INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

# Public Consultation on

# Risk-based Global Insurance Capital Standard Version 1.0

# Questions for Stakeholders

Thank you for your interest in the public consultation on the Risk-based Global Insurance Capital Standard (ICS) Version 1.0. The ICS Consultation Tool should be available on the IAIS website on 29 July 2016 for respondents to provide their responses.

This document is an extract of all the questions in the ICS Consultation Document which was published on 19 July 2016. It serves to facilitate the collation and organisation of responses by respondents to the questions in the ICS Consultation Document before respondents formally provide their responses via the ICS Consultation Tool. The structure of this document (ie numbering of sections and questions) is the same as the ICS Consultation Document. You may find it helpful to use the "Navigation Pane" function of Microsoft Word when using this document.

**Please do not submit this document to the IAIS. All responses to the ICS Consultation Document must be made via the ICS Consultation Tool to enable those responses to be considered.**

## 3 Scope of group: perimeter of ICS calculation

Q1 Section 3 Should the IAIS further define the concept of an insurance-led financial conglomerate to give greater certainty to supervisors and IAIGs as to how the head of an IAIG will be identified in a complex conglomerate structure? If “yes”, is the proposed definition a helpful start and if so what further specification is suggested?

☐ Yes ☐ No

In Europe, legislation exists with respect to the definition of “financial conglomerates” (Directive 2002/87/EC). In this directive some articles are also included regarding the definition of the most dominant sector:

> For the purposes of determining whether activities in different financial sectors are significant within the meaning of Article 2(14)(e), for each financial sector the average of the ratio of the balance sheet total of that financial sector to the balance sheet total of the financial sector entities in the group and the ratio of the solvency requirements of the same financial sector to the total solvency requirements of the financial sector entities in the group should exceed 10 %.
>
> For the purposes of this Directive, the smallest financial sector in a financial conglomerate is the sector with the smallest average and the most important financial sector in a financial conglomerate is the sector with the highest average. For the purposes of calculating the average and for the measurement of the smallest and the most important financial sectors, the banking sector and the investment services sector shall be considered together.

The IAIS should use these parameters.

Q2 Section 3 Are there any instances of groups likely to be identified as IAIGs where it is likely supervisory judgement will need to be exercised in determining the level at which the group consolidated balance sheet should be prepared for ICS purposes? If “yes”, what is the nature of the uncertainty in identifying the Head of the IAIG?

☒ Yes ☐ No

There could be situations where judgement is needed but this is dependent on the definition of groups (according to legal, economic, risk, accounting or other perspectives). The IAIS should also consider the impact of joint operations on the extent whether entities are part of a group (for example operations like joint use of datacentres). Market expectations considering those links should be factored in for prudential purposes. The interconnectedness on a day-to-day basis should also be considered for prudential purposes.

A problem of definition could arise within an insurance related only group. This is linked to whether or not several definitions of groups exist for different purposes: image or utility (commercial, sharing of support functions…), accounting, prudential.

Q2.1 Section 3 If "yes" to Q2, is this uncertainty related to the insurance group or financial conglomerate forming part of a wider group? If "yes", please describe concerns with identifying the correct Head of the IAIG.

☐ Yes ☒ No

Q3 Section 3 Given the description of entities to be included in the consolidation for ICS purposes, are there uncertainties as to material entities that should be included within the perimeter of the ICS calculation? If "yes", for which types of entities are supervisors and IAIGs most likely to benefit from greater specification of the scope of the group?

☐ Yes ☒ No

Q4 Section 3 Are there any further comments on this section on the scope of group that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☒ Yes ☐ No

IAIS offers possibilities for exemption of related entities within ICS. Any difference in scope of consolidation between GAAP and ICS will create potential confusion and additional work and pose problems with reconciliation. In many instances this will also imply manual adjustments. Alignment of consolidation circles will enhance the transparency and understandability of public data, and limit the additional review work of the second and third line as well as of external auditors.

In principle material entities should be included in the scope of consolidation whether for GAAP or for prudential purposes. Otherwise potential tedious reconciliation work might be generated.

Prudential consolidation should be consistent with accounting consolidation and vice versa, except for non-material reasons.

# 4 Valuation

## 4.1 Market-adjusted valuation (MAV) approach

### 4.1.1 MAV general approach

Q5 Section 4.1.1 Do the adjustments to GAAP specified in the 2016 Field Testing Technical Specifications for the construction of the MAV balance sheet succeed in providing a largely comparable picture of the financial situation of IAIGs and a consistent basis for the calculation of the ICS? Please explain.

☒ Yes ☐ No

There is no guidance given regarding the valuation of non-controlled participations. This could potentially lead to differences in treatment. Net asset value, adjusted equity value, cost or economic value could be used.

There should be additional work on the relevant discount rate for insurance liabilities. The adjustment to the RFR curve should not be limited to an appropriate adjusted portion of the return earned on bonds & loans but also include other assets such as equity.

Q6 Section 4.1.1 Are there any other material areas of divergence across existing GAAPs (or statutory accounts) that should be subject to adjustments when constructing the MAV balance sheet? If "yes", please explain.

☒ Yes ☐ No

The valuation of participations embedded in the balance sheet of the IAIG. How are they to be valued? Which definition is used to define participation?

In any case it should be ensured that any MAV approach will lead to the same outcomes or starting point for determining the capital requirements.

### 4.1.3 Contract boundaries

Q7 Section 4.1.3 Should MAV include a more economic approach to contract boundaries (eg renewal rate and stability of premiums) rather than focusing on contractual or legal aspects? If "yes", why would this provide a better assessment of the solvency position of IAIGs?

☐ Yes ☒ No

A feature of utmost importance is the alignment of the basis for exposures to risks for capital requirement computations and the contract boundaries / insurance liabilities for which the insurer is liable as recognized in the prudential balance sheet.

Not embarking too much volatility in the balance sheet through less predictable future cash flows such as those linked to new business is a reasonable approach, although a longer-term approach leading to the establishment of a long term solvency ratio could make some additional sense at the cost of additional complexity.

Q8 Section 4.1.3 If an economic approach were adopted, would that make the determination of the contract boundaries more complicated ? Please explain.

☒ Yes ☐ No

Although using renewal dates is not complicated, the use of a “more” economic rather than risk sensitive approach has some other drawbacks which should be considered.

As the purpose of the ICS is to assess the risks an IAIG has on the balance sheet, the focus should also be on the manner in which the IAIG actually manages and mitigates these risks. The current proposal for determining the contract boundary provides this opportunity and information. If the IAIG is able to change the risk profile of the insurance contract this should be reflected. There is also a close link with the calculation of the capital requirements (underwriting risk) and “expected profit in future premiums”.

Using the renewal dates will also result in some health insurance contracts changing from short term to long term and changing risk driver.

Q9 Section 4.1.3 If an economic approach were adopted, the calibration of some ICS risk charges would need to be revised to capture the different exposure to risks (eg Lapse risk). What areas of the ICS capital requirement would be affected and how? Please explain in terms of the defined risks in the ICS capital requirement.

The following capital requirements would be affected (besides lapse risk):

- Insurance risk: if multiple periods are included additional consideration should be given to the impact of the defined shocks on the lapse assumptions after the occurrence of the instantaneous shock;
- Premium risk: the current inputs only focus on last year or coming year. Having multiple periods will understate the premium risk if there is no change in the methodology.

Q10 Section 4.1.3 To ensure the overall consistency of the framework, the definition of MOCE would need to be reviewed following the adoption of an economic approach to contract boundaries. Would a change to an economic approach to contract boundaries impact the specification of MOCE? Please explain.

☐ Yes ☒ No

Click here to enter text.

Q11 Section 4.1.3 If material amounts of future business were included in the valuation of insurance liabilities through the consideration of future expected renewals, would the resulting capital resources (future profits) continue to meet the criteria for inclusion in Tier 1 (eg regarding the criterion on availability)? Please explain.

☒ Yes ☐ No

Future profits are embedded in the prudential balance sheet when an economic approach is adopted. They are available to absorb losses on a going concern basis and in the case of winding up. They are not dated and have an infinite duration in the case of mutual groups.

However, future expected renewals are quite uncertain. In a stress scenario, the IAIG would not be able to determine the actual amount of future renewals and the impact of a 99.5% VaR stress scenario on renewals / lapses.

Q12 Section 4.1.3 Would other components of the ICS, be affected by such change? If "yes", please specify those components and provide an explanation.

☒ Yes ☐ No

Furthermore, the calculation of the risk mitigation effect of reinsurance arrangements and derivatives would have to be re-assessed.

### 4.1.4 Discounting

*4.1.4.3 IAIS' response to stakeholder comments and Field Testing results*

Q13 Section 4.1.4.3 Is the current 3-segment approach to the definition of IAIS base yield curves a sound basis to determine the base yield curve? Please explain.

☒ Yes ☐ No

Click here to enter text.

Q14 Section 4.1.4.3 The base yield curves are based on either swaps or government bonds, depending on the liquidity of the underlying markets. Are any of the IAIS' choices of either swaps or government bonds as a basis for determining individual currency yield curves as set out in Table 4 inappropriate? If "yes", for which currencies is the choice inappropriate? Please explain your answer.

☐ Yes ☒ No

Click here to enter text.

Q15 Section 4.1.4.3 For each currency, the extrapolation period begins at the point where the market for the instruments used no longer fulfils the criteria for being considered deep, liquid and transparent. Is the starting point of Segment 2 inappropriate for any currency? If "yes", for which currencies is the starting point inappropriate? Please explain.

☒ Yes ☐ No

It is difficult to provide a clear answer to this question as there are no concrete definitions explaining how the IAIS derives the last liquid point.

Based on market data a LLP of 20 years for the Euro seems to be too low.

If the swap market is used as the basis, the IAIS could use data derived from the Central Clearing Parties. Many CCPs use longer duration than 20 years for the swap markets.

Q16 Section 4.1.4.3 Currently, the IAIS has adopted the simplification that Segment 3 should start at maturity 60 for all currencies. Should the IAIS continue with this simplification? If "yes", are there any necessary amendments to that approach? If "no", should the IAIS seek to adopt a different approach to determining the start of Segment 3 based on one of the following options?

☐ Yes ☒ No

This simplification results in differences in the lengths of the convergence periods due to the differences in the LLP. This implies for several currencies a too short convergence period and a steep rise in the discount rate. The convergence period to the LTFR should be the same for all currencies.

A longer convergence smooths the importance of the LTFR as well as it lowers sensitivity towards changes in the LTFR.

Q16.1 Section 4.1.4.3 Should the IAIS harmonise the length of Segment 2 at a set number of years? If "yes", what should be the length of Segment 2?

