

Comments Template on CEIOPS-CP 47 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Market Risk		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. 47 (CEIOPS-CP-47/09).		
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 the 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><u>Interest rate risk:</u></p> <ul style="list-style-type: none"> - The interest-rate scenarios will now, compared to QIS4, capture movements in the level, slope and curvature of the term structure of interest rates and will also allow for an increase in the volatility of interest rates (interest rate volatility shock will be included in interest rate up and down shocks). We believe that volatility shocks were already included in QIS4. At least their inclusion should not lead to a more conservative calibration. <p><u>Concentration risk</u></p> <ul style="list-style-type: none"> - Lower thresholds (e.g. 5% to 2% for AAA to A counterparties) are not justified in CEIOPS paper. We are not convinced that the new calibration is based on assumptions consistent with the Level 1 text. We suggest keeping the thresholds tested in QIS 3 and QIS 4. - We do not agree with the exclusion of property holdings from the financial concentration risk module as we see property investments as an important element of portfolio diversification. - Further, UCITS should not be considered in the concentration risk module. The look-through approach could prove immensely burdensome. 	

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	<p><u>Currency risk:</u></p> <ul style="list-style-type: none"> - The total capital charge for currency risk is the sum of the capital charges over all foreign currencies. This is an onerous change from QIS4 since the capital charge in QIS4 was derived by testing the impact of all foreign currencies moving up or down together (and taking the most onerous result) rather than taking the most onerous result for each individual currency and then aggregating. We are not in favor of this change. - We are in favour of recognising diversification benefits for the currency risk. A well-diversified currency portfolio should lead to a lower capital requirement than an undiversified portfolio. Additionally, the grouping of currencies should be allowed. 	
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3.18.	We agree with the CEA that bank deposits should be excluded from financial entities subject to Basel II.	
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4.4.	We agree with the CEA that the volatility of interest rates should be captured by the standard formula.	
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4.12.	We agree that the revaluation of technical provisions should allow for any relevant adverse changes in option take-up behavior of policyholders However we believe that this risk is already covered in another module.	
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4.28.	AMICE members agree with the CEA that is not possible to combine specified alterations to the interest rate term structures combined with specified alterations to interest rate volatilities. We agree that a separate volatility sub-module should be introduced and aggregated using a correlation matrix.	
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4.30.	Currency risk	
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4.35.	AMICE members do not share CEIOPS opinion to ignore interdependencies between currencies.	

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	In our opinion diversification benefits among different currencies should be allowed. A well-diversified currency portfolio should lead to a lower capital requirement than undiversified portfolios. Moreover, grouping some foreign currencies should be allowed. See our comments to paragraph 4.47	
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4.47.	We agree with the CEA that grouping some foreign currencies could be more appropriate than carrying out calculations separately for all individual currencies and then aggregating them via a correlation matrix.	
4.48.	AMICE is in favour of recognising diversification benefits for the currency risk. In our view well-diversified currency portfolios lead to lower capital requirement than undiversified portfolios.	
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4.83.	Property risk	
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4.88.	CEIOPS writes that it will investigate whether distinctions between commercial, retail and other types of property is possible. We are not in favour of introducing more granularity in the calculation.	
4.89.	Participations in real estate companies should be treated as property if and only if they expose the investor to the property risk. In any other case participations shall be treated as equities and their risks considered accordingly in the equity risk sub-module. More guidance is needed on the required treatment of real estate companies such as OPCl which resort to debt, having financial investment and /or property (land). We propose to treat participations with a denomination of real estate (property) under the property risk module.	

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4.95.	CEIOPS writes that it will investigate whether distinctions between commercial, retail and other types of property is possible. If this is the case it is possible that more than one scenario will be defined for property risk. Applying different shocks as to different types of properties will be very demanding since many combined properties exist. As stated in our comment to paragraph 4.88, we are not in favour of introducing more granularity in the calculation.	
4.96.	See our comments to paragraph 4.89	
4.97.	Concentration risk	
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4.150.		
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4.152.	<p>The new thresholds appear very low and the reasoning given by CEIOPS for the reduction in the thresholds is not convincing. We suggest the following concentration thresholds CT, depending on the rating of the counterparty i:</p> <p style="text-align: center;"> AAA: 5% AA: 5% A: 5% BBB: 3% BB: 2% B: 2% </p>	
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4.159.	<p>We do not see any reason to increase the correlation parameter from 0% in QIS 4 to 25% between counterparties that are normally independent, as counterparties of the same group should be treated as one counterparty.</p>	

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4.160.	It is unclear whether CEIOPS wants to exclude UCITS of the total assets used for concentration risk. UCITS should be excluded from the concentration risk provided that there is sufficient evidence of diversification.	
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4.163.	CEIOPS allows to apply a threshold to the treatment of public mortgage covered bonds and public sector covered bonds when all the following requirements are met: <ul style="list-style-type: none"> • the portfolio of mortgages backing the asset is diversified into a sufficiently high number of borrowers • there is no evidence of high correlation or connection among the default of one or few borrowers <p>In our opinion these requirements are not clear and need to be specified otherwise it would be difficult to apply .</p>	
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4.166.	AMICE members believe that the wording of this paragraph is very vague and is confusing. <u>We propose to delete the paragraph.</u>	
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4.171.	Investment funds	
4.172.	Concerning collective investment vehicles, the look-through approach seems to be very burdensome. It will be better to consider a threshold, especially when an investment fund is invested in other investment funds (a threshold of 5 or 10% seems appropriate).	

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