

VALDIS DOMBROVSKIS

Vice-President of the European Commission

Mr Roberto GUALTIERI
Member of the European Parliament
Chair of the Committee on Economic and Monetary Affairs
EUROPEAN PARLIAMENT
Rue de Wiertz 60
B-1047 Brussels

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Dear Chair, *dear Roberto!*

Thank you for your letter of 6 December 2018 concerning the review of Delegated Regulation (EU) 2015/35 under Directive 2009/138/EC ("*Solvency II Directive*"). The Commission adopted the amendments to the Delegated Regulation on 8 March.

In your letter you reiterated three areas of concern for the review.

First, you considered that the criteria for long-term equity investments might prevent this measure from working in practice, in particular the ring-fencing criterion and the minimum holding period of 12 years. Following your comments, we significantly reduced the minimum holding period requirement to 5 years. We also removed any reference to ring-fencing. At the same time, we preserved the underlying concept of matching of the portfolio containing long-term equities with a portfolio of clearly identified liabilities, with no possibility for the assets portfolio to absorb losses arising from other activities of the undertaking. I am confident that we have now achieved the right balance between prudence and the Capital Markets Union objective of facilitating insurers' long-term investments in European companies.

Second, you reiterated the call for a short-term solution to perceived shortcomings in the activation of the country component of the volatility adjustment. As indicated in my previous letter, I take these concerns very seriously and the Commission services have analysed very thoroughly the concrete proposal for a solution as outlined in your letter. During this analysis, we have also received internal legal advice to the effect that, with the current wording of the Solvency II Directive, the assessment of the conditions of the activation of the country component can only be based on the most recent market data on the valuation date. The reason is that Article 77 (2) of the Solvency II Directive requires the use of "up-to-date" data in the valuation of technical provisions. An assessment of the conditions for the activation of the country component can therefore not be based on daily data for the entire month preceding the valuation date, as would be the case under your proposal. The volatility adjustment, including the activation of the national component, is part of formal request that the Commission sent to EIOPA on 11 February for technical advice on the review of the 2020 Solvency II Directive.

At the same time, the Commission services will continue to explore whether other short-term solutions are possible. In this context, I would like to draw your attention to the amendments to the procedure for deriving the relevant risk-free interest rates in the revised Delegated Regulation (amendments to Article 43 of Delegated Regulation (EU) 2015/35). The Commission services have already sent a request to EIOPA to explore if there are solutions for the activation of the country component that would be in line with the current wording of the Solvency II Directive.

Third, you ask for the risk margin to be lowered. The review of the Delegated Regulation focused on the cost-of-capital rate to calculate the risk margin. The cost-of-capital rate is required to be reviewed regularly to ensure that it reflects the cost of providing own funds to insurers (Article 77(5)). The evidence gathered and assessed by EIOPA does not suggest that the cost-of-capital rate can be lowered from its current level of 6%, while still fulfilling its purpose in line with the Solvency II Directive. To the contrary, EIOPA's assessment suggested that the cost-of-capital rate should be increased. For that reason, the Commission decided not to change the cost-of-capital rate in the Delegated Regulation. At the same time, the Commission requested EIOPA to analyse the broader design of the risk margin, beyond the level of the cost-of-capital rate, for the review of the Directive in 2020.

The Delegated Regulation was notified to the European Parliament and the Council.

Yours sincerely,



Valdis Dombrovskis