

Chapter II		
#	Question	Answer
Q.1.	Do you agree with the overall approach of the immediate switch subject to the two preconditions?	<p>The proposal to undertake an immediate switch is a major improvement to the <u>previously</u> proposed blending approach which was much too complicated and could have led to a lot of problems.</p> <p><u>To ensure a smooth transition, it is necessary for EIOPA to provide sufficient time to implement the switch. As such, actual confirmation that a switch will be made should be not later than in the first month of a (new) quarter (eg a 2 to 3-month time at a minimum).</u></p> <p>Increased communication from EIOPA on the DLT of all the RFR markets would help to prepare industry for any change and would likely support a speedier adoption of new OIS-based curves. <u>In this regard,</u></p> <p><u>it would be helpful if EIOPA could produce a dashboard which includes liquidity indicators which provide information on the development of liquidity in the OIS swap markets for each currency and expected timelines including any cessation dates and expected date for the switch.</u></p>
Q.2.	Do you agree with the way the 'liquidity' condition is defined?	<p>Yes, a <u>While a</u> 50% threshold on the traded volume of OIS swaps appears to be a sensible precondition if an "immediate" switch is to be carried out, <u>it is not clear how the precondition could impact the last liquid point.</u></p> <p><u>For example, it seems reasonable to assume that traded volume is higher at shorter maturities. This could mean that the 50% threshold is reached but with a different last liquid point (eg as is currently expected to be the case for the British pound).</u></p> <p><u>However, going forward it is not unreasonable to assume that the market liquidity of OIS-based swaps will quickly increase as a final cessation date approaches, if one is agreed (eg for GBP-LIBOR and SONIA). In this</u></p>

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		<p><u>regard, when DLT rules are followed to the letter a change to the LLP primarily driven by the OIS move is very likely to be temporary of nature. To avoid undue volatility in the LLP and therefore the valuation of long-term liabilities, it will be advisable not to alter LLPs at the same time as the OIS rate is introduced (unless there is clear and ample evidence that there is truly very limited liquidity).</u></p> <p><u>It would be helpful if EIOPA could clarify its proposed approach to assessing the liquidity condition and changes to the last liquid point (in particular for the Euro where a 20 year last liquid point is foreseen in recital 30 of the Omnibus II Directive).</u></p>
<p>Q.3.</p>	<p>Do you agree with the way the 'proximity' condition is defined?</p>	<p>While it is desirable that the deviation between the OIS-IBOR curves is minimal when the transition is carried out, it is not clear that the proximity precondition would achieve its objective of mitigating against a potentially significant <u>balance sheet</u> impact.</p> <ul style="list-style-type: none"> • Monthly changes in the RFR curve will affect both liability valuation and the value of the hedging assets. Switching to OIS-based swaps will only affect the value of the liabilities. Therefore, even if the deviation of the IBOR vs OIS curves is of a similar level to the average monthly changes, it will have a greater balance sheet impact than the monthly changes. • <u>As noted in response to Q2, E</u>xperience to date suggests that the liquidity of the OIS swap market will increase at the shortest <u>durations-tenors</u> first which suggests that EIOPA's liquidity precondition could therefore result in a change in the LLP (as is currently the case for GBP, USD and CHF). • It is not clear how the proximity precondition is applied when there is a change in the LLP. Any change in the LLP could have a significant impact on the value of liabilities. <p style="text-align: right;">-</p>

