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The paper is not yet in a shape to be discussed in greater details.

On behalf of the IFRS 17 WG

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## AAE Comments to EIOPA's analysis of IFRS 17 Insurance Contracts

18 October 2018, EIOPA published an analysis of IFRS 17 Insurance Contracts. The analysis comprises the following subjects:

- the expected impact on financial stability and the European public good
- the potential effects on the attractiveness, competitiveness and availability of insurance products
- the potential use of Solvency II inputs, approaches and processes.

All three aspects provide interesting insights to the effects of introducing a new global reporting standard, however, from a European actuarial perspective, the last section is of particular interest. European insurance entities, stakeholders and actuaries are indeed analysing the potential for synergy, clarity, and effectiveness in reusing existing inputs, approaches and processes from the Solvency II framework for reporting as well.

EIOPA's objective of this part of the analysis was for EIOPA to conclude on potential efficiency gains of applying Solvency II inputs and approaches for the implementation of IFRS 17 by European insurers. The AAE very much agrees with the objective and the need for additional analysis on this aspect, however, the analysis from EIOPA is to some extent too high level to deliver sufficient insight on the objectives.

The comments provided by the AAE in this paper does not aim at delivering more conclusive evaluations. The purpose is rather to highlight the necessary judgements an insurance entity is required to do in order to decide on the extent to which its Solvency II inputs, approaches, and processes are suitable for IFRS 17 reporting.

EIOPA provides conclusions on the following items:

- Initial recognition of obligations
- Definition of cash flows
- Grouping and aggregation of contracts and contract boundaries
- Determination of the appropriate discount rate
- Risk adjustment
- Reinsurance

For each item, the AAE has performed a detailed analysis of the requirements and definitions of Solvency II and IFRS 17, respectively to validate the high level conclusions provided by EIOPA.

The overall conclusions from each item are briefly presented in the following section (we have treated initial recognition as part of the contract boundaries. The detailed comments and documentation are placed in appendices.

### Definition of cash flows

*EIOPA conclusion:*

*Cash flows and expenses included in the valuation of Solvency II technical provisions are expected to be consistent with IFRS 17 in most cases.*

In relation to expenses, the AAE observes that some conditions need to be met in order to reuse assumptions from Solvency II. Solvency II specifies that all costs must be allocated to the cash flows, but on the assumption that the undertaking continues to write business.

IFRS specifically mention that cost that cannot be directly attributed to the portfolio of insurance contracts shall not be included.

Ambiguous definition of the costs that can or cannot be directly attributable to insurance portfolio causes that cost are included or excluded subjectively based on managerial view and entity specific expense allocation policy. Thus causing the possible different implementation in practice for IFRS17 entities, and definitely difference between Solvency II and IFRS 17 cash flows.

Further, different treatment of reinsurance contracts may also generate differences in the cash flow.

Another potential difference relates to contracts that are not classified as insurance contracts, but reported under e.g. IFRS 9 or IFRS 15.

In relation to cash flow and expenses, the AAE is not able to find support for EIOPA's very general conclusions. In fact, we find that it requires significant considerations and a carefully designed cost allocation model to reach the conclusion of EIOPA that Solvency II and IFRS 17 are consistent.

### Grouping and aggregation of contracts and contract boundaries

#### *EIOPA conclusions*

- *In principle, the Solvency II approach to determine the relevant level of aggregation for expected cash flows and other inputs is anticipated to be consistent with IFRS 17. However, further disaggregation by "annual cohorts" to group according to profitability is needed for IFRS 17.*
- *The Solvency II requirement to identify homogeneous risk groups can be considered as a basis for IFRS 17 's requirements on grouping contracts.*
- *The point in time at which insurance obligations are recognised under both frameworks is conceptually similar. However, IFRS 17 introduces a simplification, which may lead to differences in some cases. The practical impact of such differences is not expected to be significant.*
- *Expected profits at inception are recognised in the reconciliation reserve (equity) of that period under Solvency II and are allocated over the lifetime of the contract according to the service provided under IFRS 17. This is reflective of the different objectives of regulatory and accounting frameworks. The accounting framework needs to present the entity's performance, including the allocation of gains and losses in the specific reporting periods.*
- *The contract boundaries have been found to be similar in principle, differences for certain contract types cannot be ruled out.*

The AAE observes that separations of components may cause differences in the cash flows (at least when looking at IFRS 17 separate from other IFRS standards. An example of this specific issue may relate to the kick-back cash flow paid by the fund manager to the insurance entity. It seems unclear if this cash flow is within the contract boundary of an insurance contract or whether it relates to a separate (investment) service contract reported under IFRS 15.

The disaggregation requirement of IFRS 17 may cause many practical challenges, but when added together the disaggregation may not necessarily cause significant changes to the Solvency II framework. In some cases, however, we find that significant differences in the cash flow structure may occur e.g. if a single contract contains several non-distinct insurance components belonging to different risk groups. Under Solvency II, these will often be treated separately, under IFRS 17 these may be considered "non-distinct" and should be bundled together. This may even happen for life insurance covers and non-life insurance covers bundled in the same contract. In some instances, this will not affect the aggregated cash flows, but

in other instances this may cause discrepancies, e.g. because the host cover define contract boundaries for all the insurance covers under IFRS 17 whereas contract boundaries under Solvency II are defined risk group by risk group. The AAE points out that EIOPA only vaguely points at challenges relating to bundling of non-distinct insurance components.

In relation to initial recognition, EIOPA identifies differences for non-onerous contracts, but concludes that the differences are not material. This may be an optimistic conclusion in some cases.

Derecognition rules are largely similar under IFRS 17 and Solvency II, except that IFRS 17 defines an alternative route to derecognition relating to the scope of IFRS 17 and the corresponding separation and aggregation rules. EIOPA seems not to consider the potential differences relating to this alternative route to derecognition.

In relation to contract boundaries, EIOPA concludes that the principles are similar although differences cannot be ruled out. For certain types of contracts, the AAE finds that the distinction between "the legal right to reprice" under Solvency II and the legal right and the practical ability to reprice" under IFRS 17 can potentially cause significant differences in contract boundaries.