☒ Yes ☐ No

A convergence period between 40 and 60 years could be used. No minimum convergence point should be used. See also answer to question 16.

Q16.2 Section 4.1.4.3 Should the IAIS consider determining a minimum convergence point as well as a consistent convergence time and take a maximum of the last point of Segment 1 plus the consistent convergence time and the minimum convergence point? If "yes", what should be the consistent convergence time and minimum convergence point?

☐ Yes ☒ No

Click here to enter text.

Q17 Section 4.1.4.3 The proposed LTFR is based on a macroeconomic approach using OECD information. Is this methodology appropriate? Please explain.

☐ Yes ☒ No

The macroeconomic approach of the OECD is based on prospective views of the future. Since prospective views change over time and are generally not met, we fear this will introduce too much volatility and instability in the framework. We would support the derivation of a stable long term view for the LTFR based on historical data series.

Q17.1 Section 4.1.4.3 If "no" to Q17, should the IAIS develop an alternative methodology to derive the LTFR? Please provide an outline of such an alternative methodology.

☐ Yes ☐ No

Click here to enter text.

Q18 Section 4.1.4.3 The discounting approach is based on a stable macro-economic long-term anchor while the methodology to derive it may show drifts or even steps over time. Should the IAIS also address the issue of frequency of assessment and ways to update the LTFR? If "yes", please provide details of how the IAIS should address the issue of frequency of assessment and ways to update the LTFR.

☒ Yes ☐ No

The goal of the LTFR is to minimize the volatility of the discount rate especially for the longer maturities. The components of the LTFR are also chosen with that objective in mind. This would imply that a change in the LTFR is only warranted if there are fundamental changes in the underlying components.

Depending on the length of the convergence period, the impact of a change in the LTFR can be significant and have disruptive consequences. IAIGs should be able to prepare themselves for such a change. The IAIS should assess on an annual basis whether fundamental changes have occurred and whether these changes will be short term or not. If there is a fundamental permanent change, one would expect the LTFR also to change. This change should be phased-in over multiple years enabling the IAIGs to raise capital if needed. Depending on the change this phasing-in could last for multiple years.

The IAIS could also define a minimum threshold for a change of the LTFR in order to reduce the number of annual changes. For example, if the change is less than 10 bp no change is implemented. A maximum of 20 bp change per year could be applied.

Q19 Section 4.1.4.3 Do you have any other proposals for refinement of the methodology to derive the base yield curves? If "yes", please provide a detailed rationale for your suggestions.

☐ Yes ☒ No

Click here to enter text.

*4.1.4.4 Policy issues regarding the design of the adjustment*

Q20 Section 4.1.4.4 Which approach to portfolio selection, as a basis for the calculation of the credit spread adjustment, is more appropriate for the MAV approach, taking into account the need to ensure a balance between complexity, comparability and basis risk? Please explain.

A reference portfolio per currency is a reasonable approach as a default option.

However, an option based on a "weighted average of multiple reference portfolios linked to the assets held by the firm" should be available for more complex asset portfolios based on the group's assets' composition. It is important that this composition should not be limited to bonds & loans but also include other assets such as equity, mortgage loans and property in line with industry practice. In fact, insurers manage their assets based on a holistic balance sheet approach, where all the liabilities are considered including own funds and free surplus. The ability to adopt and maintain a long-term view in the management of assets is provided by the duration of the liabilities at large, in a sort of weighted average, including free surplus with long durations. Insurers managing their assets with a long term view are not exposed to forced sales on a one-year basis and the short-term volatility of assets is "hedged" by the duration of the holdings, be it on a line by line basis (bonds held to maturity) or through the percentage of a target asset allocation (common stocks). Such asset management strategies permit enhanced diversification of the asset portfolio improving key indicators such as profitability, liquidity and solvency. They also lead to a countercyclical investment behaviour whereby insurers not only avoid forced sales but actively manage their assets on the underlying risk factors of the assets. Therefore, from a holistic balance sheet approach and in line with asset/liability management, equity holdings should be reflected in the calculation of the spread intended for the adjustment to the risk free curve.

The IAIG should include the use of the CSA in its risk management and should assess the impact of applying the CSA in its policies for capital adequacy and disclosure. This should ensure that any wrong incentives from using the CSA are mitigated.

Q21 Section 4.1.4.4 Is it appropriate to have entity-specific elements in the valuation of insurance liabilities?

☒ Yes ☐ No

Q21.1 Section 4.1.4.4 If "yes" to Q21, to what extent is this appropriate?

The assets backing insurance liabilities are selected on the basis of several criteria, one of which relates to the risk appetite of the IAIG. The risk appetite will differ amongst IAIGs; therefore, the CSA differs accordingly. If this link is not made a difference can exist between the determined impact of the CSA and the actual impact on the MVA balance sheet of the IAIG.

A reference portfolio could be used for those IAIGs where the risk profile does not deviate too much from the reference portfolio per currency. If the deviation is significant, entity-specific elements should be allowed (for example equity, property, etc.). The extent to which entity-specific elements are allowed should reflect the ALM that takes into account policyholder behaviour and management actions to avoid forced sales. This would guide the determination of the entity-specific adjustment to the risk free rate curve.

A proper disclosure of the manner in which the CSA is calculated and the impact on the Solvency position would provide the stakeholders with sufficient opportunity for comparison and understanding. The determined amount of the CSA in the eligible own funds can be assigned as 'restricted" i.e not available for distribution to shareholders. This would ensure that the CSA will not harm the interests of policyholders.

Q21.2 Section 4.1.4.4 If "yes" to Q21, how can that be aligned with the market-based nature of the framework (evident in the approach used to value assets) and the need to protect all policyholders in an equal manner, independently of the individual choices made by each IAIG, as discussed above?

A proper disclosure of the manner in which the CSA is calculated and the impact on the Solvency position would provide the stakeholders with sufficient opportunity for comparison. The determined amount of the CSA in the eligible own funds can be assigned as 'restricted" e.g. not available for distribution to shareholders. This would ensure that the CSA will not harm the interests of policyholders

The determination of a group specific CSA can be subject to specific qualitative governance criteria in order to be authorized for use.

A CSA derived from a more standard approach based on a reference portfolio is an intermediate approach that should also be available in the framework.

Q22 Section 4.1.4.4 Is it important for the valuation framework, together with the capital requirement framework, to not provide incentives for low quality investments undermining policyholder protection? Please explain.

☒ Yes ☐ No

However, since the capital requirement provisions are meant to be risk-based, they should reflect the proper level of risk of the different investments with no other intentions. Any other approach could have unintended consequences.

The risk management policies e.g. prudent person principle as used by the IAIG, are a safeguard to ensure that the investments are not detrimental to the interests of the policyholders. No additional restrictions are needed.

Groups should not be unduly constrained in their investments that need to be diversifiable to enhance performances that will benefit policyholders. The prudential framework should not provide incentives or disincentives on any type of investments. It should be neutral and leave it the insurer to assess the risk/reward trade-offs of the different types of assets.

Q22.1 Section 4.1.4.4 If "yes" to Q22, is the capping of the contribution to the Adjustment to that of a comparable BBB asset an effective way of achieving that objective? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q22.2 Section 4.1.4.4 If “no” to Q22.1, what other approaches could the IAIS explore to achieve that objective?Click here to enter text.

Q23 Section 4.1.4.4 Should insurance liabilities be segregated into buckets for the purpose of applying the credit spread adjustment?

☐ Yes ☒ No

A bucketing of liabilities and subsequent allocation of CSA would imply that all IAIGs would also make investments similar to the liability bucketing. This is not always the case. In many instances investment pools / ALM are made by the distinct legal entities allowing for more diversification and economies of scale. When assets are managed globally, for instance together with the assets backing own funds and free surplus, the duration and predictability of the in-force liabilities are not the only driver to earn the spread.

In order to allocate the CSA, one could include the use of the lapse assumptions and/or duration mismatch as adjustment to the CSA based on the weighted portfolios. Over time one can estimate the number of remaining policyholders (including the amount of the related insurance liability) who will maintain their insurance contract until maturity. This percentage relative to the total could be used as the percentage.

Q23.1 Section 4.1.4.4 If “yes” to Q23, which criteria are appropriate to allocate liabilities to the different buckets?

Click here to enter text.

Q23.2 Section 4.1.4.4 If “yes” to Q23, what is an appropriate number of buckets?

Click here to enter text.

Q23.3 Section 4.1.4.4 If “yes” to Q23, what should be the application ratios associated with each bucket?

Click here to enter text.

Q23.4 Section 4.1.4.4 If ”no” to Q23, as an alternative to a criterion for predictability of insurance liabilities, could partial risk transfer to policyholders (eg market value adjusted products) be a criterion for determining the credit spread adjustment?

It must be noted that the way an ALM is conducted in an undertaking/group should dictate whether buckets could be relevant and a criterion for predictability. When the assets backing the liabilities are managed in a pool and not segregated by liability, the recourse to buckets is absolutely irrelevant. A criterion based on duration and volatility of duration could be used. Moreover, it should also be noted that when assets are managed in a pool including assets backing own funds, the duration and quality of the free surplus will also provide key information on the predictability of all liabilities backed by the assets under consideration.

Q24 Section 4.1.4.4 Does the ability of IAIGs to earn credit spreads above the risk-free interest rates in a risk-free manner depend on the IAIGs' ability to match liability cash-flows with asset cash-flows? Please explain.

☐ Yes ☒ No

This is not necessarily the case. The matching of assets / liabilities can be performed in either a matching of the pure cash flows, or based on economic value together with sensitivity analysis, liquidity analysis and convexity assessments.

Furthermore, there is the discussion regarding the definition of risk free. The ALM is based on the entity specific used discount rates for the whole of the balance sheet rather than the supervisory required use of the discount rate on the liability side of the balance sheet.

Lastly, the ability to earn spreads is dependent on the ability to hold (or trade for similar titles) the securities until maturity which can also be linked to free surplus level and quality and risk appetite.

Q25 Section 4.1.4.4 What level of granularity is more appropriate for the calculation of the credit spread adjustment? Please justify your answer.

☒ A single spread adjustment calculated and then applied to the different buckets (if more than one) using different application ratios. There will be a trade-off between the use of a more granular approach and the administrative burden of allocating groups of assets to each bucket. This approach would also limit the recognition of diversification benefits between the assets which are allocated to the distinct buckets.

☐ The IAIG identifies different classes or combinations of assets backing specific classes of liabilities associated with each bucket, calculating different credit spread adjustments for each bucket on the basis of the groups of assets identified. Click here to enter text.

