

To: Solvency II WG
From: Prudential Team
cc:
Date: 10-10-2022
Reference: ECO-SLV-22-334

Subject: Update on changes to EIOPA risk free rate technical documentation

Summary

The memo below provides an update on the main changes to EIOPA's Technical documentation of the methodology to derive EIOPA's risk free interest rate structures. The changes will become effective in January 2023.

Further information on the changes can be found [here](#)

Changes to CHF, GBP, JPY and USD

- The following changes to the **CHF, GBP, JPY** and **USD** currencies will impact the calculation of the RFR curve and the volatility adjustment. Historical information for these currencies has been included at the end of this document.
 - **CHF and JPY** – Derivation of risk-free rates will be based on swaps instead of bonds. The change to swaps will impact on maturities assessed as deep, liquid, and transparent (DLT)¹.
 - **GBP** – Change in the maturities considered as DLT. The Last Liquid Point for GBP moved from 30 to 50.
 - **USD** – Derivation of risk-free rates will be based on OIS² swaps (instead of IBOR swaps) with corresponding change in Reuters Investment Code³. The change to OIS swaps will change maturities considered as DLT. The Last Liquid Point for USD will also change from 50 to 30 years.
- The Credit risk adjustment (CRA) applied to OIS swaps will be zero in line with the agreed EIOPA methodology.

Changes introduced from January 2023

Changes in the financial information used to calculate RFR or volatility adjustment

- Changes on the **swaps and government bonds RICs** used for the derivation of technical information:
 - Removal of Croatian currency (HRK) (due to introduction of Euro in Croatia in 2023),
 - Malta (now peered with Spain),
 - Switzerland, Japan (from use of bonds to swaps), and
 - USA and Singapore (change in the SWP RIC).

¹ The derivation of risk-free rates should be based on financial instruments traded in a deep, liquid, and transparent (DLT) financial market. Once financial instruments are selected and analysis of the different maturities must be done. DLT maturities will be used for the calculation of the RFR (most common maturities are 1 to 10, 12, 15, 20, 25, 30, 40 or 50 years).

² OIS rates are based on overnight rates.

³ RIC stands for "Reuters instrument code". Code use to identify financial instruments and indices.

- Changes on the **maturities which are considered deep, liquid and transparent** for the derivation of the basic risk-free interest rate term structures:
 - CHF (from use of bonds to swaps),
 - IZK, RON, SEK, CZK (changes in maturities DLT),
 - Removal of Croatian currency (due to introduction of Euro in Croatia in 2023),
 - Japan (from use of bonds to swaps),
 - CLP, COP, RUB, TRY (changes in maturities DLT bonds), and
 - GBP, HKD, SGD, USD, ZAR (changes in maturities DLT swaps).
- Changes on the Last Liquid Point (LLP):
 - Removal of Croatian currency (due to introduction of Euro in Croatia in 2023),
 - ISK (8 to 9),
 - GBP (30 to 50),
 - SGD (20 to 10), and
 - USD (50 to 30).
- Changes on maturities for the calculation of the volatility adjustment in certain countries. Table with disregarded maturities for the LTAS Calculation table updated:
 - Removal of Croatia, Greece and Romania,
 - Inclusion of Hong Kong, Iceland, Colombia and Russia and
 - Changes for Bulgaria, Denmark, Chile, Mexico, South Africa and Turkey.

Changes in the methodology.

- Changes in the third situation methodology to calculate CRA have been made due to the introduction of OIS-swaps for USD.
- EIOPA introduces a new paragraph to emphasise that countries without government yield curve but with exposure to Euro (Cyprus, Estonia, Latvia, Liechtenstein, Lithuania, Luxemburg and Malta) will use a peer country to calculate their volatility adjustment and matching adjustment. **Malta** will be peered with Spain from 2023 (instead of Ireland).
- The Icelandic VA will be based on own government bonds data and will no longer use HRK government data
- The reference codes used to source the Danish mortgage loans index, the **DKK Nykredit Index**, will be updated.

Historic information for CHF, GBP, JPY and USD

Currency	Financial instruments used SWP=IBOR-swaps, OIS=OIS- swaps, GVT=government bonds. All maturities in years	Period
CHF	SWP 1-15, 20, 25	1 January 2016 – 31 March 2021
	SWP 2,5,10,25	1 April 2021 – 31 December 2021
	GVT 1-3,5-13,15	1 January – 31 December 2022
	OIS 2, 5, 10	1 January 2023 –
GBP	SWP 1-20, 25, 30, 35, 40, 45, 50	1 January 2016 – 31 December 2019
	SWP 1-10, 12, 15, 20, 25, 30, 40 50	1 January 2020 – 31 March 2021
	SWP 1-10, 15, 20,30,50	1 April 2021 – 31 December 2021
	OIS 1-5, 7, 9-10, 15, 20, 30	1 January – 31 December 2022
	OIS 1-7, 9-10, 12, 15, 20, 30 ,50	1 January 2023 –
JPY	SWP 1-20, 25, 30	1 January – 30 December 2016

	SWP 1-10, 12, 15, 20, 25, 30	31 December 2016 – 31 December 2019
	SWP 1-10, 12, 15, 20, 30	1 January 2020 – 31 March 2021
	SWP 1-10, 12, 15, 20, 25, 30	1 April 2021 – 31 December 2021
	GVT 1-20, 25, 30	1 January – 31 December 2022
	OIS 1-10, 12, 15, 20, 25, 30	1 January 2023 –
USD	SWP 1-15, 20, 25, 30, 35, 40, 45, 50	1 January – 30 December 2016
	SWP 1-12, 15, 20, 25, 30, 40, 50	31 December 2016 – 31 December 2019
	SWP 1-10, 12, 15, 20, 25, 30, 50	1 January 2020 – 31 December 2022
	OIS 1-5, 7, 9-10, 15, 20, 30	1 January 2023 –