### Determination of the appropriate discount rate

To be completed

### Risk adjustment

EIOPA conclusion

- *The approach to determining the risk margin under Solvency II is conceptually different from the risk adjustment under IFRS 17 (transfer vs. entity specific)*
- *Nevertheless, for the practical implementation of IFRS 17, Solvency II's risk margin's underlying principles, inputs and processes may be considered for IFRS 17, subject to potential adaption*

The AAE observes that even if the Solvency II measure is adapted for IFRS 17, the figure needs to be presented as a confidence level. Further, an entity needs to consider carefully the implications of moving from a "net of reinsurance" framework under Solvency II to a gross of reinsurance and ceded framework under IFRS 17. Finally, the risk adjustment under IFRS 17 does not allow for operational risk nor reinsurance counterpart risk. These risk categories are included in the risk margin defined under Solvency II.

Thus, the AAE is concerned that differences in relation to risk margin vs. risk adjustment may cause significant challenges

### Reinsurance

To be completed

## Appendices

### Definition of cash flows

Index	AAE position	Reference to SII and IFRS 17:	Rules
1	<p><b>Expenses</b></p> <p>Is it possible to apply one single set of expense principles that fulfil the requirement of both sets of regulation?</p> <p>IFRS17 specifically mentions costs that shall be included together with commissions as well as costs that shall be excluded from the cash flows.</p> <p>In Solvency II, all acquisition expenses and acquisition commission are included into valuation of the liabilities.</p> <p>The EIOPA concluded that for both frameworks the expenses are to be allocated and attributed in a realistic and objective manner, with the difference that for IFRS17 the overheads shall be allocated on level of the Portfolio of Insurance contracts rather than to the individual technical provisions.</p> <p>The AAE observes that in some situations, there may be significant differences in the definition of costs directly attributable to an insurance portfolio under IFRS 17 and the full cost approach of Solvency II.</p>	<p>IFRS B65 (e), (f), (g), (h), (l) &amp; (m)</p> <p>B66 (d), (e), (h)</p>	<p>Included:</p> <ul style="list-style-type: none"> <li>— An allocation of insurance acquisition cash flows <b>attributable</b> to the portfolio to which the contract belongs</li> <li>— Claim handling costs (ie) the costs the entity will incur in investigating, processing and resolving claims under existing insurance contracts, including legal and loss-adjuster' fees and internal costs of investigating claims and processing claim payments)</li> <li>— Costs the entity will incur in providing contractual benefits paid in kind</li> <li>— Policy administration and maintenance costs, such as costs of premium billing and handling policy changes ( for example, conversions and reinstatements). Such costs also include recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay the premium within the boundary of the insurance contract</li> <li>— an allocation of fixed and variable overheads (such as the costs of accounting, human resources, information technology and support, building depreciation, rent, and maintenance and utilities) <b>directly attributable</b> to fulfilling insurance contracts. Such overheads are allocated to groups of contracts using methods that are systematic and rational, and are consistently applied to all costs that have similar characteristics.</li> <li>— any other costs specifically chargeable to the policyholder under the terms of the contract.</li> </ul> <p>Excluded:</p> <ul style="list-style-type: none"> <li>— cash flows relating to costs <b>that cannot be directly attributed to the portfolio</b> of insurance contracts that contain the contract, such as some product development and training costs. Such costs are recognised in profit or loss when incurred.</li> <li>— Cashflows that arise from abnormal amounts of wasted labour or other resources that are used to fulfil the contract. Such costs are recognised in profit or loss when incurred.</li> </ul>

Index	AAE position	Reference to SII and IFRS 17:	Rules
			— Cashflows arising from components separated from the insurance contracts and accounted for using other applicable standards ( see 10-13)
		SII delegated act article 31	<p>1. A cash flow projection used to calculate best estimates shall take into account all of the following expenses, which relate to recognised insurance and reinsurance obligations of insurance and reinsurance undertakings and which are referred to in point (1) of Article 78 of Directive 2009/138/EC:</p> <ul style="list-style-type: none"> <li>(a) administrative expenses;</li> <li>(b) investment management expenses;</li> <li>(c) claims management expenses;</li> <li>(d) acquisition expenses.</li> </ul> <p>The expenses referred to in points (a) to (d) shall take into account overhead expenses incurred in servicing insurance and reinsurance obligations.</p> <p>2. Overhead expenses shall be allocated in a realistic and objective manner and on a consistent basis over time to the parts of the best estimate to which they relate.</p> <p>3. Expenses in respect of reinsurance contracts and special purpose vehicles shall be taken into account in the gross calculation of the best estimate.</p> <p>4. Expenses shall be projected on the assumption that the undertaking will write new business in the future.</p>
	<p><b>Cash flows projections for the calculation of the best estimate.</b></p> <p>The granularity of the cash flows definition varies under IFRS17 and SII framework. Ambiguous definition of the costs that can or cannot be directly attributable to insurance portfolio causes that cost are included or excluded subjectively based on managerial view and entity specific expense allocation policy. Thus causing the possible different implementation in practice for IFRS17 entities, and definitely difference between Solvency II and IFRS 17 cash flows.</p>	SII delegated act article 28	<p>The cash flow projection used in the calculation of the best estimate shall include all of the following cash flows, to the extent that these cash flows relate to existing insurance and reinsurance contracts:</p> <ul style="list-style-type: none"> <li>(a) benefit payments to policy holders and beneficiaries;</li> <li>(b) payments that the insurance or reinsurance undertaking will incur in providing contractual benefits that are paid in kind;</li> <li>(c) payments of expenses as referred to in point (1) of Article 78 of Directive 2009/138/EC;</li> <li>(d) premium payments and any additional cash flows that result from those premiums;</li> <li>(e) payments between the insurance or reinsurance undertaking and intermediaries related to insurance or reinsurance obligations;</li> <li>(f) payments between the insurance or reinsurance undertaking and investment firms in relation to contracts with index-linked and unit-linked benefits;</li> <li>(g) payments for salvage and subrogation to the extent that they do not qualify as separate assets or liabilities in accordance with international accounting</li> </ul>

