Memo
for Information

To: Solvency II SG
From: Economics & Finance department
Date: 13 October 2014
Reference: ECO-SLV-14-435

Subject: Final version of the Solvency II Delegated Acts

Dear members,

Please find attached (ECO-SLV-14-436) the final Solvency II Delegated Acts (October 2014) as adopted by the EC on the 10 October and sent to the Parliament and the Council for their 3+3 months scrutiny period to either accept or reject the DAs.

Summary

The Secretariat has completed a preliminary and quick analysis of the changes with regard to our 8 core priorities, compared to the July version and wishes to highlight the following:

- **Only changes in relation to Insurance Europe' 8 priorities concern securitisations;**
- **There were no changes on Long-term Guarantee (LTG) measures.**

First preliminary analysis – Focus on Long-Term Investments / Securitisations

There were a number of changes in relation to securitisations that focuses on high-quality securitisations – particularly; there are no distinctions between AA, A and BBB securitisations ratings from a capital charge perspective. Main changes are as follows:

- Type 1 securitisations now also include those admitted to trading in an organised trading venue providing for an active and sizeable market for outright sales, not just those listed in an EEA or OECD country. (positive)
- The charges for Type 1 securitisations have been capped at 3% per year of duration for A and BBB. (positive)

Draft DA	AAA	AA	A	BBB
Mar-14	2.1	4.2	7.4	8.5
Jul-14	2.1	3	4	5
Oct-14	2.1	3	*3*	*3*

- The inconsistency between underlying mortgage loans and securitisations (RMBS) remains in place. A mortgage loan with a LTV lower than 80% would be charged at 0%, while a securitisation would get a minimum 2.1% charge per year of duration. (negative).
- CMBS and junior tranches remain in the Type 2 category. (negative).

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- New provisions for RMBS have been introduced in Article 177(2)(4) and (5):
  - The 80% LTV limit remains in place and a new limit has been introduced, referring to a maximum 45% loan to income limit (defined in national laws of member states). In order for a RMBS to qualify as a Type 1 securitisation at least one of the 2 conditions above would have to be met (ie loan to value or loan to income).
  - The 2 tests would not apply to securitisations issued before entry into force of this Regulation.
  - Securitisations issued after the entry into force of this regulation comprising of residential loans granted before application of a national law prescribing a loan to income ratio will qualify as Type 1 until 31 December 2025, even in cases where the test for the two ratios would not be passed by the loans in the pool. (positive)

The Secretariat also wishes to highlight the following additional changes:

- **Recital 67** – new addition stating that for the operational risk module, acquisition expenses for unit-linked business should not be taken into account for the expenses incurred during the previous 12 months. (positive). However, as a recital is not legally binding it would have been better if the change had been introduced in Article 204 itself to have legal certainty.
- **Recital 93** – new addition introducing a cap of 3% on the spread risk factors for Type A securitisations, at a level of the spread risk factor that would be applicable to unrated loans in the spread risk module. While the change is positive, it still doesn't fully address the inconsistency between securitisations and underlying loans (see point above on RMBS).
- **Equity Risk Sub Module**: the removal of European Long-term Investment Funds (ELTIF) from Type 1 equities, due to ELTIFs still being developed. (negative)

Next Steps

Please note this memo is the outcome of a quick yet detailed analysis on our 8 core priorities. We would appreciate any feedback should members remark any other changes. A more detailed complete analysis of all the changes will follow before the end of the week commencing 13 October.

Yours sincerely,

The Secretariat