

Insurance Europe response to EIOPA revised guidelines on market and counterparty risk exposures

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| Our reference: | ECO-SLV-25-097 | Date: | 26-02-2025 |
| Referring to: | Consultation on revised guidelines on market and counterparty risk exposures in the standard formula | | |
| Related documents: | Consultation Paper | | |
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Introduction

Q1. Do you have general comments on the consultation document?

EIOPA's proposed changes may reduce clarity for future users who do not have access to the explanatory text. While certain aspects may seem self-evident today, they may not always be as clear in the future. To enhance usability and legal certainty, it could be beneficial to retain these guidelines while incorporating key elements of the explanatory text rather than removing them entirely. This approach would help ensure that the guidelines remain logically aligned with the Delegated Regulation while preserving necessary clarifications.

Q2. Do you have comments on Section 'Consultation paper overview and next steps'?

N/A

Q3. Do you have comments on Sub-section 'Introduction'?

N/A

Q4. Do you have comments on 'Guideline 1 - Employee Benefits' and the corresponding explanatory text?

N/A

Q5. Do you have comments on 'Guideline 2 - Impact of options on the duration of bonds and loans' and the corresponding explanatory text?

The industry recommends removing the sentence:

"Assumptions that are used for the determination of the duration of such bonds or loans should reflect stressed conditions."

Implementing this requirement may cause significant operational complications in the process of calculating the capital requirement, as it would require the need to engage other stakeholders involved in the valuation process.

Two further considerations:

- **Previous text:** The adapted text now states that “assumptions should reflect stressed conditions”, whereas the previous text specified that “undertakings should take into account that they may not be called by the borrower”. Readers of the new text might interpret this that as from now there is a requirement to calculate the duration of such bonds as if the stressed conditions already apply. However, this interpretation does not align with the original wording, which only considers the possibility that they “**may**” not be called by the borrower.
- **Appendix:** A strict interpretation also seems to be inconsistent with the Appendix in the final report that was also published in 2014 ([here](#)). In other words, in the case of stochastic cash flows (which applies to callable bonds), the duration should be calculated based on a set of probability-weighted cash flows. These probabilities should reflect the (levels of the) relevant variables (eg market circumstances, properties of the instrument at hand, etc) at the applicable reference date. A strict interpretation of the new text could consider every cash flow projected until contractual maturity as certain (with a probability of 1) and every cash flow that deviates from the contractual maturity cash flows (ie early redemption) as impossible (with a probability of 0). This is not in line with the intended contents of the appendix.

Q6. Do you have comments on 'Guideline 3 - Average duration for the duration-based equity submodule' and the corresponding explanatory text?

N/A

Q7. Do you have comments on 'Guideline 4 - Revaluation of assets in scenario-based calculations' and the corresponding explanatory text?

The explanatory text should include reference to the specific article of the Commission Delegated Regulation 2015/35 (for technical provision) to justify the removal of the text in the guideline.

It can be argued that the text on the treatment of assets that remains in the guidelines is also evident from the Delegated Regulation, at least the first paragraph. It is not clear why the text on the technical provisions has been removed while the text on assets remains.

The proposed changes to Guideline 4 are supported. However, the explanation “*the second and third paragraph of Guideline 4 are replaced by new text with the aim to clarify and generalize the guidance without changing its original meaning or intent*” remains unclear given that the old Paragraph 2 referred to technical provisions while the new paragraphs both refer to assets. It appears that the old Paragraph 2 was simply deleted because it was deemed superfluous.

Q8. Do you have comments on 'Guideline 5 - Investments with equity and debt instrument characteristics' and the corresponding explanatory text?

N/A

Q9. Do you have comments on 'Guideline 6 - Financial risk-mitigating instruments and short equity positions' and the corresponding explanatory text?

N/A

Q10. Do you have comments on 'Guideline 7 - Market risk concentration sub-module' and the corresponding explanatory text?

N/A

Q11. Do you have comments on 'Guideline 8 - Securities lending or borrowing transactions and similar agreements' and the corresponding explanatory text?

The industry asks EIOPA to review the following three considerations related to the proposed change:

1. **The interpretation of closed list:** Article 189 of the delegated regulation of Solvency II does not explicitly state that a closed/open list is provided. While this is a possible interpretation, other interpretations are also possible. Therefore, also other exposures should be eligible for type 1 exposure treatment.
2. **Securities lending and repos have all the characteristics of type 1 exposures:** Exposures for securities lending and repos typically are very large transactions to a limited number of counterparties. Insurance companies are natural partners due to their long-term business model, and these exposures align with the typical characteristics of type 1 exposures. Given that the counterparties are generally of high creditworthiness, it would be logical to treat them as level 1 exposures.
3. **Impact assessment:** The proposed revisions could have a material impact. It is noted that securities lending and repos are very large transactions. Switching their treatment from type 2 to type 1 could have a very significant impact on the Solvency Capital Requirement (SCR) counterparty default. EIOPA is requested to perform and share an impact assessment, this could be done by means of QRT S.10.01.01 "Securities lending and repos".

Additionally, it is not clear how an asset received, if recognised as collateral, can be considered as risk mitigation if securities lending is to be classified as type 2 – the formula does not allow for risk mitigation consideration.

Q12. Do you have comments on 'Guideline 9 - Commitments which may create payment obligations' and the corresponding explanatory text?

N/A

Q13. Do you have comments on 'Guideline 10 – Treatment of leveraged funds' and the corresponding explanatory text including the 'Annex – Examples for the treatment of leveraged funds'?

- Regarding, the sentence: "The change in value of the investment fund should be the net change after applying the market risk submodule stress to the gross assets and reducing the resulting value by the value of the outstanding **lending**".
 - It seems the word "lending" should be replaced with the term "borrowing" in this context.

Q14. Do you have comments on Sub-section 'Compliance and reporting rules'?

N/A

Q15. Do you have comments on Sub-section 'Final provision on review'?

N/A

Q16. Do you have any other comments on Section 'Guidelines on the treatment of market and counterparty risk exposures in the standard formula' and on Section 'Explanatory text'?

N/A

Q17. Do you have any comments on the proposals to simplify and shorten the Guidelines and/or any other suggestions for simplifying and shortening the Guidelines, taking into account the relevance of the individual Guidelines?

N/A

Q18. Do you have any other comments?

N/A

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