Q26 Section 4.1.4.4 In the absence of requirements concerning asset-liability matching and ring-fencing, should supervisors require the proposed allocation be demonstrated and maintained throughout the lifetime of the corresponding insurance liabilities? Please explain and if "yes", how could this be achieved?

☐ Yes ☒ No

The use of the CSA should not be based on ring fencing and holding the investments until maturity. The calculation of the CSA should accommodate normal lapses and trading of assets based on risk mitigation purposes (for example following downgrades). The ring fencing would seriously increase the administrative burdens for all stakeholders concerned and fails to depict the way the ALM is actually conducted.

Q27 Section 4.1.4.4 Is the proposed approach for calculating the adjustments for default reasonable? If “no”, please explain how it could be improved.

☐ Yes ☒ No

For each class of assets, the adjustment should be based on historical loss data (LGD). A hypothetical bond does not necessarily reflect all the characteristics of the underlying information used to determine the CSA.

The IAIS states that defaults of sovereign bonds is rare, the 30% used therefore seems to be an overstatement. The IAIS could consider taking a more granular approach based on the actual rating of the sovereign debt. For example, 30% for a AAA-rated sovereign bond is too high.

Q28 Section 4.1.4.4 Should the IAIS consider introducing an adjustment to the LTFR? If “yes”, what would be the technical rationale for an adjustment to the LTFR and which methodologies should the IAIS explore?

☐ Yes ☒ No

Q29 Section 4.1.4.4 Is there a way to avoid or mitigate the issue of “inverted risk profile” (as described in Section 4.1.4.4)? If “yes”, please explain.

☒ Yes ☐ No

Every IAIG also has an ORSA. If the risk profile deviates from the underlying profile of the CSA, this should be included in the ORSA together with the consequences of this mismatch. The impact of using the CSA in the capital adequacy policy should also be included. Benefiting from a mismatch could thus also result in the IAIG’s inability to distribute capital to its stakeholders.

The ORSA also asks for a longer term perspective. The impact of the CSA will be one element considered over a longer time horizon.

Investments decisions are made by IAIGs in the context of their global risk management framework described in their written policies. Asset allocations are determined by the IAIGs’ risk appetites and are a result of ALM approaches and analysis. The IAIS seems to imply that IAIGs’ investment policies will only be dictated by regulatory capital. One can never assume that none of the IAIG will try to use regulatory requirements to guide their investment decisions, however this could be discussed by the supervisor and the IAIG in their regular dialogue.

Q30 Section 4.1.4.4 Is the move to an adjustment defined as an absolute change (in bps) to the base yield curve appropriate, rather than a proportional movement? Please explain.

☒ Yes ☐ No

A relative change will be difficult to apply when certain points on the discount rate are negative or if intermediate points are illiquid.

Nevertheless, and most importantly, the adjustment should primarily be consistent with the way it is derived.

*4.1.4.5 Options for adjustments to base yield curves – 2016 Field Testing*

Q31 Section 4.1.4.5 Which of the proposed options strikes a better balance between the different policy issues under consideration by the IAIS? Please explain.

Reference method 3.

See also the general comments made.

The adjustment should reflect the "asset earned rates" and the illiquidity of assets and insurance liabilities. The adjustment should take into account the ALM model as used by the IAIG. This adjustment should reflect the lapse behaviour and possible default risk. Other assets such as equities should be included in the eligible assets for the determination of the asset earning rate.

Q31.1 Section 4.1.4.5 Could the chosen option be modified to make it even more appropriate? If "yes", please provide details of the suggested modifications to the chosen option.

☐ Yes ☐ No

Click here to enter text.

### 4.1.5 General comments

Q32 Section 4.1.5 Are there any further comments on MAV that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☒ Yes ☐ No

The business model of insurers is not adequately reflected in the valuation approach and related capital requirements.

The business model of insurers is based on the longer term perspective. Assets are matched with insurance liabilities based on economic parameters, cash flow projections and expected lapse assumptions. ALM studies together with proper liquidity planning/assessment allow insurers to align the risk profile of the investments with those of the insurance liabilities. This implies that several risks related to lower values due to changes in economic variables are less relevant. For fixed income securities held to maturity, spread risk changes are not relevant because the redemption value will be received and available to match the outgoing cash-flows. Intermediate changes in the value are only relevant when the counterparty defaults or forced sales are needed. In all other circumstances spread risk can be avoided. The insurer is able to determine whether unreleased results are recognised or not in line with the policies employed by the insurer. ALM practices should have an impact on the valuation of the liabilities by aligning the assets and the liabilities and should be recognized in its risk mitigating role. For those assets and liabilities subject to the same ALM a similar valuation is needed. Thus the discount rate of the liabilities should be aligned with the yields earned on the asset side. For the other assets and liabilities, the economic value would be used for recognition on the balance sheet. The insurer should be able to demonstrate the ability to hold assets and liabilities on the balance sheet to withstand any negative unrealised results. The ALM is a very powerful management action for characterizing the risks the insurer is subject to. It can act as a risk mitigation technique immunizing the insurer against short and medium term volatility.

The IAIS also presents this view in paragraph 162 when describing the GAAP+ approach.

> To support long-term insurance liabilities, IAIGs are able hold long-term fixed income assets with little risk that they must be sold prior to maturity. As long as those assets are held, their projected cash flows do not change (except through defaults), regardless of short-term changes in interest rates. Projected investment cash flows are sensitive to interest rate changes through projected yields on reinvested coupon, maturity and redemption payments. It is appropriate that the rate used to discount projected liability cash flows should be a combination of a fixed portfolio return with projected reinvestment yields that reflect scheduled asset cash flows.

The real issue is the ability to hold the investments on the balance sheet and withstand any (short) term shock event. Is the insurer able to avoid the recognition of undesired unrealised results because of the forced sales or defaults of the counterparty?

## 4.2 GAAP with adjustments

### 4.2.5 2016 Field Testing

Q33 Section 4.2.5 The AOCI adjustment is proposed to only apply to unrealised gains and losses related to debt securities backing long-term liabilities where it is more likely than not that the unrealised gains and losses would not be realised. Is this an appropriate way to segregate non-economic volatility from the fair value measurement of investments in debt securities? If “no”, what alternative would you propose, and why?

☐ Yes ☐ No

Click here to enter text.

Q34 Section 4.2.5 Are there any refinements that should be made to identify assets backing long-term liabilities for purposes of the AOCI adjustment? For example, would a bucketing approach similar to that proposed for assets under MAV discounting option 3 (based on liquidity characteristics of the liabilities) be an appropriate way to identify assets backing long-term liabilities? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q35 Section 4.2.5 Is the “more likely than not” criterion to exclude certain unrealised gain/losses an appropriate element of the AOCI adjustment calculation? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q35.1 Section 4.2.5 Is this an appropriate way to segregate assets where unrealised gain/loss is more likely than not to be realised? If “no” what alternative would you propose and why?

☐ Yes ☐ No

Click here to enter text.

Q36 Section 4.2.5 Are there specific asset classes that should be included in the “more likely than not” category? If “yes”, please explain.

☐ Yes ☐ No

Click here to enter text.

Q37 Section 4.2.5 Is a default risk adjustment appropriate? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q38 Section 4.2.5 A possible method for calculating the default risk adjustment is to reference the credit rating at purchase (or previous write down) as compared to the current rating. The change in rating can be used to determine the portion of the credit spread related to default risk. Is this an appropriate method to estimate the unrealised loss related to default risk? Please explain. If “no”, please suggest an alternative method that could be used to calculate the default risk spread.

☐ Yes ☐ No

Click here to enter text.

Q39 Section 4.2.5 It has been suggested by some Volunteer IAIGs that the default risk spread could be highly volatile in certain periods of stress. Are there methods to evaluate this volatility over historically relevant periods, and is appropriate data available to do so? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q40 Section 4.2.5 Do the GAAP Plus principles and guidelines constitute a sufficient basis for the specification of an ICS Valuation Approach that fulfils the ICS Principles as defined by the IAIS? Please explain.

☐ Yes ☒ No

Click here to enter text.

Q41 Section 4.2.5 Are there any internal inconsistencies in the GAAP Plus jurisdictional examples as outlined in the 2016 Field Testing Technical Specifications, or any area which is not aligned with the stated GAAP Plus principles and guidelines? If "yes", please explain what you would propose to amend in the examples.

☐ Yes ☐ No

Click here to enter text.

Q42 Section 4.2.5 Under GAAP Plus there are differences between jurisdictions in the approach to valuing assets. Should all assets be valued under the same approach (whether that be fair value or a mix of cost and fair value) for all jurisdictions? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q43 Section 4.2.5 Under GAAP Plus there are differences between jurisdictions in the approach to valuing liabilities. Should all liabilities be valued under the same approach whether that be closer to book value or market value for all jurisdictions? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q44 Section 4.2.5 Are there any refinements that could be made to lead to a more comparable valuation outcome for insurance liabilities between jurisdictions? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q45 Section 4.2.5 A method for aggregating financial data for U.S. Statutory only filers has been developed for GAAP Plus (see section 7.3.2 of the 2016 Field Testing Technical Specifications). Does this method capture all material elements such that the resulting aggregated financial statements would be materially equivalent to U.S. GAAP consolidated statements? If "no", please provide details of other elements or adjustments that could address any material differences.

☐ Yes ☐ No

Click here to enter text.

Q46 Section 4.2.5 Is there a way to evaluate the impacts of these proposed accounting standards on the ICS, and more specifically on GAAP Plus, in the absence of current data and prior to the implementation of the rules? Please explain.

☐ Yes ☐ No

Click here to enter text.

### 4.2.6 General comments

Q47 Section 4.2.6 Are there any further comments on GAAP Plus that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

## 4.3 Margin Over Current Estimate (MOCE)

### 4.3.5 Open issues for consultation

Q48 Section 4.3.5 With respect to the CC MOCE calculations (both prudence and cost of capital approaches), are there any particular issues with the way that GAAP Plus liabilities are calculated that would necessitate a difference in the calculation of a CC MOCE under GAAP Plus from the CC MOCE under MAV? If "yes", please explain.

☐ Yes ☒ No

Click here to enter text.

*4.3.5.1 Cost of capital approach*

Q49 Section 4.3.5.1 *Margin observed in actual market transactions* - Based on your experience or any data analysis, are you able to observe or estimate the value of market transactions of insurance liabilities in comparison with the current estimate as defined in the MAV? If "yes", what value do you observe or estimate related to the current estimates (to be differentiated by type of liabilities, if appropriate). Please provide evidence or references to support the response.

