EIOPA Risk-free interest rate implementation tools – Insurance Europe comments

Summary
Further to EIOPA's request for stakeholder input on the implementation of the updated risk-free interest rate and volatility adjustment framework, Insurance Europe has compiled the feedback received from members following their review of the Excel tools and supporting material. The comments below summarise the key technical clarifications and practical issues identified, with the aim of supporting a consistent and efficient implementation across the market and ensuring that the tools are usable in practice.

The comments are organised into General observations and comments related specifically to the two Excel tools shared by EIOPA ("Draft RFR extrapolation and VA calculation" and "Draft RFR risk-corrected spread calculation").

We trust this overview is helpful in identifying where further clarification or refinements may support a smooth implementation. We look forward to discussing these comments in more detail during the teleconference on **3 December**.

General comments

- We would like to thank EIOPA for its proposal and for the helpful tools, designed to ensure harmonisation across Europe, and to ease the calculations for the insurers. After reviewing the tools provided, we would like to underline that we welcome further clarifications and explanations of the concepts.
- Interest rates risks should be included in the tool, directly or via another Excel File should the addition is too burdensome for one Excel file.
- All concepts and acronyms should be explained, if need be, in a dedicated sheet (e.g. "Zero rate CC", "CC" and "AC" should be explained). Moreover, it would be helpful to sum up what methodology (e.g.: "zero rate AC" vs "zero rate CC" ?) leads to the RFR curve we use to calculate our liabilities (e.g. "VA Curve" should be renamed in a clearer way "RFR curve for the calculation of the BE" and elsewhere in the sheet the final methodology used to get the "RFR curve for the calculation of the BE".)
- It would be also helpful to have the possibility to copy paste any of the RFR curve published by EIOPA each month as an input in the tool in order to test quickly the formulas.
- Hyperlinks to the EIOPA website could be useful as well.
- The up and down shock calculation is not included in these files.

Feedback on template of the calculation of the extrapolated risk-free interest rates and the volatility adjustments

- **Extrapolated risk-free rates, Sheet 'Input Data & Extrapolation':** Instead of using the First LTG measures have cross effects on the solvency ratio, especially the VA combined with the extrapolation and the interest rate risk. The order of implementation of the measures changes the impact on the solvency ratio. Thus, it would be helpful to describe the methodology used in the tools (e.g.: "we first apply the VA, then the extrapolation method; for IRR first, we shock the liquid part of the curve with the VA and then we extrapolate that part).
- Smoothing Point (FSP) entered in cell H13, the calculation of the Last Liquid Forward Rate (LLFR) in cell L22 is based on the assumption that the FSP is the smallest maturity for which a value for the LLFR

weight is given. However, the extrapolation in cells L25:L174 and the other sheets does use the FSP entered above. This is inconsistent and could introduce unnecessary errors in the calculation, so the calculation of the LLFR should also reflect the inputted FSP.

- **Yield curves Excel**:
  - In the yield curves Excel, it appears that **government bonds** use a different "bootstrap method."
    We cannot find any methodological background for this—is an **EIOPA technical document planned**?
- **Detailed methodology of interest rate shocks**:
  - A detailed methodology of interest rate shocks, with a **description** of when and how extrapolation is performed, would also be **desirable**.
- Extrapolation:
  - It would be useful to ask EIOPA to specify the data sources (Refinitiv or Bloomberg) and related identifiers codes (e.g. ticker, RIC)

- It would be really helpful for many reasons to have a sheet with the FSP (not only in terms of years but also in terms of percentages), the LLFR, the LLFRVA, and the VA (with a CSSR =1) calculated by EIOPA for the Eurozone also for non-Euro currencies within Europe.
- More generally, it would be helpful to have more information on the LLFR (with and without VA) as it remains a complicated calculation.

Feedback on of the risk-corrected spread of the volatility adjustment

- **Risk-corrected spread of the volatility adjustment**:
  - **Sheet 'LTAS':** Compared to the reference portfolio published by EIOPA, the tables are transposed, which unnecessarily complicates entering the required data. Furthermore, the new tool only requires LTAS data for relevant jurisdictions (market share > 0), which means that the user cannot simply copy and paste all values from the reference portfolio. This could also introduce errors if the relevant jurisdictions in the reference portfolio change or if the number of relevant jurisdictions increases or decreases. Instead, the tool should be able to reflect all possible jurisdictions from the reference portfolio file and dynamically select the relevant jurisdictions in its calculation.
  - **Sheets 'Government Bond Ref. Portfolios' and 'Corporate Bond Ref. Portfolios':** The tables include the columns 'Yield Cash Flow', 'RFR Cash Flow' and 'RC Yield Cash Flow'. These are not included in the published reference portfolio, so it is unclear what values are expected here.
  - **Sheet 'S&RC Corp Currency':** The relevant 'interval' for linear interpolation of market yields (rows 18 to 21) is not dynamically chosen based on the duration of the financial instruments. If that duration or the available durations from market data change, a different interval of available durations from market data could be relevant for the interpolation, and this should be decided automatically to prevent unnecessary calculation errors
- **CSSR**:
  - The current CSSR calculation leads to a calculation loop (greater complexity) when the data is provided by the group, as the data (BEL) from the individual companies must be sent to the group in order to provide yield curves and scenarios with the new CSSR. (Circular reference)
    Similarly, in the worst case scenario, the design of the CSSR per insurance company can lead to six different EUR curves within the group.
    Our question/comment would be whether this calculation can be performed at group level
- Risk Corrected Spread (RCS):

    - The inputs (including from information providers) and formulas used to calculate the cash flow values in columns (I, j, K) of the "Government Bond Ref. Portfolios" and "Corporate Bond Ref. Portfolios" sheets for currency and country portfolios.
- **CF Freeze methodology:** currently the Portfolios have been introduced @ 1Q25 VA calculation and are referred to @ YE23; the CF Freezing is related to YE23 or 1Q25?
- **Sheet Gov Rates**: ECB curve should be converted to continuous compounding or they are already reported as continuous compounding?
- **Sheet S&RC Corp Country**: possible typo in the formula for Non Financial CQS 5 LTAS (Cells Q30, Q31) – the reference is to CQS4 instead of CQS5
- **Sheet S&RC Gov Country**: possible typo in the formula for Govt US (Cell Q34) – according to L2 Regulation, the risk correction percentages should be aligned with Corporate and not with EEA Govies
- It would be useful if EIOPA indicated:
    - the source and reference date of the data used (of the real data that will be used in the future)
    - the input data code and source (Refinitiv like now or can be also Bloomberg?)
    - the inputs (including from information providers) and formulas used to calculate the cash flow values in columns (I, j, K) of the "Government Bond Ref. Portfolios" and "Corporate Bond Ref. Portfolios" sheets for currency and country portfolios.
    - If the new technical specifications will be consulted or directly published.

- From the material it is unclear how the Nykredit Realkreditindeks for covered bonds will be incorporated in the calculation of the VA. At present there are a specific reference to this (ref. 12.7.3 12.7.5 and Annex I in the current technical documentation of RFR). The Nykredit Realkreditindeks are of great importance to risk management in Denmark, and Danish mortgages bonds represents a significant part of the fixed income portfolio for Danish life and pension companies. We would therefor ask for clarity in the EIOPA material about the Nykredit Realkreditindeks.
- Directive 2025/02 specifically mentions currencies pegged to the Euro in Art.77d, yet there is no reference to currencies pegged to the Euro in these files. Can we confirm how this will be implemented?