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Committee on Economic and Monetary Affairs
The Chair

D 319866 15.11.2016

Gabriel Rodrigo Ribeiro Tavares Bernardino
European Insurance and
Occupational Pensions Authority
Chairman
Westhafenplatz 1
60327 Frankfurt am Main
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Dear Mr Bernardino,

At the ECON Committee meeting in the end of August, we discussed an EIOPA initiative concerning a review of the methodology to calculate the Ultimate Forward Rate (UFR). Your participation and willingness to provide further explanations have been very valuable and much appreciated. However, the Committee believes this fruitful discussion deserves some follow-up.

Timing of the review

The political agreement, on which the Omnibus II Directive was concluded, includes a carefully designed balance between all elements that are part of the interest-rate term structure. The UFR is an important cornerstone of that package and a review of that package is to take place by 1 January 2021, as foreseen by Article 77f of the Directive. This date, i.e. five years after the Solvency II application date, was deliberately chosen to ensure a review based on market experience, to provide stability to market operators, and to ensure a coherent and consistent result.
I also wish to point out that the review in 2018 referred to in Recital 150 of Delegated Regulation (EU) 2015/35 concerns only the standard formula to calculate the Solvency Capital Requirement, and in particular a number of standard parameters.

Impact assessment

Over the years, it has become good practice in EU law making, to undertake a proper impact assessment before taking policy decisions. Your own Authority has been very helpful to us in this respect in regards the Omnibus II negotiations, where you provided the trilogue parties with an impact assessment of the long-term guarantee package. This assessment wa s the basis on which some fundamentally different decisions were taken, compared to those initially suggested in the proposals made by the Commission and the Council.
The proposed review effectively changes an important pillar of that Omnibus II trilogue agreement concerning long-term guarantees. Furthermore, the proposed change not only has an effect on the level of the technical provisions, but also on the level of the Solvency Capital Requirement. An impact analysis should not only look at a few products, as was done in a very limited way in the Consultation Paper, but reflect the full market. A wider testing by market participants through an impact assessment is therefore more than warranted.

Phasing-in and annual changes

Thirdly, it emerges from EIOPA's consultation paper that the phasing-in within three years, with adaptions of 20bp per year, is rather arbitrary. Such a short period does not seem coherent when taking into account that the element under discussion is of a considerable long-term nature. Furthermore, it is difficult to understand why a parameter which "shall be stable over time and shall only change as a result of changes in long-term expectations" (Art. 47 of the Delegated Regulation (EU) 2015/35) should possibly change every year, in particular when that change may only be the result of a longer time series of data.

At this stage, the comments from Committee Members do not necessarily criticise the underlying calculation method you propose, but merely focus on the timing of the review, the necessity to undertake a proper impact assessment, and the incoherence of a speedy implementation and annual changes.

Yours sincerely,

Roberto Gualtieri