☒ Yes ☐ No

We observe and are aware of valuations in mergers and acquisitions. However, those observations cannot be used in the ICS context as they are always very specific and dependent on the global specific one-off interests of the parties in the deal. Franchise and hedgeable risks are also taken into account.

Q50 Section 4.3.5.1 *Cost of capital parameter* - Should the hurdle cost of capital parameter be:

☒ Fixed? If "yes", how should it be determined? Click here to enter text.

☐ Linked to another economic variable in order, in particular, to reflect different economic environments? If "yes", which economic variable should be used (eg interest rate curve, spread level…)? Click here to enter text.

☐ Determined with reference to a minimum (hurdle) level that could be different from the average observed level? If "yes", please explain why and how this should be reflected. Click here to enter text.

☐ Based on a broad equity market or on insurance-specific measures? If "yes", please explain. Click here to enter text.

Q51 Section 4.3.5.1 *Projection of capital requirement* - Are the risks to be included in the projected capital requirement appropriate? If "no", please explain which risks should be excluded/added and why.

☐ Yes ☐ No

Click here to enter text.

Q52 Section 4.3.5.1 *Projection of capital requirement* - Is the calculation of the global projected capital requirement appropriate? If "no", please suggest amendment(s) with supporting rationale.

☐ Yes ☐ No

Click here to enter text.

Q53 Section 4.3.5.1 *Projection of capital requirement* - Is the approach to project the future capital requirements as part of the standard method appropriate considering the trade-off between accuracy/risk sensitivity and simplicity (eg outgoing cash flows excluding maturity benefit for Mortality risk or sums a risk)? If "no", please suggest and justify any proposed amendment.

☐ Yes ☐ No

Click here to enter text.

Q54 Section 4.3.5.1 *Projection of capital requirement* - Is an IAIG's ICS capital requirement (99.5% one-year VaR) the appropriate amount of capital on which to base the CoC MOCE? If "no", please provide an alternative suggestion with rationale.

☐ Yes ☐ No

Click here to enter text.

Q55 Section 4.3.5.1 *Projection of capital requirement* - Should the projected future capital requirements reflect minimal, average, or optimal diversification benefits (considering a willing buyer which is likely to achieve a conceivable synergy from the transaction)? If "yes", how can the diversification benefit be reflected in the CoC MOCE calculation?

☐ Yes ☐ No

Click here to enter text.

Q56 Section 4.3.5.1 *Discount factor* - If Market risks and most of the Credit risk are excluded from the projection of the future capital requirements as per the 2016 Field Testing Technical Specifications, does this imply that such MOCE only allows a recapitalisation where no Market risk and only limited Credit risk could be supported (ie with not enough resources to take on market risks)? If "no", please explain.

☐ Yes ☐ No

Click here to enter text.

Q57 Section 4.3.5.1 *Discount factor* - If no Market risk and only limited Credit risk could be supported by the level of recapitalisation allowed by the level of MOCE, then should the future return from invested assets free of Market risk and Credit risk be the risk free rate? If “no”, please explain.

☐ Yes ☐ No

Click here to enter text.

Q58 Section 4.3.5.1 *Discount factor* - Assuming that the answers to the two questions above are “yes” then is it consistent to discount the projected future capital requirement by the risk free rate? If “no”, please provide an alternative suggestion with rationale.

☐ Yes ☐ No

Click here to enter text.

Q59 Section 4.3.5.1 *Discount factor* - Should the discount factor be linked in some way to the hurdle rate (cost of capital parameter)? If “yes”, please provide an alternative suggestion to discounting at risk free rate and the rationale.

☐ Yes ☐ No

Click here to enter text.

Q60 Section 4.3.5.1 *Interaction with capital resources and capital requirement* - Should the CoC MOCE be part of the valuation of insurance liabilities and not included in capital resources? If “no”, please explain.

☐ Yes ☐ No

Click here to enter text.

Q61 Section 4.3.5.1 *Interaction with capital resources and capital requirement* - Is holding the CoC MOCE, in addition to a 99.5% VaR calibrated capital requirement, a condition to ensure that the IAIG remains prudentially viable with a 99.5% probability (by providing the cost to serve a level of capital meeting the supervisory capital requirement)? If “no”, please explain.

☐ Yes ☐ No

Click here to enter text.

Q62 Section 4.3.5.1 *Interaction with capital resources and capital requirement* - If CoC MOCE is targeted to a level of prudential viability, is the current definition of capital resources appropriate? If "no", please explain, including details of what level of prudential viability should be maintained, and whether other forms of capital resources should be considered for that purpose.

☐ Yes ☐ No

Click here to enter text.

Q63 Section 4.3.5.1 *Interaction with capital resources and capital requirement* - Is there any double counting between the CoC MOCE and the capital requirement? Please explain.

☐ Yes ☐ No

Click here to enter text.

### *4.3.5.2 P-MOCE approach*

Q64 Section 4.3.5.2 Should the P-MOCE be loss absorbing? Please explain and if "yes", elaborate on the circumstance(s) in which this loss absorption may occur.

☐ Yes ☐ No

Click here to enter text.

Q65 Section 4.3.5.2 Should the P-MOCE be stressed along with other balance sheet items in the calculation of the ICS capital requirement? Please explain.

☐ Yes ☐ No

Click here to enter text.

## 4.3.6 General comments

Q66 Section 4.3.6 Are there any further comments on MOCE that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☒ Yes ☐ No

We question the very concept of the MOCE. We feel there is a double counting with the ICS itself. The ICS amount is more than sufficient to cover the MOCE and is available in case of need. Indeed, roughly one third of the ICS is enough to cover the MOCE. Hence, if the solvency situation of the group was to start to deteriorate there would be time to take action. Moreover, the concept of a CoC MOCE does not appear in line with ICP 14.7.1 where technical provisions are defined as a fulfilment value and the MOCE a buffer for uncertainty. The ICS is there to assess uncertainty up to a 99.5% quantile.

Indeed, the IAIS should be clear on the objective of the MOCE. From the consultation, it is unclear what goal is to be achieved by the MOCE. This directly relates to the manner in which the current estimate is calculated. There is an inter-relationship between the MOCE and the capital requirements. In our view the capital requirement should account for the uncertainties in the outcomes.

Moreover, the MOCE defined as a cost of capital is based on the concept of "transfer value". Transfer value implies that an insurance contract is "sold/transferred' to a willing third party rather than being fulfilled by the insurer itself. This is a fundamentally different approach. The current estimate seems to indicate that the insurer itself will settle the insurance liability. By mixing the two concepts different and onerous calculations are needed. A current estimate on transfer value and on fulfilment value.

## 4.4 Reinsurance recognition

Q67 Section 4.4 Should all reinsurance contracts be identified using a consistent definition across all jurisdictions? If "yes", please propose a definition.

☒ Yes ☐ No

Click here to enter text.

Q68 Section 4.4 Considering proportionality and the desire for pragmatism, would it be appropriate to limit a consistent approach across jurisdictions to only certain types of reinsurance contracts? If "yes", what kind of contracts? Please explain.

☐ Yes ☒ No

Substance should prevail over form

### 4.4.1 General comments

Q69 Section 4.4.1 Are there any further comments on reinsurance recognition that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

# 5 Capital resources

## 5.3 Open issues for consultation

### 5.3.1 Principal loss absorbency mechanism

Q70 Section 5.3.1 Should Tier 1 Limited financial instruments be required to have a principal loss absorbency mechanism?

☒ Yes ☐ No

Q70.1 Section 5.3.1 If "no" to Q70, should the principal be considered to provide loss absorbency on a going concern basis? Please explain how the instrument demonstrates loss absorbency on a going concern basis.

☐ Yes ☐ No

Click here to enter text.

### 5.3.2 Financial instruments issued by consolidated subsidiaries of the IAIG and held by third parties

Q71 Section 5.3.2 Is there an objective methodology that the IAIS could use to determine the amount of financial instruments issued by consolidated subsidiaries of the IAIG and held by third parties that is not available to the group for the protection of policyholders of the IAIG? Please explain.

☐ Yes ☒ No

Click here to enter text.

### 5.3.3 Treatment of items deducted from Tier 1 (DTAs, computer software intangibles, net defined benefit pension plan surplus asset)

Q72 Section 5.3.3 Is there an objective methodology that the IAIS could use to determine the amount that should be added back to Tier 2 for those items deducted from Tier 1? Please explain.

☒ Yes ☐ No

In principle, there should be no limit to the recognition of the three items as mentioned. The intangible software assets should only be recognised if a transfer of these amounts is possible or when it can be demonstrated that this software are critical for the operations of the insurer. The operational costs of the IT systems including possible software costs are included in the best estimate. Therefore, it would be a-symmetrical to deduct these. With respect to nDTA, if a recoverability analysis can be demonstrated (also based on accounting standards) the amounts should not be restricted. If the IAIG relies too much on nDTA to cover the capital requirements, the supervisor should discuss the quality of capital within the supervisory review process and ask for sensitivity analysis within the ORSA. The quality of capital should be approached from a quantitative and qualitative perspective. The pension surpluses should also not be restricted if it can be demonstrated that these amounts are actually available without consequences.

### 5.3.4 Structural vs contractual subordination (treatment of senior debt)

Q73 Section 5.3.4 Is structural subordination sufficient to guarantee that policyholders will be paid first in a winding up? Please explain.

☐ Yes ☒ No

The concept of structural subordination should not be used as a defining feature for senior debt issued by non-insurance entities of the group. The structural subordination will have consequences for the ability to finance these entities without the need for group interconnectedness.

Q74 Section 5.3.4 Does structural subordination produce the same outcomes as legal or contractual subordination? Please explain.

☐ Yes ☐ No

Click here to enter text.

### 5.3.5 Mutual IAIGs

Q75 Section 5.3.5 Is a requirement for supervisory approval prior to the redemption of a financial instrument at contractual maturity sufficient for that instrument to be considered perpetual? Please explain.

☒ Yes ☐ No

If the redemption is subject to prior approval by the supervisor, the IAIG is not able to redeem the instrument which basically results in perpetuality. The question would be whether the supervisor can limit the redemption ultimately or only for a distinct future period after which approval is again needed by the IAIG. The latter would be preferable.

Q76 Section 5.3.5 Is a requirement for supervisory approval of distributions prior to contractual maturity (eg interest payments, dividends) sufficient for the distributions to be considered non-cumulative? Please explain.

☐ Yes ☒ No

This is only the case if this condition is applied jointly with the requirement for an approval for redemption by the supervisor.

Q77 Section 5.3.5 Do existing financial instruments issued by mutual IAIGs (for example, but not limited to surplus notes, Kikin and other forms of subordinated financial instruments) absorb losses on a going concern basis? Please identify which instrument and explain.

