purpose of Guideline 9. The use of the transitional adjustment is subject to supervisory approval. If the supervisor concludes that the application of the transitional adjustment is appropriate for some, but not all, of the admissible obligations (as defined at Article 308c(3)) then we do not think that the supervisor should be precluded from approving the use of the transitional adjustment for such a sub-set of admissible obligations.</p>	
1.18.		
1.19.		
1.20.		
1.21.		
1.22.		
2.1.		
2.2.		
2.3.	The explanatory text indicates that guideline 4 does not apply when the transitional measure on	

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	technical provisions is applied at the level of homogeneous risk groups. Whilst we understand why the second paragraph of the guideline would not apply in these circumstances we are unclear why the first paragraph would not still be relevant.	
2.4.		
2.5.		
2.6.	The explanatory text indicates that guideline 5 does not apply when the transitional measure on technical provisions is applied at the level of homogeneous risk groups. Whilst we understand why the second paragraph of the guideline would not apply in these circumstances we are unclear why the first paragraph would not still be relevant. In addition paragraph 2.6 of the explanatory text erroneously refers to the 'volume measures of the operational risk' - this guideline does not deal with operational risk.	
2.7.	It is unclear why the application of Guideline 6 is limited to the calculation of future discretionary benefits as opposed to applying to policyholder behaviour more generally in the calculation of technical provisions	
Annex		
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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
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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
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