Index	AAE position	Reference to SII and IFRS 17:	Rules
	The AAE observes that differences exist relating to reinsurance, that is not included in cash flows of best estimate of liabilities under IFRS17 as they are valued separately, possibly difference is in the taxes treatment.		standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002; ( h) taxation payments which are, or are expected to be, charged to policy holders or are required to settle the insurance or reinsurance obligations.
	Another difference relates to situations where the contract is not classified as an insurance contract under IFRS17, and the cash flows shall not be recognised under IFRS 17, but other IFRS standards either IFRS 15 or IFRS 9.	IFRS 17 Article 33	<p>Estimates of future cash flows</p> <p>An entity shall include in the measurement of a group of insurance contracts all the future cash flows within the boundary of each contract in the group (see paragraph 34). Applying paragraph 24, an entity may estimate the future cash flows at a higher level of aggregation and then allocate the resulting fulfilment cash flows to individual groups of contracts. The estimates of future cash flows shall:</p> <p>(a) incorporate, in an unbiased way, all reasonable and supportable information available without undue cost or effort about the amount, timing and uncertainty of those future cash flows (see paragraphs B37–B41). To do this, an entity shall estimate the expected value (ie the probability-weighted mean) of the full range of possible outcomes.</p> <p>(b) reflect the perspective of the entity, provided that the estimates of any relevant market variables are consistent with observable market prices for those variables (see paragraphs B42–B53).</p> <p>(c) be current—the estimates shall reflect conditions existing at the measurement date, including assumptions at that date about the future (see paragraphs B54–B60).</p> <p>(d) be explicit—the entity shall estimate the adjustment for non-financial risk separately from the other estimates (see paragraph B90). The entity also shall estimate the cash flows separately from the adjustment for the time value of money and financial risk, unless the most appropriate measurement technique combines these estimates (see paragraph B46).</p>
		IFRS 17 Article B65	<p>Cash flows within the boundary of an insurance contract are those that relate directly to the fulfilment of the contract, including cash flows for which the entity has discretion over the amount or timing. <b>The cash flows within the boundary include:</b></p> <p>(a) premiums (including premium adjustments and instalment premiums) from a policyholder and any additional cash flows that result from those premiums.</p>



Index	AAE position	Reference to SII and IFRS 17:	Rules
			<p>(b) payments to (or on behalf of) a policyholder, including claims that have already been reported but have not yet been paid (ie reported claims), incurred claims for events that have occurred but for which claims have not been reported and all future claims for which the entity has a substantive obligation (see paragraph 34).</p> <p>(c) payments to (or on behalf of) a policyholder that vary depending on returns on underlying items.</p> <p>(d) payments to (or on behalf of) a policyholder resulting from derivatives, for example, options and guarantees embedded in the contract, to the extent that those options and guarantees are not separated from the insurance contract (see paragraph 11(a)).</p> <p>(e) an allocation of insurance acquisition cash flows attributable to the portfolio to which the contract belongs.</p> <p>(f) claim handling costs (ie the costs the entity will incur in investigating, processing and resolving claims under existing insurance contracts, including legal and loss-adjusters' fees and internal costs of investigating claims and processing claim payments).</p> <p>(g) costs the entity will incur in providing contractual benefits paid in kind.</p> <p>(h) policy administration and maintenance costs, such as costs of premium billing and handling policy changes (for example, conversions and reinstatements). Such costs also include recurring commissions that are expected to be paid to intermediaries if a particular policyholder continues to pay the premiums within the boundary of the insurance contract.</p> <p>(i) transaction-based taxes (such as premium taxes, value added taxes and goods and services taxes) and levies (such as fire service levies and guarantee fund assessments) that arise directly from existing insurance contracts, or that can be attributed to them on a reasonable and consistent basis.</p> <p>(j) payments by the insurer in a fiduciary capacity to meet tax obligations incurred by the policyholder, and related receipts.</p> <p>(k) potential cash inflows from recoveries (such as salvage and subrogation) on future claims covered by existing insurance contracts and, to the extent that they do not qualify for recognition as separate assets, potential cash inflows from recoveries on past claims.</p> <p>(l) an allocation of fixed and variable overheads (such as the costs of accounting, human resources, information technology and support, building depreciation, rent,</p>



Index	AAE position	Reference to SII and IFRS 17:	Rules
			and maintenance and utilities) directly attributable to fulfilling insurance contracts. Such overheads are allocated to groups of contracts using methods that are systematic and rational, and are consistently applied to all costs that have similar characteristics. (m) any other costs specifically chargeable to the policyholder under the terms of the contract.
		IFRS 17 Article B66	<p>The following cash flows <b>shall not be included</b> when estimating the cash flows that will arise as the entity fulfils an existing insurance contract:</p> <p>(a) investment returns. Investments are recognised, measured and presented separately.</p> <p>(b) cash flows (payments or receipts) that arise under reinsurance contracts held. Reinsurance contracts held are recognised, measured and presented separately.</p> <p>(c) cash flows that may arise from future insurance contracts, ie cash flows outside the boundary of existing contracts (see paragraphs 34–35).</p> <p>(d) cash flows relating to costs that cannot be directly attributed to the portfolio of insurance contracts that contain the contract, such as some product development and training costs. Such costs are recognised in profit or loss when incurred.</p> <p>(e) cash flows that arise from abnormal amounts of wasted labour or other resources that are used to fulfil the contract. Such costs are recognised in profit or loss when incurred.</p> <p>(f) income tax payments and receipts the insurer does not pay or receive in a fiduciary capacity. Such payments and receipts are recognised, measured and presented separately applying IAS 12 Income Taxes.</p> <p>(g) cash flows between different components of the reporting entity, such as policyholder funds and shareholder funds, if those cash flows do not change the amount that will be paid to the policyholders.</p> <p>(h) cash flows arising from components separated from the insurance contract and accounted for using other applicable Standards (see paragraphs 10–13).</p>
	Contractual options and guarantees	SII delegated act article 32	When calculating the best estimate, insurance and reinsurance undertakings shall take into account all of the following: (a) all financial guarantees and contractual options included in their insurance and reinsurance policies; (b) all factors which may affect the likelihood that policy holders will exercise contractual options or realise the value of financial guarantees.