☐ Yes ☐ No

Click here to enter text.

Q78 Section 5.3.5 Should the Tier 1 criteria (unlimited or limited) be changed in some way to better classify the financial instruments of mutual IAIGs? Please explain.

☒ Yes ☐ No

The possibility for member calls (evidenced in the past) should be considered as part of restricted tier 1. The possibility for member calls should be embedded in the governance of the mutual IAIG and reaffirmed at each annual meeting. The possible stress scenarios should also be mentioned in the governance in order for every member to understand his/her duties.

Q79 Section 5.3.5 What would prevent mutual IAIGs from issuing other financial instruments that meet the qualifying criteria for Tier 1 capital resources as set out in the 2016 Field Testing Technical Specifications? Please explain.

Click here to enter text.

### 5.3.6 Non-paid-up capital

Q80 Section 5.3.6 Should non-paid-up items be included in ICS qualifying capital resources? Please explain.

☒ Yes ☐ No

The criteria are sufficient

Q80.1 Section 5.3.6 If “yes” to Q80, do the qualifying criteria set out in the 2016 Technical Specifications capture all the requirements that should be applied to the assessment of non-paid up items? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q81 Section 5.3.6 If non-paid-up capital items are permitted, is the capital composition limit proposed in 2016 Technical Specifications appropriate? If “no”, how should the limit be set?

☒ Yes ☐ No

The limit should be set relative to the ICS and not the BCR.

### 5.3.7 Capital composition limits

Q82 Section 5.3.7 What theoretical basis could the IAIS use to determine appropriate capital composition limits?

The duration of the insurance liabilities, volatility of the balance sheet and liquidity issues (timing of cash outflows and their asset coverage) can be used as a basis.

### 5.3.8 Prior supervisory approval for redemption of financial instruments

Q83 Section 5.3.8 When should prior supervisory approval of the redemption of a financial instrument issued by an IAIG be required?

☒ At its effective maturity date.

☐ At its contractual maturity date.

☐ Otherwise. Please explain. Click here to enter text.

Q83.1 Section 5.3.8 Should any other factors (eg lock-in and amortisation) be taken into consideration? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q84 Section 5.3.8 Does a lock-in feature provide the same safeguard as supervisory approval prior to redemption of a financial instrument? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q84.1 Section 5.3.8 If "yes" to Q84, should the ICS qualifying criteria be amended to remove the requirement for prior supervisory approval where a financial instrument possesses a lock-in feature? Please explain.

☐ Yes ☐ No

Click here to enter text.

### 5.3.9 Treatment of Accumulated Other Comprehensive Income (AOCI)

Q85 Section 5.3.9 Do any of the above AOCI elements provide loss absorbing capacity on a going concern basis? Please provide an explanation as to how the element(s) absorbs losses.

☒ Yes ☐ No

When assessing the loss absorbing capacity of these items the IAIS should also consider the losses themselves and the data related to these items. The treatment should be symmetrical. If these items are considered to be of a lower loss absorbency this feature should also be factored in the calculation of the capital requirements. For instance, unrealised losses of an available for sale (AFS) instrument should then not lead to a capital requirement if the unrealised gains are not accepted as part of the capital resources.

Q86 Section 5.3.9 Are there any additional elements that are included in AOCI under specific jurisdictional GAAPs that could be considered to be loss absorbing on a going concern basis, and therefore should be included in capital resources? Please explain.

☐ Yes ☒ No

See answer to Q85

### 5.3.10 Treatment of insurance liability/reinsurance adjustment offset

Q87 Section 5.3.10 Is the definition of insurance liability/reinsurance adjustment offset as described appropriate? Please explain.

☒ Yes ☐ No

Click here to enter text.

Q88 Section 5.3.10 Are there any valuation adjustment amounts that should be included or excluded? Please explain.

☒ Yes ☐ No

The IAIS could consider differentiating between the impact of financial and non-financial events. The former should be part of this item line while the latter should just be included in the retained earnings.

Q89 Section 5.3.10 Would the inclusion of insurance liability/reinsurance adjustment offset generate significant volatility in capital resources? If “yes”, how should the volatility be addressed?

☒ Yes ☐ No

Basically, whether inclusion would result in a higher volatility depends on whether the valuation approach reflects the business model of insurers in an adequate manner. It will also depend on the ALM of the distinct IAIG and the choices made by the management.

## 5.4 General comments

Q90 Section 5.4 Are there any further comments on capital resources that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

# 6 ICS capital requirement: the standard method

## 6.3 Risk Mitigation

### 6.3.4 Open issues for consultation

*6.3.4.1 Allowance for the effect of risk mitigation techniques in the ICS capital requirement only on the basis of assets and liabilities existing at the reference date of the ICS calculation*

Q91 Section 6.3.4.1 Is the principle of allowing for the effect of risk mitigation techniques in the ICS capital requirement only on the basis of assets and liabilities existing at the reference date of the ICS calculation appropriate? Please explain.

☒ Yes ☐ No

This principle is consistent with the approach taken in the going concern assumption being existing business.

Q92 Section 6.3.4.1 Should dynamic hedging arrangements be included in the scope of recognised risk mitigation techniques for ICS Version 2.0? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q92.1 Section 6.3.4.1 If “yes” to Q92, please comment on dynamic hedging programs that should be recognised in the ICS.

Click here to enter text.

Q92.2 Section 6.3.4.1 If “yes” to Q92, please comment on how the principle of allowing for the effect of risk mitigation techniques in the ICS capital requirement only on the basis of assets and liabilities existing at the reference date of the ICS calculation could be amended in a manner appropriate to the ICS and the way it is currently constructed (ie the use of instantaneous shocks for market risk).

Click here to enter text.

Q92.3 Section 6.3.4.1 If “yes” to Q92, please comment on what criteria should be met to allow the effect of dynamic hedging arrangements to be recognised in the ICS capital requirement.

Click here to enter text.

### *6.3.4.2 General treatment for risk-mitigation techniques that are in force for less than the next 12 months*

Q93 Section 6.3.4.2 Is the general treatment given for risk-mitigation techniques that are in force for less than the next 12 months appropriate for the ICS standard method? Please explain. If "no", please provide details of a practical alternative that would be appropriate for the ICS standard method.

☒ Yes ☐ No

Click here to enter text.

### *6.3.4.3 Criteria for recognising the renewal of Non-life risk mitigation arrangements*

Q94 Section 6.3.4.3 Are the criteria for recognising the renewal of Non-life risk mitigation arrangements appropriate for the ICS standard method? Please explain. If "no", please detail which criteria should be amended, including rationale and suggested amended wording.

☒ Yes ☐ No

The criteria mentioned: *"i) the renewal is consistent with previous business practice and documented strategy; ii) the renewal is realistic with regards to availability of the arrangement and its cost (that will be reflected in the financial statements); and iii) any additional risk stemming from the risk mitigation arrangement (eg credit risk) is taken into account in the ICS capital requirement*." are sufficient to ensure the continuation of the risk mitigation technique. The IAIS could consider adding the requirement that any deviation from the policy is to be communicated to the supervisor.

### *6.3.4.4 Renewal of risk mitigation arrangements for risks other than non-life (eg Currency risk) arising out of assets and liabilities existing at the reference date of the ICS calculation*

Q95 Section 6.3.4.4 With regard to risks arising from the balance sheet as at the reference date, should renewal of risk mitigation arrangements other than those relating to non-life insurance risks also be recognised? Please explain.

☒ Yes ☐ No

Any risk mitigation techniques should be considered, not only limited to FX, but also any of the other identified risks. By limiting the possibilities, the IAIS would also limit the possibility for the emergence of new risk mitigation techniques.

Principally the same criteria could be used. Furthermore, special reference should be made to the effects of using Central Clearing Agencies in reducing the default risk.

Costs associated with these risks which are related to the insurance obligations are included in the current estimate. No additional requirement is warranted.

Q95.1 Section 6.3.4.4 If "yes" to Q95, please provide specific suggestions for criteria that can be applied to the recognition of such renewals.

Click here to enter text.

Q95.2 Section 6.3.4.4 If "yes" to Q95, please provide specific examples of risk mitigation arrangements that would qualify as such, including details of the risks addressed and the materiality of these arrangements.

Click here to enter text.

Q95.3 Section 6.3.4.4 If "yes" to Q95, please provide suggestions on how the issues such as future availability, future cost and uncertainty of the decision should be addressed.

Click here to enter text.

### *6.3.4.5 Basis risk*

Q96 Section 6.3.4.5 Should a materiality threshold for basis risk arising from any risk mitigation techniques be defined? If "yes", please provide a detailed suggestion of a definition that would be appropriate for the ICS and your rationale.

☐ Yes ☒ No

Click here to enter text.

Q97 Section 6.3.4.5 Are you aware of organisations that account for basis risk arising from risk mitigation techniques? If "yes", please provide details on how this is done in practice.

☐ Yes ☒ No

Click here to enter text.

## 6.3.5 General comments

Q98 Section 6.3.5 Are there any further comments on risk mitigation that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

## 6.4 Look-through

### 6.4.1 General comments

Q99 Section 6.4.1 Are there any comments on look-through that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☒ Yes ☐ No

Full look through line by line is not always possible and is overly burdensome if not impossible in some cases within the deadline for the closing of accounts. Moreover, it goes beyond what is necessary to capture the underlying risks. The grouping of underlying lines according to homogeneous risk types to capture the significant risks should be sufficient. Groupings according to mandate limits of risks are not a good reflection of the underlying risks as those limits represent maximums that can be far from being used in practice. We suggest groupings to be done at the calculation date based on the real underlying assets, not the mandate.

Unit-linked products should be excluded from the look through as market risks are directly passed on to the policyholder and the insurer is not impacted. Only second order effects of market risks affect the insurer, so spurious accuracy based on full look through is not needed.

## 6.5 Management actions

### 6.5.2 2016 Field Testing

Q100 Section 6.5.2 Is this extension of the definition of management actions to include limited premium increases for health business appropriate? Please explain.

☐ Yes ☐ No

Click here to enter text.

### 6.5.3 Open issues for consultation

#### *6.5.3.1 Further extension of management actions*

Q101 Section 6.5.3.1 Are there examples of other instances for which an extension of management actions to allow for the recognition of premium adjustments may be appropriate? Please explain.

☐ Yes ☐ No

Click here to enter text.

#### *6.5.3.2 Cap on management actions*

Q102 Section 6.5.3.2 Is the method to determine the effect of management actions in a stress scenario inconsistent with the recognition of future premium increases in stress scenarios? If “yes”, please suggest a solution.