<p>Q.4.</p>	<p>Do you believe the 'proximity' condition has to be met for the three consecutive months or a shorter period would be sufficient?</p>	<p>The proximity precondition should <u>ideally</u> be satisfied for a minimum of 3 consecutive months (and potentially even longer). <u>However, it is recognised that this may not be achievable if liquidity in the OIS market does not increase until near the cessation date of the IBOR.</u></p>						
<p>Q.5.</p>	<p>Do you think there is another condition EIOPA would need to consider for the immediate switch to the new OIS term structures?</p>	<p><u>If/When it happens, insurers need sufficient time to implement the switch. As such, the actual confirmation that a switch will be made should be not later than in the first month of a (new) quarter (so 2 to 3 month time at a minimum)</u></p> <p><u>If a local regulator (3rd country or not) switches for local supervision purposes, this should be a trigger for EIOPA to switch as well. An (earlier) local switch may lead to volatility in the IBOR rates as a result of which the proximity condition may never be met, while the new OIS rate is essentially the standard rate.</u></p> <p><u>In light of the above, EIOPA could also consider dropping the proximity precondition if a higher amount of market liquidity is achieved eg 80% of the traded volume across the majority of currently liquid tenors.</u></p> <p><u>Impact on 2020 Review of Solvency II</u></p> <p>Depending on when the switch takes place, EIOPA may have to consider how it impacts its proposals to alter the RFR extrapolation methodology.</p> <p>For example, the table below compares the LLP for GBP and JPY provided by EIOPA in the consultation paper with the First Smoothing Point (FSP) under EIOPA's alternative extrapolation methodology, provided by EIOPA in its Opinion on the 2020 Review. This shows that the FSP, which is proposed to be based on the Residual bond criterion, would be lower than the LLP, which is based on the DLT assessment.</p> <table border="1" data-bbox="983 1173 1715 1286"> <thead> <tr> <th>Currency</th> <th>FSP</th> <th>LLP after switch</th> </tr> </thead> <tbody> <tr> <td>GBP</td> <td>40</td> <td>30</td> </tr> </tbody> </table>	Currency	FSP	LLP after switch	GBP	40	30
Currency	FSP	LLP after switch						
GBP	40	30						

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		CHF	20	15
Q.6.	Do you believe that the foreseen changes in the RFR methodology due to IBOR transitions and the method of switching the underlying instruments (depending on the proximity and liquidity condition) could have an impact on the market rates itself, and if so, with what impact and how might this be mitigated?			

Chapter III		
#	Question	Answer
Q.7.	Do you agree with the overall approach regarding the CRA?	<p>Yes, there should be no CRA for OIS swaps.</p> <p>However, Insurance Europe does not agree that the CRA should be applied to RFR curves where the underlying instrument is government bond rates.</p> <p>Article 45 of the Delegated Regulation, which sets out the calculation methodology for the credit-risk-adjustmentCRA, correctly-solely refers only to swap rates. Adjusting government bond rates to account for the difference between OIS swap rates and IBOR rates would result in artificially lower curves and makes no economic sense.</p>
Q.8.	Is there any alternative option you believe EIOPA would need to consider regarding the treatment of the CRA?	

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Q.9.	Would you have a view on how to treat the CRA for those currencies for which the CRA is currently being derived from either the CRA for the EUR or the CRA for the USD?	<u>ISDA fallback rates could potentially be used to supplement the calculations of CRAs which are reliant on Euro data.</u>
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Chapter IV

#	Question	Answer
Q.10.	What is your opinion about the proposed changes in the LLPs and the use of government bonds for the JPY and CHF?	<p>See Q2 for comments on the change to LLPs.</p> <p><u>Where the liquidity of OIS-swap rates is not assessed to be DLT and is not expected to be DLT in the near future (ie within 1 year) it makes sense to switch to RFR curves based on government bonds.</u></p> <p><u>However, where there is a reasonable level of existing liquidity and clear evidence of increasing liquidity in the OIS market, it may be preferable to switch to OIS-based term structures under a forward-looking assessment of liquidity.</u></p> <p><u>Similar to the discussion on LLPs in Q2, it may be preferable to use swaps which are not considered to be fully liquidity as a basis for the RFR curves for a short time period rather than to switch the underlying instrument which is likely to cause significant volatility, particularly if it will be switched back within 12 months.</u></p> <p><u>If the OIS-swap rates are not DLT, then it makes sense to use very liquid government bonds. The ISDA-Clarus RFR Adoption Indicator for CHF shows a significant increase in derivatives trading activity conducted in OIS risk-free rates, being at the moment significantly more liquid (currently over 15%) than other economies. Also, as CHF LIBOR will</u></p>

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		<u>cease to be produced from YE2021, it is reasonable to expect trading volumes of OIS swaps are going to increase in the next months (as seen in April 21 and May 21). Adopting SARON-based RFR curves could therefore be preferable to switching to CHF government bond curves.</u>
Q.11.	What is your view on the proposed treatment of the LTAS?	This approach is reasonable given a historic proxy for the new curve is not a trivial exercise.