

Insurance Europe views on Long Term Equity

The insurance industry, as Europe's largest institutional investor, plays a vital role in financing long-term investments that underpin pensions, savings, and other products supported by long-term liabilities.

The inclusion of simplified and workable criteria for long-term equity (LTE) investments in the Solvency II Directive EU 2025/002 (Article 105a) is a welcome step. To ensure these criteria are fully effective in practice, they must now be backed by clear, consistent, and proportionate Level 2 measures. This paper outlines the industry's two key recommendations for the upcoming Delegated Acts to ensure the LTE framework delivers on its policy objectives:

1. The conditions for eligibility at individual level

In the draft Level 2 proposals discussed within the EGBPI, the Commission outlines that it considers two possible methods to demonstrate compliance with the requirement under Article 105a(1)(d) — namely, that insurers are able to avoid forced sales over a 5-year period.

These two approaches are:

1. The forced selling test developed by the Commission services; and
2. The alternative proposal put forward jointly by France and the Netherlands.

While the latest iteration of the Commission services' forced selling test (ie Option 1 above) from the 4 June EGBPI annex document, shows clear signs of improvement, there remains a number of restrictive criteria which would ultimately render the test highly conservative. These criteria include the treatment of funds as eligible assets, the exclusion of financial bonds and the lack of clarity introduced by the specifications around the use of the VA all and MA.

Considering that the forced selling test relies on severe stress assumptions based on the standard formula shocks, without addressing the aforementioned issue, the test will be overly conservative and could render the use of the reviewed LTEI extremely limited.

It is also unfortunate that the **illiquid-liabilities approach previously proposed by EIOPA was not considered in the latest EGBPI documents as a viable option**, despite its potential value in providing a streamlined and operationally simple test.

Recommendation: *The industry strongly supports the introduction of an improved version of the EIOPA illiquid-liabilities approach in the Delegated Acts to ensure there is a streamlined and operationally feasible solution. This option should be available for use by all undertakings.*

If the Commission's forced selling test is prescribed nevertheless, it should be further improved to ensure that the LTEI can be used in practice. To this end, the calculations must be made less complex. Under the stressed conditions, as few detailed adjustments to the cash flows as possible should be required and existing SCR values be used instead. The provisions in the context of the VA should be simplified and the exclusion of bonds from the banking sector should be dropped.

2. The types of collective investment undertakings which shall be considered as presenting a lower risk

To ensure the LTE framework functions in practice, the Delegated Acts must also define a clear and sufficiently

broad list of CIUs that may qualify as presenting a lower risk under Article 105a(3)(c). A narrow or overly restrictive definition would unnecessarily exclude widely used investment structures, such as AIFs and UCITS.

Recommendation on lower risk collective investment undertakings.

The industry highlights the need to have a broader range of funds to qualify – including UCITS— while maintaining appropriate risk standards.

Therefore, the proposed list should be modified as follows:

- (a) qualifying social entrepreneurship funds as referred to in Article 3(b) of Regulation (EU) No 346/2013;
- (b) qualifying venture capital funds as referred to in Article 3(b) of Regulation (EU) No 345/2013;
- (c) closed-ended alternative investment funds which are established in the Union or, if they are not established in the Union, which are marketed in the Union in accordance with Article 35 or 40 of Directive 2011/61/EU ~~and which, in either case, have no leverage in accordance with the commitment method set out in Article 8 of Commission Delegated Regulation (EU) No 231/2013;~~
- (d) European long-term investment funds pursuant to Regulation (EU) 2015/760.
- (e) ~~qualifying alternative investments funds (AIF) as referred to in Article 4 par. 1(a) EU 2011/61/EU~~
- (f) ~~qualifying as undertakings for collective investment in transferable securities (UCITS) as referred to in Article 1 of Directive 2009/65/EC.~~
- (g) ~~infrastructure funds and non-substantially leveraged funds as defined in Article 111(1) of AIFMD Delegated Regulation.~~

~~In addition, to ensure appropriate flexibility, the concept of leverage should, in line with ELTIF and AIFMD practices, exclude borrowing backed by uncalled commitments and derivatives used for hedging purposes, as these do not increase fund exposure or financial stability risk.~~