☐ Yes ☐ No

Click here to enter text.

### 6.5.4 General comments

Q103 Section 6.5.4 Are there any further comments on management actions that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

☒ Yes ☐ No

See answer on ALM as a management action

## 6.6 Mortality and Longevity risk

### 6.6.2 2016 Field Testing

Q104 Section 6.6.2 Should the trend component be explicitly considered within Mortality risk? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q105 Section 6.6.2 Are the stress levels for Mortality risk appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.

☐ Yes ☐ No

Click here to enter text.

Q106 Section 6.6.2 Should the trend component be explicitly considered within Longevity risk? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q107 Section 6.6.2 Are the stress levels for Longevity risk appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.

☐ Yes ☐ No

Click here to enter text.

### 6.6.3 Open issues for consultation

Q108 Section 6.6.3 Is there evidence to support the use of stresses for Mortality and Longevity risk that vary by geographical region? Please explain and provide supporting evidence.

☐ Yes ☐ No

Click here to enter text.

Q109 Section 6.6.3 Is there a specific methodology and reference data that the IAIS should use to determine appropriate mortality and longevity stress levels by geographic region? Please explain.

☐ Yes ☐ No

Click here to enter text.

### 6.6.4 General comments

Q110 Section 6.6.4 Are there any further comments on Mortality and Longevity risk that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

## 6.7 Morbidity/Disability risk

### 6.7.2 2016 Field Testing

#### *6.7.2.1 Option 1 - Health risk*

Q111 Section 6.7.2.1 Is the proposed segmentation for health business appropriate? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q112 Section 6.7.2.1 Are the stress levels for the health segments appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.

☐ Yes ☐ No

Click here to enter text.

Q113 Section 6.7.2.1 Is the shock for Health lapse risk appropriate? Please explain.

☐ Yes ☐ No

Click here to enter text.

#### *6.7.2.2 Option 2 - Morbidity/Disability risk*

Q114 Section 6.7.2.2 Are the two product segments as defined appropriate? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q115 Section 6.7.2.2 Are the stress levels appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.

☐ Yes ☐ No

Click here to enter text.

### 6.7.3 Open issues for consultation

#### *6.7.3.1 Calibration of stresses and geographic differentiation*

Q116 Section 6.7.3.1 Is there evidence that the volatility of health claims (Option 1) varies by geographical region, thereby justifying a more refined granularity? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q117 Section 6.7.3.1 Is there a specific methodology and reference data that the IAIS should use to determine appropriate Health stress levels by geographic region? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q118 Section 6.7.3.1 Is there evidence to support the use of stresses for Morbidity/Disability risk (Option 2) that vary by geographical region? Please explain and provide supporting evidence.

☐ Yes ☐ No

Click here to enter text.

Q119 Section 6.7.3.1 Is there a specific methodology and reference data that the IAIS should use to determine appropriate Morbidity/Disability stress levels by geographic region? Please explain.

☐ Yes ☐ No

Click here to enter text.

#### *6.7.3.2 Single approach to Morbidity/Disability for ICS Version 1.0*

Q120 Section 6.7.3.2 Is Option 1 (Health risk) or Option 2 (Morbidity/Disability risk) the most appropriate to adopt within ICS Version 1.0? Please explain.

Click here to enter text.

Q121 Section 6.7.3.2 Should any revisions or modifications be made to the approach selected in Q120 to make it more appropriate for ICS Version 1.0? Please explain.

☐ Yes ☐ No

Click here to enter text.

### 6.7.4 General comments

Q122 Section 6.7.4 Are there any further comments on Health or Morbidity/Disability risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

## 6.8 Lapse risk

### 6.8.2 2016 Field Testing

Q123 Section 6.8.2 Is the stress level for the level and trend component appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.

☐ Yes ☐ No

Click here to enter text.

Q124 Section 6.8.2 Is the stress level for Mass Lapse risk appropriate? Please explain. If “no”, please provide supporting evidence and rationale for a different stress level.

☐ Yes ☐ No

Click here to enter text.

Q125 Section 6.8.2 Is the treatment of dynamic lapses appropriate? Please explain. If “no”, please suggest an alternative treatment.

☐ Yes ☐ No

Click here to enter text.

Q126 Section 6.8.2 Is the approach of taking the maximum of the level and trend components and the mass lapse component appropriate? Please explain.

☐ Yes ☐ No

Click here to enter text.

### 6.8.3 Open issues for consultation

#### *6.8.3.1 Calibration of stresses and geographic differentiation*

Q127 Section 6.8.3.1 Is there evidence to support the use of stresses for Lapse risk that vary by geographical region? Please explain and provide supporting evidence.

☐ Yes ☐ No

Click here to enter text.

Q128 Section 6.8.3.1 Is there a specific methodology and reference data that the IAIS should use to determine appropriate lapse stress levels by geographic region? Please explain.

☐ Yes ☐ No

Click here to enter text.

#### *6.8.3.2 Treatment of surrender strain for determining mass lapse component*

Q129 Section 6.8.3.2 Should the mass lapse stress be applied to all surrenderable policies, regardless of surrender strain? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q130 Section 6.8.3.2 Should the mass lapse stress be applied only to surrenderable policies with positive surrender strain? Please explain.

☐ Yes ☐ No

Click here to enter text.

### 6.8.4 General comments

Q131 Section 6.8.4 Are there any further comments on Lapse risk that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

## 6.9 Expense risk

### 6.9.2 2016 Field Testing

Q132 Section 6.9.2 Is the stress level for Expense risk appropriate? Please explain. If "no", please provide supporting evidence and rationale for a different stress level.

☐ Yes ☐ No

Click here to enter text.

### 6.9.3 Open issues for consultation

#### *6.9.3.1 Calibration of stresses and geographic differentiation*

Q133 Section 6.9.3.1 Is there evidence to support the use of stresses for Expense risk that vary by geographical region? Please explain and provide supporting evidence.

☐ Yes ☐ No

Click here to enter text.

Q134 Section 6.9.3.1 Is there a specific methodology and reference data that the IAIS should use to determine appropriate expense stress levels by geographic region? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q135 Section 6.9.3.1 Is there evidence that the volatility of expense inflation experience for insurance companies varies from that of general inflation? Please explain.

☐ Yes ☐ No

Click here to enter text.

*6.9.3.2 Aggregation of unit expense and expense inflation*

Q136 Section 6.9.3.2 Should the IAIS assume 100% correlation between unit expense and expense inflation? Please explain. If "no", how could correlation be built into the assumptions?

☐ Yes ☐ No

Click here to enter text.

Q137 Section 6.9.3.2 Are there data sources available that could be used to calibrate the correlation between unit expense and expense inflation? If "yes", please provide information on the source.

☐ Yes ☐ No

Click here to enter text.

*6.9.3.3 Compounding effect of inflation expense*

Q138 Section 6.9.3.3 Should the IAIS consider introducing a cap to moderate the compounding effect of expense inflation? If "yes", what would be a reasonable level for the cap? Please provide rationale for the proposed level of the cap.

☐ Yes ☐ No

Click here to enter text.

### 6.9.4 General comments

Q139 Section 6.9.4 Are there any further comments on Expense risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

## 6.10 Premium and Claims Reserve Risks

### 6.10.4 Open issues for consultation

#### *6.10.4.1 Use of jurisdictional reporting segments*

Q140 Section 6.10.4.1 Non-life exposures should be reported based on the location of risks to ensure consistency across IAIGs. Regarding the reporting segment, which of the following should be used:

☐ A more compact standardised segmentation? If “yes”, please explain the rationale. Click here to enter text.

☐ A more detailed reporting segmentation based on existing jurisdictional reporting segments? If “yes”, please explain how consistent treatment across segments could be ensured. Click here to enter text.

Q141 Section 6.10.4.1 Should projected net earned premiums be used as the exposure base for Premium risk? If “no”, please specify what other measure should be used and why.

☐ Yes ☐ No

Click here to enter text.

Q142 Section 6.10.4.1 Should net current claims estimates be used as the exposure base for Claims Reserve risk? If “no”, please specify what other measure should be used and why.

☐ Yes ☐ No

Click here to enter text.

#### *6.10.4.2 Diversification within Non-Life risks*

Q143 Section 6.10.4.2 For the purposes of the ICS standard method, is the approach taken in 2015 and 2016 Field Testing adequate to account for diversification effects in Premium and Claims Reserve risks? If “no”, please provide a more appropriate alternative suggestion including rationale, keeping in mind the need to apply a consistent methodology across all jurisdictions, and to balance practicality and materiality with risk sensitivity in a standard method.

☐ Yes ☐ No

Click here to enter text.

Q144 Section 6.10.4.2 Are the correlation factors appropriate for the ICS standard method? If "no", please provide rationale and alternative suggestions supported by evidence.

☐ Yes ☐ No

Click here to enter text.

Q145 Section 6.10.4.2 Is the 50% correlation factor between categories appropriate for the ICS standard method? If "no", please provide rationale and alternative suggestions supported by evidence.

☐ Yes ☐ No

Click here to enter text.

Q146 Section 6.10.4.2 Is the 25% correlation factor between regions appropriate for the ICS standard method? If "no", please provide rationale and alternative suggestions supported by evidence.

☐ Yes ☐ No

Click here to enter text.

### *6.10.4.3 Calibration Approach*

Q147 Section 6.10.4.3 Is there a methodology that the IAIS could use for the calibration of Premium and Claims Reserve risk factors that can be easily and consistently applied across jurisdictional lines of business using the supplementary data requested in 2016 Field Testing? If "yes", please provide specific details, technical references and rationale. Please indicate if some methods are more appropriate for particular segments or particular types of data.

☐ Yes ☐ No

Click here to enter text.

Q148 Section 6.10.4.3 In the absence of adequate data, is there a way that the IAIS could determine appropriate Premium and Claims Reserve risk factors for lines of business. If "yes", please explain.

☐ Yes ☐ No

Click here to enter text.

Q149 Section 6.10.4.3 Is there a methodology that the IAIS could use to determine the appropriate number of buckets and factors, taking into consideration the context of the ICS standard method and the aim to achieve comparable results across comparable risks? Please explain.

☐ Yes ☐ No

Click here to enter text.

#### *6.10.4.4 Adjustments Needed When Calibrating Data*

Q150 Section 6.10.4.4 Are there practical methods for determining these adjustments in the context of the ICS standard method (considering, in particular, the trade-off between materiality of the impact and complexity of the method)? If “yes”, please provide details. If necessary please differentiate by risk and reporting segments.

☐ Yes ☐ No

Click here to enter text.

