

Comments on Consultation 31-09 Draft L2 Advice on SCR Standard Formula –Allowance for financial mitigation techniques

Name company: AMICE

Please insert your comments in the table below, and send it to secretariat@ceiops.eu in word format. In order to facilitate processing of your comments, we would appreciate if you could refer to the relevant section and/or paragraph in the Consultation Paper 31-09.

Reference	Comment
General comment	AMICE members welcome the introduction of different principles defined in the paper which recognise the variety of existing financial mitigation techniques. However, we would appreciate if these requirements could be completed by including new elements from the lessons learnt from the financial crisis.
Para 3.43	<p>In our opinion more flexibility is needed for assessing financial mitigation techniques such as non-proportional reinsurance to ensure that reinsurance is adequately considered in the SCR calculation in a 200-year event.</p> <p>Proportional and non-proportional reinsurance treaties can be adequately considered by using partial or full internal models. This should not prevent undertakings which calculate their capital requirements using the standard formula to obtain adequate capital relief for either a proportional or non-proportional solution.</p> <p>We miss in this CP more guidance on how to take account of partial mitigation techniques and on alternative approaches when financial mitigation instruments are not available. This is a key issue for our small and medium-size membership.</p>
Para 3.48- Para 3.49	<p>Some discussions held within the banking sector and in particular as to Basel II amendments, lead to the conclusion that banks' exposures to market risk and credit risk vary with the liquidity conditions in the market; liquidity conditions in turn are also determined by perceptions of market and credit risk.</p> <p>For this reason, AMICE suggests including in this advice some statements on the importance of establishing liquidity risk tolerance limits and the methods for the identification and measurement of the full range of liquidity risks</p>

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Para 3.54

In line with some of the arguments stated in CEIOPS' paper "Lessons learned from the crisis", we would suggest adding a paragraph indicating what happens if a derivative is downgraded.

Para 3.55

In its advice, CEIOPS makes the statement that "(t)he degree of correlation between the value of the instruments relied upon for risk mitigation and the credit quality of their provider shall not be undue, i.e. it should not be materially positive (known in banking sector as 'wrong way risk')."

We fail to fully understand what CEIOPS wants to say and believe that it is difficult to assess how "materially positive" a correlation can be;

We think it is absolutely necessary that CEIOPS provides more guidance on this subject.