Index	AAE position	Reference to SII and IFRS 17:	Rules
	Future discretionary benefits	SII delegated act article 24	<p>Where future discretionary benefits depend on the assets held by the insurance or reinsurance undertaking, undertakings shall base the calculation of the best estimate on the assets currently held by the undertakings and shall assume future changes of their asset allocation in accordance with Article 23.</p> <p>The assumptions on the future returns of the assets shall be consistent with the relevant risk-free interest rate term structure, including where applicable a matching adjustment, a volatility adjustment, or a transitional measure on the risk-free rate, and the valuation of the assets in accordance with Article 75 of Directive 2009/138/EC.</p>
		SII delegated act article 25	When calculating technical provisions, insurance and reinsurance undertakings shall determine separately the value of future discretionary benefits.

## Grouping and aggregation of contracts and contract boundaries

Index	AAE position	Reference to IFRS 17:	Rules
	<b>Separation</b> Separations of components may cause differences in the cash flows (at least when looking at IFRS 17 separate from other IFRS standards).	IFRS 10	An insurance contract may contain one or more components that would be within the scope of another Standard if they were separate contracts. For example, an insurance contract may include an investment component or a service component (or both). An entity shall apply paragraphs 11–13 to identify and account for the components of the contract.
	Solvency II are for insurance undertakings. IFRS relates only to insurance contracts.	IFRS 11	An entity shall: (a) apply IFRS 9 to determine whether there is an embedded derivative to be separated and, if there is, how to account for that derivative. (b) separate from a host insurance contract an investment component if, and only if, that investment component is distinct (see paragraphs B31–B32). The entity shall apply IFRS 9 to account for the separated investment component.
		IFRS 12	After applying paragraph 11 to separate any cash flows related to embedded derivatives and distinct investment components, an entity shall separate from the host insurance contract any promise to transfer distinct goods or non-insurance services to a policyholder, applying paragraph 7 of IFRS 15. The entity shall account for such promises applying IFRS 15. In applying paragraph 7 of IFRS 15 to separate the promise, the entity shall apply paragraphs B33–B35 of IFRS 17 and, on initial recognition, shall: (a) apply IFRS 15 to attribute the cash inflows between the insurance component and any promises to provide distinct goods or non-insurance services; and (b) attribute the cash outflows between the insurance component and any promised goods or non-insurance services accounted for applying IFRS 15 so that: i. cash outflows that relate directly to each component are attributed to that component; and ii. any remaining cash outflows are attributed on a systematic and rational basis, reflecting the cash outflows the entity would expect to arise if that component were a separate contract.

Index	AAE position	Reference to SII and IFRS 17:	Rules
		IFRS 13	After applying paragraphs 11–12, an entity shall apply IFRS 17 to all remaining components of the host insurance contract. Hereafter, all references in IFRS 17 to embedded derivatives refer to derivatives that have not been separated from the host insurance contract and all references to investment components refer to investment components that have not been separated from the host insurance contract (except those references in paragraphs B31–B32).
	<p>Grouping and aggregation</p> <p>Generally, contracts subject to similar risks and managed together (IFRS 17 definition) may be defined consistent to homogeneous risk groups (Solvency II definition), especially if the different risk covers can be unbundled.</p> <p>Moreover, IFRS 17 contains a requirement for additional disaggregation into "onerous contracts", "no significant possibility of becoming onerous contracts" and "other contracts". These are further disaggregated into annual cohorts. In general, this disaggregation may not necessarily affect the sum of cash flows stemming from the different groups.</p>	IFRS 14	<p>An entity shall identify portfolios of insurance contracts. A portfolio comprises contracts subject to similar risks and managed together. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Contracts in different product lines (for example single premium fixed annuities compared with regular term life assurance) would not be expected to have similar risks and hence would be expected to be in different portfolios.</p>
	<p>In some cases, however, we observe that significant differences in the cash-flow structure may occur e.g. if a single contract contains several non-distinct components belonging to different risk groups.</p> <p>Under Solvency II, these will often be treated separately, under IFRS these may be considered "non-distinct" and should be bundled together (this may even apply for life insurance covers and non-life insurance covers bundled in the same contract).</p> <p>In some instances, this will not affect the aggregated cash flows, but in other instances this may cause discrepancies, e.g. because the host cover define e.g. contract boundaries under IFRS</p>	SII delegated acts art 34.3	<p>Calculation methods</p> <p>3. Where a calculation method is based on grouped policy data, insurance and reinsurance undertakings shall ensure that the grouping of policies creates homogeneous risk groups that appropriately reflect the risks of the individual policies included in those groups.</p>

Index	AAE position	Reference to SII and IFRS 17:	Rules
	17 whereas contract boundaries under Solvency II are defined risk group by risk group. We observe that EIOPA only vaguely points at challenges relating to bundling of non-distinct insurance components		
	In Solvency II, contracts are looked upon on an individual basis, but grouping is possible under certain circumstances. IFRS 17 defines portfolios disaggregated into "onerous contracts", "no significant possibility of becoming onerous contracts" and "other contracts". These are further disaggregated into annual cohorts.	SII delegated act art 35	<b>Homogeneous risk groups of life insurance obligations</b> The cash flow projections used in the calculation of best estimates for life insurance obligations shall be made separately for each policy. Where the separate calculation for each policy would be an undue burden on the insurance or reinsurance undertaking, it may carry out the projection by grouping policies, provided that the grouping complies with all of the following requirements: <ol style="list-style-type: none"> <li>there are no significant differences in the nature and complexity of the risks underlying the policies that belong to the same group;</li> <li>the grouping of policies does not misrepresent the risk underlying the policies and does not misstate their expenses;</li> <li>the grouping of policies is likely to give approximately the same results for the best estimate calculation as a calculation on a per policy basis, in particular in relation to financial guarantees and contractual options included in the policies.</li> </ol>
	Premium provision and claims provision are calculated separately both in IFRS 17 and Solvency II.	SII delegated act art 36	<b>Non-life insurance obligations</b> <ol style="list-style-type: none"> <li>The best estimate for non-life insurance obligations shall be calculated separately for the premium provision and for the provision for claims outstanding.</li> <li>The premium provision shall relate to future claim events covered by insurance and reinsurance obligations falling within the contract boundary referred to in Article 18. Cash flow projections for the calculation of the premium provision shall include benefits, expenses and premiums relating to these events.</li> <li>The provision for claims outstanding shall relate to claim events that have already occurred, regardless of whether the claims arising from those events have been reported or not.</li> <li>Cash flow projections for the calculation of the provision for claims outstanding shall include benefits, expenses and premiums relating to the events referred to in paragraph 3.</li> </ol>

