

Comments Template on CEIOPS-CP 40 Consultation Paper on the Draft L2 Advice on TP – Risk free interest rate		Deadline 11.09.2009 4 p.m. CET
Name of Company:	AMICE	
Disclosure of comments:	CEIOPS will make all comments available on its website, except where respondents specifically request that their comments remain confidential. Please indicate if your comments should be treated as confidential:	No
The numbering of the paragraphs refers to Consultation Paper No. 40 (CEIOPS-CP-40/09).		
Reference	Comment	
General Comment	<p>These are AMICE´s view at the current stage of the project. As our work develops, these views may evolve depending, in particular, on other elements of the framework which are not yet fixed</p> <p>The comments outlined below constitute AMICE´s primary areas of concern:</p> <p>AMICE members are in favour of using the Swap Rate Curve (CEIOPS´ option 1) as reference for the risk free rate curve. Indeed, contrary to the ECB AAA-rated government curve, the swap curve:</p> <ul style="list-style-type: none"> - can be directly obtained from the market at all times whereas the ECB government curve is the result of a questionable methodology and it is not available at all times. - has an economic sense, due to its day-to-day use on the market. <p>Obtaining implied volatilities for the swap curve is not a difficult task, whereas it is impossible to have them on an ECB curve, as it is not used for market transactions.</p> <p>Furthermore, we would like to emphasize the need to use upwards adjustments under certain market conditions:</p> <ul style="list-style-type: none"> - Market values of corporate bonds include an illiquidity premium which is being managed following pillar II requirements. This illiquidity premium is not material for insurers when a Buy&Hold strategy is followed. An upward adjustment of the illiquidity spread on the risk free rate is a good way to correct it. - Due to the financial crisis, the market value of some non AAA-rated government bonds went down. This fall would not have had any impact on the undertaking´s future results if a Buy&Hold 	

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	strategy were followed (with the exception of a country going bankrupt). On the contrary, using market consistent approaches and risk free rates without adjustments would lead to a material fall of eligible elements, even if the country does not go bankrupt. If this problem is not solved by using an upward adjustment, insurers would have to avoid non AAA-rated government bonds in order to minimise the volatility of their solvency statement. This could have macro-economic impacts on the ability of non AAA-rated Government to raise debt.	
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3.4.	AMICE members agree with the CEA that the principle of “No credit risk” should be replaced by “No significant credit risk”	
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3.10.	AMICE members also agree that the “Highly liquid for all maturities” principle should be replaced by “Highly liquid for all relevant maturities”	
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3.22.	CEIOPS gives different options for the derivation of the risk-free rates: <ul style="list-style-type: none"> - Government bonds - Government bonds + adjustment for technical bias - Swap rates - Swap rates minus adjustment for credit risk AMICE prefers Swap Rates as the best approximation for the risk-free rates.	
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3.30.	<p>AMICE members believe that liquidity premium should be allowed when discounting liabilities, which are illiquid by nature as non-traded on a deep market. We agree with the CEA that:</p> <ul style="list-style-type: none"> - Market participants require compensation for liquidity risk on the assets backing the liabilities; Most investors will require a premium to accept an asset (to back the liabilities) which may be hard to trade and hard to value prior to the expected maturity of the instrument. - Provided liabilities are illiquid or irredeemable and backed by illiquid assets, recognising a liquidity premium is market-consistent. - The concept of the liquidity premium is consistent with the approaches used to price and value other illiquid liabilities such as long term debt issued by companies. 	
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3.43.	<p>AMICE members strongly support the macroeconomic extrapolation technique which aims to introduce a method based on macroeconomic principles that will reduce the volatility in the long-end of the interest rate curve as opposed to an interest rate curve that is extrapolated from short term market rates in the absence of long term market interest rates</p> <p>AMICE believes that a principle-based approach should be developed in level 2. A more detailed approach should be developed as part of the Level 3 guidance.</p>	
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3.59.	See comments to paragraph 3.43	

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