

CEA Comments to IM23 – Intangible Assets**EN**

We support the fact that some intangible assets are valued and agree that those intangible assets which are valued on the balance sheet should be stressed. However, we believe that the 80% risk charge on intangibles is too high. This is especially so considering the very strict requirements for the valuation of intangible assets set out in IM3 (which mean that very few intangibles will be valued and so are already effectively stressed at 100%) and also the fact that no diversification with other risks is assumed.

The 80% charge does not appear to have been calibrated based on statistical analysis and there is no justification for the assumption that this shock is fully correlated to all other risks. However, we do understand that it is obviously very hard to calibrate this risk charge.

In our view, a more pragmatic solution would be to stress intangible assets under the most prudent stress in the market risk module. This would remove the need for a separate risk module, as we see no reason for splitting-out intangible assets from other assets, and so it would reduce the complexity of the standard formula. This change in our view would set a more reasonable risk charge which has been calibrated based on market data.

Therefore, we would propose that the definition of non-listed equity be extended to cover intangible assets and consequently intangibles would be stressed under the equity risk-module.

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Brussels, 12.04.2010

Working document EIOPC/SEG/IM23/2010

**DRAFT COMMISSION DOCUMENT ON
THE INTANGIBLE ASSET RISK MODULE UNDER THE SOLVENCY II
DIRECTIVE 2009/138/EC**

Important note: This document is a working document of the Commission services for discussion.

It does not purport to represent or pre-judge the formal proposals of the Commission

Having regard to the Treaty (...),

Having regard to the Directive 2009/138/EC (...), and in particular 111 thereof,

Whereas:

- (1) When calculating their Solvency Capital Requirement, insurance and reinsurance undertakings shall address the specific risks of the intangible assets.
- (2) Consistent with the approach set out in Article 104(1), (3) and (4) of the Directive 2009/138/EC, when calculating their Basic Solvency Capital Requirement, insurance and reinsurance undertakings shall include an additional risk-module for intangible assets in order to address the specific risks of these assets that are not captured elsewhere in the Solvency Capital Requirement.
- (3) Only intangible assets that are not valued at nil in the Solvency II balance sheet should be stressed in the Solvency Capital Requirement.

Comment [CEA1]: Given the fact that very few intangible assets will have a non-zero valuation under the requirements laid out in IM3, it would seem disproportionately complex to construct a new risk-module for these assets. We would suggest that a more pragmatic solution would be to stress intangible assets under the most prudent market risk sub-module.

Comment [CEA2]: For clarity. The text in Article IA1 appears to suggest otherwise which would be incorrect. The value that is stressed under the SCR should be the same as the value that placed on the balance sheet.

TITLE S

INSURANCE AND REINSURANCE UNDERTAKINGS

CHAPTER SCR

RULES RELATING TO THE SOLVENCY CAPITAL REQUIREMENT STANDARD FORMULA

SECTION 1

GENERAL PROVISIONS

Article SCR_x

(Art. 104(1) and Annex IV (1) of Directive 2009/138/EC)

Basic Solvency Capital Requirement

1. When calculating their Basic Solvency Capital Requirement in accordance with Article 104(1) of Directive 2009/138/EC, insurance and reinsurance undertakings shall include a risk module for intangible asset risk.
2. The Basic Solvency Capital Requirement set out in Article 104(1) of Directive 2009/138/EC shall be equal to the following:

$$Basic\ SCR = \sqrt{\sum_{ij} Corr_{ij} \times SCR_i \times SCR_j} + SCR_{Intangibles}$$

where *Basic SCR* denotes the Basic Solvency Capital Requirement, $Corr_{ij}$, SCR_i and SCR_j are defined as set out in point (1) of Annex IV of Directive 2009/138/EC and $SCR_{Intangibles}$ denotes the capital requirement for intangible asset risk referred to in Article IA1.

Comment [CEA3]: We do not understand why this new shock on intangible assets is considered as fully correlated to all other risks i.e. no diversification is allowed.

SECTION XX

INTANGIBLE ASSETS RISK MODULE

Article IA1

(Art. 104(1) of Directive 2009/138/EC)

Intangible asset risk module

The capital requirement for the intangible asset risk module shall be equal to the following:

$$SCR_{\text{Intangibles}} = 80\% \cdot V_{\text{Intangibles}}$$

where $SCR_{\text{Intangibles}}$ denotes the capital requirement for the intangible assets risk, $V_{\text{Intangibles}}$ denotes the amount of intangible assets as recognised and valued according to [Article V5\(1\) Article 75 of Directive 2009/138/EC](#).

Comment [CEA4]: The 80 % risk charge on intangibles is too high. This is especially so considering the very strict requirements for the valuation of intangible assets set out in IM3 (which mean that very few intangibles will be valued and so are already effectively stressed at 100%) and also the fact that no diversification with other risks is assumed. The 80% charge does not appear to have been calibrated based on statistical analysis and there is no justification for the assumption that this shock is fully correlated to all other risks.

We do understand that it is obviously very hard to calibrate this risk charge, however, we all risk factors should be based on a transparent statistical analysis of the 99.5th %.

In our view, a more pragmatic solution would be to stress intangible assets under the most prudent stress in the market risk module. This would remove the need for a separate risk module, as we see no reason for splitting-out intangible assets from other assets, and so it would reduce the complexity of the standard formula. This change would also set a more reasonable risk charge which has been calibrated based on market data.

Therefore, we would propose that the definition of non-listed equity be extended to cover intangible assets and consequently this new risk module be removed.

Comment [CEA5]: The Commission's draft implementing measures for the valuation of intangible assets (IM3) set the majority of intangible assets to be valued at zero. However, a reference to Article 75 of the FD could place a value on a much wider range of intangible assets.

The value that is stressed under the SCR should be the same as the value that placed on the balance sheet according to Article V5 of IM3.

Please note, in our view the current drafting of IM3 in this regard is too strict and not in line with an economic approach.

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