Index	AAE position	Reference to SII and IFRS 17:	Rules
		IFRS 40	<p>The carrying amount of a group of insurance contracts at the end of each reporting period shall be the sum of:</p> <p>(a) the liability for remaining coverage comprising:</p> <ul style="list-style-type: none"> <li>a. the fulfilment cash flows related to future service allocated to the group at that date, measured applying paragraphs 33–37 and B36–B92;</li> <li>b. the contractual service margin of the group at that date, measured applying paragraphs 43–46; and</li> </ul> <p>(b) the liability for incurred claims, comprising the fulfilment cash flows related to past service allocated to the group at that date, measured applying paragraphs 33–37 and B36–B92.</p>
	<p><b>Initial recognition of the contract</b></p> <p>Initial recognition is different identically for onerous contracts.</p> <p>For non-onerous contracts, the materiality of the difference depends on the business model. Here differences may occur.</p>	IFRS 25	<p>An entity shall recognise a group of insurance contracts it issues from the earliest of the following:</p> <ul style="list-style-type: none"> <li>(a) the beginning of the coverage period of the group of contracts;</li> <li>(b) the date when the first payment from a policyholder in the group becomes due; and</li> <li>(c) for a group of onerous contracts, when the group becomes onerous.</li> </ul>
	<p>We observe that EIOPA concludes that these differences are not material in most cases. This may be an optimistic conclusion.</p>	SII delegated act art 17	<p>For the calculation of the best estimate and the risk margin of technical provisions, insurance and reinsurance undertakings shall recognise an insurance or reinsurance obligation at the date the undertaking becomes a party to the contract that gives rise to the obligation or the date the insurance or reinsurance cover begins, whichever date occurs earlier. Insurance and reinsurance undertakings shall only recognise the obligations within the boundary of the contract. 17.1.2015 L 12/29 Official Journal of the European Union EN Insurance and reinsurance undertakings shall derecognise an insurance or reinsurance obligation only when it is extinguished, discharged, cancelled or expires.</p>
	<p><b>Derecognition</b></p> <p>Main rule is that contracts are derecognised only when extinguished, expired, cancelled or discharged. These rules are identical for IFRS 17 and Solvency II.</p> <p>For IFRS 17, an alternative route to derecognition needs to be looked upon relating to</p>	IFRS 72	<p>If the terms of an insurance contract are modified, for example by agreement between the parties to the contract or by a change in regulation, an entity shall derecognise the original contract and recognise the modified contract as a new contract, applying IFRS 17 or other applicable Standards if, and only if, any of the conditions in (a)–(c) are satisfied. The exercise of a right included in the terms of a contract is not a modification. The conditions are that:</p> <ul style="list-style-type: none"> <li>(a) if the modified terms had been included at contract inception: <ul style="list-style-type: none"> <li>(i) the modified contract would have been excluded from the scope of IFRS 17, applying paragraphs 3–8;</li> </ul> </li> </ul>

Index	AAE position	Reference to SII and IFRS 17:	Rules
	the scope of IFRS 17, and the corresponding separation and aggregation rules. EIOPA seems to ignore potential differences between Solvency II and IFRS 17 relating to this alternative route to derecognition.		<ul style="list-style-type: none"> <li>(ii) an entity would have separated different components from the host insurance contract applying paragraphs 10–13, resulting in a different insurance contract to which IFRS 17 would have applied;</li> <li>(iii) the modified contract would have had a substantially different contract boundary applying paragraph 34; or</li> <li>(iv) the modified contract would have been included in a different group of contracts applying paragraphs 14–24.</li> </ul> <p>(b) the original contract met the definition of an insurance contract with direct participation features, but the modified contract no longer meets that definition, or vice versa; or</p> <p>(c) the entity applied the premium allocation approach in paragraphs 53–59 or paragraphs 69–70 to the original contract, but the modifications mean that the contract no longer meets the eligibility criteria for that approach in paragraph 53 or paragraph 69.</p>
		IFRS 74	<p>An entity shall derecognise an insurance contract when, and only when:</p> <ul style="list-style-type: none"> <li>(a) it is extinguished, i.e. when the obligation specified in the insurance contract expires or is discharged or cancelled; or</li> <li>(b) any of the conditions in paragraph 72 are met.</li> </ul>
	<p><b>Contract boundaries</b></p> <p>The general rules for contract boundaries will in most cases be consistent for IFRS 17 and Solvency II, but potential material differences may apply for some insurance entities:</p> <ul style="list-style-type: none"> <li>— If the insurance entity has the legal right to reprice, but for one reason or another not the practical ability to reprice, the cash flow will still be within the contract boundary according to IFRS 17. Solvency II specifies that it is the legal right to reprice that is decisive.</li> <li>— If a contract contains one or more non-distinct insurance covers bundled together with the host cover, contract boundaries for all insurance covers follow the rules of the host cover.</li> </ul>	IFRS 34	<p>Cash flows are within the boundary of an insurance contract if they arise from substantive rights and obligations that exist during the reporting period in which the entity can compel the policyholder to pay the premiums or in which the entity has a substantive obligation to provide the policyholder with services (see paragraphs B61–B71). A substantive obligation to provide services ends when:</p> <ul style="list-style-type: none"> <li>(a) the entity has the practical ability to reassess the risks of the particular policyholder and, as a result, can set a price or level of benefits that fully reflects those risks; or</li> <li>(b) both of the following criteria are satisfied: <ul style="list-style-type: none"> <li>(i) the entity has the practical ability to reassess the risks of the portfolio of insurance contracts that contains the contract and, as a result, can set a price or level of benefits that fully reflects the risk of that portfolio; and</li> <li>(ii) the pricing of the premiums for coverage up to the date when the risks are reassessed does not take into account the risks that relate to periods after the reassessment date.</li> </ul> </li> </ul>
		SII delegated act art 18	Boundary of an insurance or reinsurance contract