### 6.10.5 General comments

Q151 Section 6.10.5 Are there any further comments on Premium and Claims Reserve risks that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

## 6.11 Catastrophe Risk

### 6.11.2 2016 Field Testing

#### *6.11.2.2 Latent liability scenario*

Q152 Section 6.11.2.2 Is the new specification of “latent liability risk” appropriate? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q153 Section 6.11.2.2 Should the mass tort scenario be used to represent latent liability risk in the ICS? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q154 Section 6.11.2.2 Are any other scenarios/refinements needed for the latent liability scenario? If “yes”, please specify and provide rationale.

☐ Yes ☐ No

Click here to enter text.

### 6.11.3 Open issues for consultation

#### *6.11.3.1 List of perils*

Q155 Section 6.11.3.1 In addition to the perils covered in 2016 Field Testing (listed above), are there other material Catastrophe perils to which IAIGs may be materially exposed for which a scenario should be defined in the ICS standard method ? If “yes”, please provide a list, including a definition of the peril and any other specific details to support the suggestion(s).

☐ Yes ☐ No

Click here to enter text.

Q156 Section 6.11.3.1 Are there scenarios used in 2015 and 2016 Field Testing (listed above) which, for materiality or other reasons, should not be included in the Catastrophe risk component? If “yes”, please provide a list, including the rationale.

☐ Yes ☐ No

Click here to enter text.

#### *6.11.3.2 Use of natural catastrophe models as part of the standard method*

Q157 Section 6.11.3.2 Should the IAIS allow the use of catastrophe models for ICS Version 1.0? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q158 Section 6.11.3.2 If the IAIS allows the use of catastrophe models in ICS Version 1.0, should there be requirements to ensure that the use of catastrophe models results in a fair and comparable assessment of the natural catastrophe risk? If "yes", please comment on requirements that should be included.

☐ Yes ☐ No

Click here to enter text.

Q159 Section 6.11.3.2 Is there information about catastrophe models and their use by the IAIG that should be reported to the group-wide supervisor? If "yes", please provide specific examples.

☐ Yes ☐ No

Click here to enter text.

Q160 Section 6.11.3.2 Are there additional conditions or restrictions about catastrophe models or their use by IAIGs that should form part of ICS Version 1.0? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q161 Section 6.11.3.2 If an IAIG were unable to meet the requirements that were set out in the specifications of the ICS, are there measures that the group supervisor should take in order to correct the weaknesses? If "yes", please provide details of suggested measures and the rationale.

☐ Yes ☐ No

Click here to enter text.

### *6.11.3.3 Man-made catastrophe scenario*

Q162 Section 6.11.3.3 Is the man-made catastrophe scenario (as defined in the 2016 Technical Specifications) appropriate for the ICS standard method? If "no", please provide specific suggestions supported by reference or evidence to amend the scenario(s).

☐ Yes ☐ No

Click here to enter text.

### *6.11.3.4 Calculation of the recoverable amount to be used for the calculation of the contingent Credit risk*

Q163 Section 6.11.3.4 Is the approach to calculate the contingent Credit risk associated with reinsurance recovery appropriate for the purposes of ICS Version 1.0? Please explain. If “no”, please provide details of an alternative approach that would be more appropriate for the ICS standard method.

☐ Yes ☐ No

Click here to enter text.

### 6.11.4 General comments

Q164 Section 6.11.4 Are there any further comments on Catastrophe risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

## 6.12 Market risk

### 6.12.1 Interest Rate risk

#### *6.12.1.4 Open issues for consultation*

Q165 Section 6.12.1.4 Are there any calibration methodologies for stressed yield curves that work in both the current negative and low interest rate environment in developed countries and where base yield curves are as they have been in the past with higher rates observed at all maturities? If “yes”, please provide details.

☐ Yes ☐ No

Click here to enter text.

Q166 Section 6.12.1.4 Is the IAIS approach to calibrate Interest Rate risk stresses using six years of historical data appropriate? If “no”, please comment on the appropriate length of data to calibrate Interest Rate risk stresses to a target level of VaR 99.5% over a one-year time horizon. If a shorter time series is preferred, please comment on how to deal with changing market conditions and the frequency of recalibrating the ICS Interest Rate risk stresses.

☐ Yes ☐ No

Click here to enter text.

Q167 Section 6.12.1.4 Should the ICS only assess the principal observed driver in yield curve evolutions (upward and downward movements), or should twists (flattening or steepening) be included in the risk assessment? Specifically, which of the following should be used? Please explain your answer.

☐ Only upward and downward movements Click here to enter text.

☐ Upward, downward and flattening Click here to enter text.

☐ Upward, downward and steepening Click here to enter text.

☐ Upward, downward, steepening and flattening Click here to enter text.

Q168 Section 6.12.1.4 Is the methodology used by the IAIS to determine Interest Rate risk post-diversification appropriate? If "no", please suggest an alternative methodology.

☐ Yes ☐ No

Click here to enter text.

Q169 Section 6.12.1.4 Should the IAIS recognise diversification of Interest Rate risk between currencies? Please explain and provide details of how this could be done.

☐ Yes ☐ No

Click here to enter text.

Q170 Section 6.12.1.4 Which of the alternative methods for GAAP Plus (1 or 2) is a better measure of Interest Rate risk? Please explain. If neither are considered suitable, please suggest an alternative method or refinements to the current method.

Click here to enter text.

Q171 Section 6.12.1.4 Method 2 is based on the assumption that certain assets backing liabilities are intended to be held to maturity, and consequently are only exposed to reinvestment risk. Should the IAIS consider developing criteria to identify such assets? If "yes" please explain and provide suggestions for such criteria.

☐ Yes ☐ No

Click here to enter text.

Q171.1 Alternatively, should method 2 make allowance for the fact that some of these assets may in fact not be held to maturity? If "yes", please explain and suggest how this may be done.

☐ Yes ☐ No

Click here to enter text.

#### *6.12.1.5 General comments*

Q172 Section 6.12.1.5 Are there any further comments on Interest Rate risk that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

### 6.12.2 Equity risk

#### *6.12.2.1 Background*

Q173 6.12.2.1 Is the four-bucket approach to the segmentation of equities appropriate? Please explain. If "no", please provide an alternative suggestion and rationale.

☐ Yes ☐ No

Click here to enter text.

#### *6.12.2.3 Open issues for consultation*

Q174 Section 6.12.2.3 Should an equity volatility stress be included in the ICS standard method? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q175 Section 6.12.2.3 Is the design of the equity volatility stress in 2016 Field Testing appropriate? If "no", please provide specific suggestions, as well as supporting rationale and evidence.

☐ Yes ☐ No

Click here to enter text.

Q176 Section 6.12.2.3 Is the multiplicative approach suitable for the ICS standard method? Please explain. If "no", please highlight the key design and data considerations for developing an alternative approach (eg additive volatility stress).

☐ Yes ☐ No

Click here to enter text.

Q177 Section 6.12.2.3 Is the treatment of long-term equity investments appropriate? Please explain. If “no”, how should they be treated differently and what criteria should be used to define long-term equity investments? Please highlight key design features and provide supporting evidence (including data).

☐ Yes ☒ No

For the insurer the ability to adopt and maintain a long-term view in the management of assets is provided by the duration of the liabilities at large, in a sort of weighted average, including free surplus with long durations. Insurers managing their assets with a long term view are not exposed to forced sales on a one-year basis and the short-term volatility of assets is” hedged” by the duration of the holdings through the percentage of target asset allocation (common stocks). Such asset management strategies permit enhanced diversification of the asset portfolio improving key indicators such as profitability, liquidity and solvency. They also lead to a countercyclical investment behaviour whereby insurers not only avoid forced sales but actively manage their assets on the underlying risk factors of the assets usually leading to investment phases where markets are undervalued and disinvestment phases where markets are overvalued. Therefore, the calibration of capital requirements should reflect the true level of risks for insurers with long term holdings. Typically, the volatility of common stocks decreases in proportion to the length of the term. This represents very significant different levels of risks, roughly halving the capital requirement.

Q178 Section 6.12.2.3 Is there evidence that supports the application of a correlation matrix for determining the Equity risk charge? If “yes”, please provide evidence supporting suggested correlations.

☐ Yes ☐ No

Click here to enter text.

Q179 Section 6.12.2.3 Should the Equity risk charge include a countercyclical measure to reduce pro-cyclical behaviour? Please explain. If “yes”, how should such a measure be designed and calibrated? Please highlight key data considerations where relevant.

☐ Yes ☐ No

Click here to enter text.

Q180 Section 6.12.2.3 Are the current approaches in the ICS appropriate for products with path dependent valuations? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q181 Section 6.12.2.3 Does the ICS capture all of the material risks for these types of contracts? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q182 Section 6.12.2.3 Are there alternative approaches that would capture path dependent Equity and Interest Rate risk? Please explain.

☐ Yes ☐ No

Click here to enter text.

#### *6.12.2.4 General comments*

Q183 Section 6.12.2.4 Are there any further comments on Equity risk that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

### 6.12.3 Real Estate risk

#### *6.12.3.2 2016 Field Testing*

Q184 Section 6.12.3.2 Is the approach adopted for Real Estate risk in 2016 Field Testing appropriate for the ICS standard method under MAV? Please explain. If "no", please provide specific proposals to amend the approach as well as supporting rationale and evidence.

☐ Yes ☐ No

Click here to enter text.

Q185 Section 6.12.3.2 Is the approach adopted for Real Estate risk in 2016 Field Testing appropriate for the ICS standard method under GAAP Plus? Please explain. If "no", please provide specific proposals to amend the approach as well as supporting rationale and evidence.

☐ Yes ☐ No

Click here to enter text.

### *6.12.3.3 General comments*

Q186 Section 6.12.3.3 Are there any further comments on Real Estate risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

## 6.12.4 Currency risk

### *6.12.4.2 2016 Field Testing*

Q187 Section 6.12.4.2 Is the methodology used to determine the level of the Currency risks stresses appropriate? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q188 Section 6.12.4.2 Is the assumption of a single correlation factor of 50% for all currencies appropriate in a time of stress? Please explain. If “no”, what methodology could the IAIS use to determine an appropriate correlation matrix for Currency risk?

☐ Yes ☐ No

Click here to enter text.

Q189 Section 6.12.4.2 Is the treatment of currency pegs appropriate? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q190 Section 6.12.4.2 Should the IAIS allow for a partial exemption for investments in foreign subsidiaries? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q191 Section 6.12.4.2 Is the exemption for investments in foreign subsidiaries appropriate? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q192 Section 6.12.4.2 Is there a better proxy of the subsidiary's contribution to the ICS? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q193 Section 6.12.4.2 Are there any further comments on the approach described for 2016 Field Testing? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q194 Section 6.12.4.2 Is the treatment of currency exposures with a maturity of less than one year appropriate? Please explain.

