Any views provided in this presentation are tentative views at working group level and should not be understood as EIOPA positions.

EUROPEAN INSURANCE AND OCCUPATIONAL PENSIONS AUTHORITY

MA approach 1

Workshop on 2020 review
Frankfurt, 5-6 June 2019

MA approach 1

Call for Advice

EIOPA is asked to assess the efficient functioning of the volatility adjustment and the matching adjustment as mechanisms to prevent pro-cyclical behaviour on financial markets and to mitigate the effect of exaggerations of bond spreads, in view of a level playing field in the EU and policyholder protection.

The Commission services are envisaging to assess possible approaches to review the design, calibration and functioning of the adjustments, whilst not precluding the possibility of a single adjustment mechanism.

EIOPA is asked to provide an assessment of the quantitative impact on the calculation of the best estimate and the solvency position of insurance undertakings of the following approaches for the calculation/application of the matching adjustment:

-Approach 1: a change in the current assumption of no diversification benefits (including full diversification); where EIOPA assesses assumptions of partial diversification, it should provide criteria and methods to determine the appropriate level of diversification.

MA approach 1

Description

- The MA portfolio is characterized by being a separated portfolio of assets and liabilities in which cash flows are matched, and assets assigned to that portfolio are exclusively devoted to cover the best estimate of the liabilities included in the portfolio.
- According to Article 217 of the Delegated Regulation MA portfolios and ring-fenced funds are treated in the same way in the calculation of the SCR standard formula. In particular, the SCR of an undertaking with MA portfolios is the sum of notional SCRs calculated for those portfolios and for any other business.
- The assets assigned to the separated portfolio are exclusively devoted to cover the best estimate of liabilities (expected losses) included in that portfolio, and are never used to cover any other losses. But the assets backing the SCR (they are other assets than the ones assigned to the MA portfolio) can be used to cover any unexpected loss, given there is only one SCR.

MA approach 1

Options under discussion

- **Option A**: Do Nothing: Maintain the limitation to diversification benefits for MA portfolios in the SCR standard formula
- **Option B**: Remove the limitation to diversification benefits for MA portfolios in the SCR standard formula

Questions to stakeholders

- What do you think about the options?