Index	AAE position	Reference to SII and IFRS 17:	Rules
	<p>EIOPA mentions that the different criterion on the right to reprice may cause significant differences in the cash flows in IFRS 17 and Solvency II, respectively.</p> <p>Further, EIOPA pinpoints potential differences in the definition of contract boundaries between insurance contracts with discretionary participation features and investment contracts with discretionary participation features.</p> <p>However, EIOPA seems to ignore the effect of differences in contract boundaries for non-distinct insurance covers.</p>		<ol style="list-style-type: none"> <li>1. The boundaries of an insurance or reinsurance contract shall be defined in accordance with paragraphs 2 to 7.</li> <li>2. All obligations relating to the contract, including obligations relating to unilateral rights of the insurance or reinsurance undertaking to renew or extend the scope of the contract and obligations that relate to paid premiums, shall belong to the contract unless otherwise stated in paragraphs 3 to 6.</li> <li>3. Obligations which relate to insurance or reinsurance cover provided by the undertaking after any of the following dates do not belong to the contract, unless the undertaking can compel the policyholder to pay the premium for those obligations: <ol style="list-style-type: none"> <li>a. the future date where the insurance or reinsurance undertaking has a unilateral right to terminate the contract;</li> <li>b. the future date where the insurance or reinsurance undertaking has a unilateral right to reject premiums payable under the contract;</li> <li>c. the future date where the insurance or reinsurance undertaking has a unilateral right to amend the premiums or the benefits payable under the contract in such a way that the premiums fully reflect the risks.</li> </ol> <p>Point (c) shall be deemed to apply where an insurance or reinsurance undertaking has a unilateral right to amend at a future date the premiums or benefits of a portfolio of insurance or reinsurance obligations in such a way that the premiums of the portfolio fully reflect the risks covered by the portfolio. However, in the case of life insurance obligations where an individual risk assessment of the obligations relating to the insured person of the contract is carried out at the inception of the contract and that assessment cannot be repeated before amending the premiums or benefits, insurance and reinsurance undertakings shall assess at the level of the contract whether the premiums fully reflect the risk for the purposes of point (c). Insurance and reinsurance undertakings shall not take into account restrictions of the unilateral right as referred to in points (a), (b) and (c) of this paragraph and limitations of the extent to which premiums or benefits can be amended that have no discernible effect on the economics of the contract.</p> </li> <li>4. Where the insurance or reinsurance undertaking has a unilateral right as referred to in paragraph 3 that only relates to a part of the contract, the same principles as defined in paragraph 3 shall apply to that part of the contract.</li> </ol>

Index	AAE position	Reference to SII and IFRS 17:	Rules
			<p>5. Obligations that do not relate to premiums which have already been paid do not belong to an insurance or reinsurance contract, unless the undertaking can compel the policyholder to pay the future premium, and where all of the following requirements are met:</p> <ul style="list-style-type: none"> <li>a. the contract does not provide compensation for a specified uncertain event that adversely affects the insured person;</li> <li>b. the contract does not include a financial guarantee of benefits. For the purpose of points (a) and (b), insurance and reinsurance undertakings shall not take into account coverage of events and guarantees that have no discernible effect on the economics of the contract.</li> </ul> <p>6. Where an insurance or reinsurance contract can be unbundled into two parts and where one of those parts meets the requirements set out in points (a) and (b) of paragraph 5, any obligations that do not relate to the premiums of that part and which have already been paid do not belong to the contract, unless the undertaking can compel the policyholder to pay the future premium of that part.</p> <p>7. Insurance and reinsurance undertakings shall, for the purposes of paragraph 3, only consider that premiums fully reflect the risks covered by a portfolio of insurance or reinsurance obligations, where there is no circumstance under which the amount of the benefits and expenses payable under the portfolio exceeds the amount of the premiums payable under the portfolio.</p>

## Risk Adjustment

Index	AAE position	Reference to IIA and IFRS 17:	Rules
	In IFRS 17 the methodology for calculation of the risk adjustment is not prescribed, compared with S2 where a cost of capital approach is used with 6% rate, taking in consideration a confidence level of 99.5%, 1 year, for defined risks.	IFRS 37	An entity shall adjust the estimate of the present value of the future cash flows to reflect the compensation that the entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk.
	As it is also mentioned by EIOPA, IFRS 17 is based on entity-specific and S2 on "transfer value" prescribed.	IFRS 51 (2)	The subsequent changes in the fulfilment cash flows of the liability for remaining coverage to be allocated applying paragraph 50(a) are: 2. changes in the risk adjustment for non-financial risk recognised in profit or loss because of the release from risk;
	However, in the disclosures, the entity has to specify the confidence level associated with the risk adjustment, even the method used is not based on this, and, also, the balances for premium liabilities and for claims liabilities, separately.	IFRS 64	Instead of applying paragraph 37, an entity shall determine the risk adjustment for non-financial risk so that it represents the amount of risk being transferred by the holder of the group of reinsurance contracts to the issuer of those contracts. – for reinsurance
	Under S2, risk margin is net of reinsurance and under IFRS 17, risk adjustment is gross and ceded. Taking in consideration the assessment under IFRS 17 of the reinsurance treaties, not mirroring the direct contract, as being done separately, this could lead to significant changes in inputs, principles and processes.	IFRS 76 (1)	An entity derecognises an insurance contract from within a group of contracts by applying the following requirements in IFRS 17: 1. the fulfilment cash flows allocated to the group are adjusted to eliminate the present value of the future cash flows and risk adjustment for non-financial risk relating to the rights and obligations that have been derecognised from the group, applying paragraphs 40(a)(i) and 40(b);
	Risk margin is computed as a whole and after that distributed by line of business, when risk adjustment is done at group of contracts level, after that being diversified or not, depending on entity's approach.	IFRS 81	An entity is not required to disaggregate the change in the risk adjustment for non-financial risk between the insurance service result and insurance finance income or expenses. If an entity does not make such a disaggregation, it shall include the entire change in the risk adjustment for non-financial risk as part of the insurance service result.
	In risk adjustment only the nonfinancial risks are considered (no market risk, operational risk or reinsurance default taken in consideration).	IFRS 100	An entity shall disclose reconciliations from the opening to the closing balances separately for each of: 1. the net liabilities (or assets) for the remaining coverage component, excluding any loss component. 2. any loss component (see paragraphs 47–52 and 57–58). 3. the liabilities for incurred claims. For insurance contracts to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose separate reconciliations for: 1. the estimates of the present value of the future cash flows; and 2. the risk adjustment for non-financial risk.

