

Comments Template on CEIOPS-CP 54 Consultation Paper on the Draft L2 Advice on SCR Standard Formula – Loss absorbing capacity of TP		Deadline 11.09.2009 4 p.m. CET
Name of Company:	European Insurance CFO Forum	
Disclosure of comments:	CEIOPS will make all comments available on its website, except where respondents specifically request that their comments remain confidential. Please indicate if your comments should be treated as confidential:	No. The CFO Forum comments are not confidential.
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ <u>Do not change the numbering</u> in the column “reference”. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below. <ul style="list-style-type: none"> ○ If your comment refers to multiple paragraphs, please insert your comment at the first relevant paragraph and mention in your comment to which other paragraphs this also applies. ○ If your comment refers to sub bullets/subparagraphs, please indicate this in the comment itself. <p>Please send the completed template, in Word Format, to secretariat@ceiops.eu. Our IT tool does not allow processing of any other formats.</p> <p>The numbering of the paragraphs refers to Consultation Paper No. 54 (CEIOPS-CP-54/09).</p>		
Reference	Comment	
General Comment	Ignoring the economic benefits of a going concern basis is contradictory to the objectives of Solvency II.	

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	<p>The CFO Forum believes that a going concern basis should apply both before and after a loss event, including losses that cause a breach in the SCR or MCR, as, if the entity in its entirety is transferred to another insurer or if additional capital is raised in order to operate, the acquirer can benefit from any tax benefits, tax credits or policyholder participation as appropriate. This is consistent both with the concept of transfer in one year’s time and the economic valuation basis, which are embedded in Solvency II.</p> <p>In general, a pragmatic approach should be encouraged throughout the consultation paper. A pragmatic approach, taking into account the principle of proportionality and materiality should be considered throughout the consultation paper.</p> <p>The CFO Forum disagrees with the view that plausible management actions should be restricted to policyholder benefit rates.</p> <p>The CFO Forum believes the management actions considered should be consistent with the advice provided in CP 32 – “Assumptions about future management actions”.</p>	
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3.82.	<p>Not all market stresses should be treated as instantaneous and some management actions should be allowed under an instantaneous stresses.</p> <p>The CFO Forum does not agree with the assertion that if the stress is considered to be an instantaneous stress that no management actions may be assumed to occur during the stress. Under dynamic hedging strategies, this would lead to no rebalancing of the hedge, as the stress occurs, leading to an erroneously overstated capital requirement. If the market stresses have been calibrated as 1 in 200 over 1 year capital events then they should be treated as such, and not as instantaneous stresses, which would have a much lower probability of occurring albeit with some allowance for the inefficiency of rebalancing.</p>	

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	Where there is evidence that certain management actions can be effected during a stress, for example, due to certain procedures being in place, past evidence of such actions or other supporting factors, undertakings should be permitted to allow for such actions.	
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3.84.	See comments for paragraph 3.97	
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3.86.	The CFO Forum disagrees with the view that plausible management actions should be restricted to policyholder benefit rates. The CFO Forum believes the management actions considered should be consistent with the advice provided in CP 32 – “Assumptions about future management actions”.	
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3.97.	The calculation of loss absorbing capacity should avoid the creation of spurious information. The CFO Forum agrees that the impact of a scenario should be initially calculated gross of the loss absorbing capabilities deferred tax and an adjustment should then be made to determine the net	

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	<p>impact. For the loss absorbing capability of technical provisions, particularly future participating bonuses, it is often only appropriate to calculate these net as grossing up creates a hypothetical value conveying spurious accuracy. Requirements to gross up create an additional cost with no tangible benefit.</p> <p>The CFO Forum supports the objective to avoid overstatement of the loss absorbing capacity of technical provisions and deferred tax. It recommends, however, to avoid the creation of spurious information, the option to identify the best method to measure these loss absorbing impacts is left to the judgement of the entity conducting the evaluation, with appropriate governance and recoverability principles and challenge as required throughout Solvency II.</p> <p>Quantitative tests should be performed on the single equivalent scenario approach.</p> <p>The single equivalent scenario approach could appear sensible, but it is difficult to assess its appropriateness given that this methodology was not extensively tested under QIS4. Some quantitative tests should be performed more widely before concluding on this approach.</p>	
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3.104.	<p>The loss absorbing capabilities of deferred tax assets should also be considered to the extent it is likely to be possible to benefit from those assets in future periods.</p> <p>The CFO Forum believes that credit should be taken for deferred tax and for tax credits subject to applicable current and expected future tax rules consistent with anticipated profits or losses. Current IAS 12 sets out a meaningful framework to test recoverability and the CFO Forum recommends that this is used in Solvency II.</p>	

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	<p>The links between the loss-absorbing capacity of deferred taxes and other consultation papers related to deferred taxes (CP35 and CP46) need to be examined deeply in order to avoid inconsistencies between different consultation papers related to deferred taxes and recognise that deferred tax assets have a value when recoverable.</p>	

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