☐ Yes ☐ No

Click here to enter text.

#### *6.12.4.3 General comments*

Q195 Section 6.12.4.3 Are there any further comments on Currency risk that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

### 6.12.5 Asset Concentration risk

#### *6.12.5.2 2016 Field Testing*

Q196 Section 6.12.5.2 Is the approach adopted for Asset Concentration risk in 2016 Field Testing appropriate for the ICS standard method? Please explain. If "no", please provide specific proposals to amend the approach as well as supporting rationale and evidence.

☐ Yes ☐ No

Click here to enter text.

*6.12.5.3 General comments*

Q197 Section 6.12.5.3 Are there any further comments on Asset Concentration risk that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

## 6.13 Credit risk

### 6.13.3 Open issues for consultation

*6.13.3.1 Reliance on the use of external credit ratings*

Q198 Section 6.13.3.1 Do you support the approach used for 2016 Field Testing with respect to allowing the use of external credit ratings for ICS Credit risk purposes? Why or why not?

☐ Yes ☐ No

Click here to enter text.

Q199 Section 6.13.3.1 Does any alternative to the use of ratings issued by credit rating agencies exist in the regulatory framework of your jurisdiction (eg supervisory-owned processes)? Please provide details.

☐ Yes ☐ No

Click here to enter text.

Q200 Section 6.13.3.1 Should the IAIS allow the use of ratings and/or designations that are not issued by credit rating agencies, for example, ratings and/or designations that are issued by a supervisory-owned process (eg, the NAIC Securities Valuation Office)? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q200.1 Section 6.13.3.1 If "yes" to Q200, should the IAIS consider modifying the criteria for the recognition of rating providers, taking account of the specific features of the supervisory-owned process? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q200.2 Section 6.13.3.1 If “yes” to Q200, are the criteria for credit rating agencies appropriate for alternatives to the use of credit rating agencies? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q201 Section 6.13.3.1 Are there any additional factors the IAIS should consider when deciding on whether to allow in the ICS the use of credit assessments (eg ratings or designations) from sources other than credit rating agencies? If “yes”, please explain and provide details.

☐ Yes ☐ No

Click here to enter text.

### *6.13.3.2 Granularity of commercial and residential mortgage factors*

Q202 Section 6.13.3.2 Is the approach adopted for 2016 Field Testing for commercial and residential mortgage Credit risk charges appropriate for the ICS standard method? Please explain. If “no”, please provide specific proposals for how it should be changed as well as supporting rationale and evidence.

☐ Yes ☐ No

Click here to enter text.

### *6.13.3.3 Treatment of reinsurance exposures*

Q203 Section 6.13.3.3 Should the IAIS continue to explore a different approach for Credit risk from reinsurance exposures, and in particular, for collateralised reinsurance? Why or why not? If “yes”, please provide specific proposals, rationale and evidence to support the proposals.

☐ Yes ☐ No

Click here to enter text.

## 6.13.4 General comments

Q204 Section 6.13.4 Are there any further comments on Credit risk that the IAIS should consider in the development of ICS Version 1.0? If “yes”, please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

## 6.14 Operational Risk

### 6.14.3 Open issues for consultation

Q205 Section 6.14.3 Should the IAIS use exposures that are reported before the impact of ceded reinsurance for determining the Operational risk charge? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q206 Section 6.14.3 Are the proposed Operational risk exposures appropriate for the ICS standard method? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q207 Section 6.14.3 Are the proposed Operational risk factors appropriate for the ICS standard method, both in terms of size and relativity? Please explain.

☐ Yes ☐ No

Click here to enter text.

### 6.14.4 General comments

Q208 Section 6.14.4 Are there any further comments on Operational risk that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

## 6.15 Aggregation/Diversification

### 6.15.3 Open issues for consultation

#### *6.15.3.1 Structure of the aggregation calculation*

Q209 Section 6.15.3.1 Is the structure of the correlation matrices used for 2016 Field Testing appropriate? If "no", please provide specific alternative suggestions and evidence on why this approach would be more appropriate.

☐ Yes ☐ No

Click here to enter text.

### *6.15.3.2 Calibration of correlation parameters*

Q210 Section 6.15.3.2 Should the calibration of the correlation parameters for the ICS standard method include a material degree of judgement since relevant and available data are limited? Please explain. If "no", please provide rationale, specific suggestions and evidence or references to support an alternative approach.

☐ Yes ☐ No

Click here to enter text.

Q211 Section 6.15.3.2 How could the IAIS combine data and judgement in the calibration of correlation parameters for aggregation and diversification?

Click here to enter text.

Q212 Section 6.15.3.2 Are there available data that would be relevant for the calibration of the correlation parameters of the ICS standard method? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q213 Section 6.15.3.2 Are the correlation factors being used between ICS risks appropriate for the ICS standard method? Please explain. If "no", please provide rationale and alternative suggestions supported by evidence.

☐ Yes ☐ No

Click here to enter text.

Q214 Section 6.15.3.2 Are the correlation factors being used for Life risks appropriate for the ICS standard method? If "no", please provide rationale and alternative suggestions supported by evidence.

☐ Yes ☐ No

Click here to enter text.

Q215 Section 6.15.3.2 Are the correlation factors being used for Market risks appropriate for the ICS standard method? If "no", please provide rationale and alternative suggestions supported by evidence.

☐ Yes ☐ No

Click here to enter text.

#### 6.15.4 General comments

Q216 Section 6.15.4 Are there any further comments on Aggregation and Diversification that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.

# 7 Holistic approach to tax within the ICS

## 7.2 Open issues for consultation

### 7.2.1 Valuation

Q217 Section 7.2.1 What would be an appropriate level of granularity that would strike a balance between accuracy and operational feasibility/complexity?

Click here to enter text.

Q218 Section 7.2.1 Would an approach that utilises an effective tax rate at the country level be appropriate? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q219 Section 7.2.1 Please provide any commentary on what would be considered an appropriate method to derive a global effective tax rate. Please support any proposed method with a short list of pros and cons.

Click here to enter text.

Q220 Section 7.2.1 If post valuation adjustment DTAs would be included as a component of capital, a method to determine realisability or a partial deduction would also likely be an element of the calculation. Do you have any suggestions for an appropriate method to determine realisability of DTAs given a top-down approach? Would you prefer a partial deduction method? Please provide a rationale for your answer.

Click here to enter text.

Q221 Section 7.2.1 Should the IAIS pursue a more bottom up approach to determining deferred taxes post valuation adjustment? If "yes", please provide any commentary to support this view.

☐ Yes ☐ No

Click here to enter text.

Q222 Section 7.2.1 Please provide any other options that should be considered by the IAIS with respect to reflecting the impact of revaluation under GAAP Plus and MAV on deferred taxes.

Click here to enter text.

Q223 Section 7.2.1 Should DTAs and DTLs be adjusted in both the MAV and GAAP Plus approaches to take into account the effect of discounting to ensure they are valued consistently with other material balance sheet items? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q224 Section 7.2.1 If the answer to the above question is "yes", should a restriction be applied to the discounting of only one type of DTA or DTL, eg long-dated item? Please explain.

☐ Yes ☐ No

Click here to enter text.

Q225 Section 7.2.1 Should an approximation of the discounting effect on a post-stress DTA be taken into account in any tax adjustment to the ICS capital requirement? Please explain.

☐ Yes ☐ No

Click here to enter text.

### 7.2.2 Margin over current estimate

Q226 Section 7.2.2 Should MOCE be tax effected? If "yes", what effective tax rate should be applied, and why? Please answer for both prudence and cost of capital MOCE.

☐ Yes ☐ No

Click here to enter text.

Q227 Section 7.2.2 Should deferred tax assumptions be incorporated into the cost of capital MOCE calculation? If “yes”, please specify.

☐ Yes ☐ No

Click here to enter text.

### 7.2.3 Capital resources

Q228 Section 7.2.3 Please provide any specific recommendations for an appropriate realisability methodology.

Click here to enter text.

Q229 Section 7.2.3 Please provide any input or feedback on the consideration to limit the DTA in capital resources either through a partial deduction and/or an overall limit.

Click here to enter text.

### 7.2.4 ICS capital requirement

Q230 Section 7.2.4 Is there an appropriate methodology for evaluating the realisability of DTAs under stress which would lead to an appropriate treatment of deferred tax in the ICS capital requirement? If “yes”, please explain.

☐ Yes ☐ No

Click here to enter text.

Q231 Section 7.2.4 Which of the following approach should the IAIS consider for including the impact of taxes in the calculation of the ICS capital requirement? Please explain, including providing a list of pros and cons.

☐ Should the tax impact be included in the individual ICS risk charge calculations pre-diversification? Click here to enter text.

☐ Should the IAIS ignore the tax impact on the ICS capital requirement, and instead reflect that impact in the calibration of the ICS capital requirement through the calibration of individual ICS risk charge calculations pre-diversification? (Please provide any suggestions as to how the individual ICS risk charges could be recalibrated to reflect this.) Click here to enter text.

☐ Should the ICS capital requirement be calculated in a similar fashion to the current Field Testing approach, where each ICS risk charge is calculated on a pre-tax basis and the tax impact computed on a consolidated post-diversification basis using a global effective tax rate? Click here to enter text.

☐ Should any other approach be used? (Please provide details) Click here to enter text.

Q232 Section 7.2.4 Should tax strategies/management actions and diversification impacts be reflected/allocated to tax jurisdictions if the deferred tax impact is calculated using a bottom-up approach? If "yes", how should this be reflected/allocated?

☐ Yes ☐ No

Click here to enter text.

Q233 Section 7.2.4 Should the IAIS address the substantiation of the realisability of DTAs? If "yes", please explain, taking into account issues related to a stress DTA (including defining future tax profits, reflecting the shock on future profits and avoiding double counting).

☐ Yes ☐ No

Click here to enter text.

Q234 Section 7.2.4 Should groups be able to assume they can obtain value for the tax effects of the stress loss by selling tax losses to unregulated group companies which have taxable profits? If "yes", how would they assess whether these group companies would still be profitable in stress?

☐ Yes ☐ No

Click here to enter text.

## 7.3 General comments

Q235 Section 7.3 Are there any further comments on the approach to tax within the ICS that the IAIS should consider in the development of ICS Version 1.0? If "yes", please explain with sufficient detail and rationale.

☐ Yes ☐ No

Click here to enter text.