Index	AAE position	Reference to SII and IFRS 17:	Rules
		IFRS 101	For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall also disclose reconciliations from the opening to the closing balances separately for each of: <ol style="list-style-type: none"> <li>1. the estimates of the present value of the future cash flows;</li> <li>2. the risk adjustment for non-financial risk; and</li> <li>3. the contractual service margin.</li> </ol>
		IFRS 104 (2)	An entity shall separately disclose in the reconciliations required in paragraph 101 each of the following amounts related to insurance services, if applicable: <ol style="list-style-type: none"> <li>2. changes that relate to current service, ie: <ol style="list-style-type: none"> <li>2. the change in the risk adjustment for non-financial risk that does not relate to future service or past service;</li> </ol> </li> </ol>
		IFRS 106 (1)	For insurance contracts issued other than those to which the premium allocation approach described in paragraphs 53–59 has been applied, an entity shall disclose an analysis of the insurance revenue recognized in the period comprising: <ol style="list-style-type: none"> <li>1. the amounts relating to the changes in the liability for remaining coverage as specified in paragraph B124, separately disclosing: <ol style="list-style-type: none"> <li>2. the change in the risk adjustment for non-financial risk, as specified in paragraph B124(b);</li> </ol> </li> </ol>
		IFRS 107	For insurance contracts other than those to which the premium allocation approach described in paragraphs 53–59 or 69–70 has been applied, an entity shall disclose the effect on the statement of financial position separately for insurance contracts issued and reinsurance contracts held that are initially recognized in the period, showing their effect at initial recognition on: <ol style="list-style-type: none"> <li>1. the estimates of the present value of future cash outflows, showing separately the amount of the insurance acquisition cash flows;</li> <li>2. the estimates of the present value of future cash inflows;</li> <li>3. the risk adjustment for non-financial risk; and</li> <li>4. the contractual service margin.</li> </ol>

Index	AAE position	Reference toSII and IFRS 17:	Rules
		IFRS 117 (3)	An entity shall disclose the significant judgements and changes in judgements made in applying IFRS 17. Specifically, an entity shall disclose the inputs, assumptions and estimation techniques used, including: 3. to the extent not covered in (a), the approach used: 2. to determine the risk adjustment for non-financial risk, including whether changes in the risk adjustment for non-financial risk are disaggregated into an insurance service component and an insurance finance component or are presented in full in the insurance service result;
		IFRS 119	An entity shall disclose the confidence level used to determine the risk adjustment for non-financial risk. If the entity uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk, it shall disclose the technique used and the confidence level corresponding to the results of that technique.
		Appendix A Defined terms	The compensation an entity requires for bearing the uncertainty about the amount and timing of the cash flows that arises from non-financial risk as the entity fulfils insurance contracts.
		IFRS B86	The risk adjustment for non-financial risk relates to risk arising from insurance contracts other than financial risk. Financial risk is included in the estimates of the future cash flows or the discount rate used to adjust the cash flows. The risks covered by the risk adjustment for non-financial risk are insurance risk and other non-financial risks such as lapse risk and expense risk (see paragraph B14).
		IFRS B87	The risk adjustment for non-financial risk for insurance contracts measures the compensation that the entity would require to make the entity indifferent between: 1. fulfilling a liability that has a range of possible outcomes arising from non-financial risk; and 2. fulfilling a liability that will generate fixed cash flows with the same expected present value as the insurance contracts.

Index	AAE position	Reference to SII and IFRS 17:	Rules
		IFRS B88	<p>Because the risk adjustment for non-financial risk reflects the compensation the entity would require for bearing the non-financial risk arising from the uncertain amount and timing of the cash flows, the risk adjustment for non-financial risk also reflects:</p> <ol style="list-style-type: none"> <li>1. the degree of diversification benefit the entity includes when determining the compensation it requires for bearing that risk; and</li> <li>2. both favourable and unfavourable outcomes, in a way that reflects the entity's degree of risk aversion.</li> </ol>
		IFRS B89	<p>The purpose of the risk adjustment for non-financial risk is to measure the effect of uncertainty in the cash flows that arise from insurance contracts, other than uncertainty arising from financial risk. Consequently, the risk adjustment for non-financial risk shall reflect all non-financial risks associated with the insurance contracts. It shall not reflect the risks that do not arise from the insurance contracts, such as general operational risk.</p>
		IFRS B90	<p>The risk adjustment for non-financial risk shall be included in the measurement in an explicit way. The risk adjustment for non-financial risk is conceptually separate from the estimates of future cash flows and the discount rates that adjust those cash flows. The entity shall not double-count the risk adjustment for non-financial risk by, for example, also including the risk adjustment for non-financial risk implicitly when determining the estimates of future cash flows or the discount rates. The discount rates that are disclosed to comply with paragraph 120 shall not include any implicit adjustments for non-financial risk.</p>

Index	AAE position	Reference to SII and IFRS 17:	Rules
		IFRS B91	<p>IFRS 17 does not specify the estimation technique(s) used to determine the risk adjustment for nonfinancial risk. However, to reflect the compensation the entity would require for bearing the non-financial risk, the risk adjustment for non-financial risk shall have the following characteristics:</p> <ol style="list-style-type: none"> <li>1. risks with low frequency and high severity will result in higher risk adjustments for non-financial risk than risks with high frequency and low severity;</li> <li>2. for similar risks, contracts with a longer duration will result in higher risk adjustments for non-financial risk than contracts with a shorter duration;</li> <li>3. risks with a wider probability distribution will result in higher risk adjustments for non-financial risk than risks with a narrower distribution;</li> <li>4. the less that is known about the current estimate and its trend, the higher will be the risk adjustment for non-financial risk; and</li> <li>5. to the extent that emerging experience reduces uncertainty about the amount and timing of cash flows, risk adjustments for non-financial risk will decrease and vice versa.</li> </ol>
		IFRS B92	<p>An entity shall apply judgement when determining an appropriate estimation technique for the risk adjustment for non-financial risk. When applying that judgement, an entity shall also consider whether the technique provides concise and informative disclosure so that users of financial statements can benchmark the entity's performance against the performance of other entities. Paragraph 119 requires an entity that uses a technique other than the confidence level technique for determining the risk adjustment for non-financial risk to disclose the technique used and the confidence level corresponding to the results of that technique.</p>



Index	AAE position	Reference to SII and IFRS 17:	Rules
		SII Directive art. 77 (3), (4), (5)	<p>The risk margin shall be such as to ensure that the value of the technical provisions is equivalent to the amount that insurance and reinsurance undertakings would be expected to require in order to take over and meet the insurance and reinsurance obligations.</p> <p>Insurance and reinsurance undertakings shall value the best estimate and the risk margin separately.</p> <p>However, where future cash flows associated with insurance or reinsurance obligations can be replicated reliably using financial instruments for which a reliable market value is observable, the value of technical provisions associated with those future cash flows shall be determined on the basis of the market value of those financial instruments. In this case, separate calculations of the best estimate and the risk margin shall not be required.</p> <p>Where insurance and reinsurance undertakings value the best estimate and the risk margin separately, the risk margin shall be calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement necessary to support the insurance and reinsurance obligations over the lifetime thereof.</p> <p>The rate used in the determination of the cost of providing that amount of eligible own funds (Cost-of-Capital rate) shall be the same for all insurance and reinsurance undertakings and shall be reviewed periodically.</p> <p>The Cost-of-Capital rate used shall be equal to the additional rate, above the relevant risk-free interest rate, that an insurance or reinsurance undertaking would incur holding an amount of eligible own funds, as set out in Section 3, equal to the Solvency Capital Requirement necessary to support insurance and reinsurance obligations over the lifetime of those obligations.</p>
		SII Directive art. 86	<p>The Commission shall adopt implementing measures laying down the following:</p> <p>(c) the circumstances in which technical provisions shall be calculated as a whole, or as a sum of a best estimate and a risk margin, and the methods to be used in the case where technical provisions are calculated as a whole;</p> <p>(d) the methods and assumptions to be used in the calculation of the risk margin including the determination of the amount of eligible own funds necessary to support the insurance and reinsurance obligations and the calibration of the Cost-of-Capital rate;</p>

Index	AAE position	Reference to SII and IFRS 17:	Rules
		SII Delegated Regulation, (18)	The calculation of the risk margin should be based on the assumption that the whole portfolio of insurance and reinsurance obligations is transferred to another insurance or reinsurance undertaking. In particular, the calculation should take the diversification of the whole portfolio into account.
		SII Delegated Regulation, (19)	The calculation of the risk margin should be based on a projection of the Solvency Capital Requirement that takes the risk mitigation of reinsurance contracts and special purpose vehicles into account. Separate calculations of the risk margin gross and net of reinsurance contracts and special purpose vehicles should not be stipulated.
		SII Delegated Regulation, (130)	The calculation of the risk margin of technical provisions at the level of the group in accordance with method 1 (accounting consolidation-based method) should be based on the assumption that the transfer of the group's insurance and reinsurance obligations is carried out separately for each insurance and reinsurance undertaking of the group and that the risk margin does not allow for the diversification between the risks of those undertakings. In relation to undertakings referred to in Article 73(2) and (5) of Directive 2009/138/EC, the calculation should be based on the assumption that the transfer of the portfolio insurance obligations for life and non-life activities is carried out separately.

Index	AAE position	Reference to SII and IFRS 17:	Rules
		SII Delegated Regulation, art. 37	<p>1. The risk margin for the whole portfolio of insurance and reinsurance obligations shall be calculated using the following formula:  <math display="block">RM = CoC * \sum (SCR(t) / (1 + r(t+1))^{t+1}), t \geq 0</math> where:  (a) CoC denotes the Cost-of-Capital rate;  (b) the sum covers all integers including zero;  (c) SCR(t) denotes the Solvency Capital Requirement referred to in Article 38(2) after t years;  (d) r(t + 1) denotes the basic risk-free interest rate for the maturity of t + 1 years. The basic risk-free interest rate r(t + 1) shall be chosen in accordance with the currency used for the financial statements of the insurance and reinsurance undertaking.</p> <p>2. Where insurance and reinsurance undertakings calculate their Solvency Capital Requirement using an approved internal model and determine that the model is appropriate to calculate the Solvency Capital Requirement referred to in Article 38(2) for each point in time over the lifetime of the insurance and reinsurance obligations, the insurance and reinsurance undertakings shall use the internal model to calculate the amounts SCR(t) referred to in paragraph 1.</p> <p>3. Insurance and reinsurance undertakings shall allocate the risk margin for the whole portfolio of insurance and reinsurance obligations to the lines of business referred to in Article 80 of Directive 2009/138/EC. The allocation shall adequately reflect the contributions of the lines of business to the Solvency Capital Requirement referred to in Article 38(2) over the lifetime of the whole portfolio of insurance and reinsurance obligations.</p>

		<p>SII Delegated Regulation, art. 38</p>	<p>1. The calculation of the risk margin shall be based on all of the following assumptions:</p> <ul style="list-style-type: none"> <li>(a) the whole portfolio of insurance and reinsurance obligations of the insurance or reinsurance undertaking that calculates the risk margin (the original undertaking) is taken over by another insurance or reinsurance undertaking (the reference undertaking);</li> <li>(b) notwithstanding point (a), where the original undertaking simultaneously pursues both life and non-life insurance activities according to Article 73(5) of Directive 2009/138/EC, the portfolio of insurance obligations relating to life insurance activities and life reinsurance obligations and the portfolio of insurance obligations relating to non-life insurance activities and non-life reinsurance obligations are taken over separately by two different reference undertakings;</li> <li>(c) the transfer of insurance and reinsurance obligations includes any reinsurance contracts and arrangements with special purpose vehicles relating to these obligations;</li> <li>(d) the reference undertaking does not have any insurance or reinsurance obligations or own funds before the transfer takes place;</li> <li>(e) after the transfer, the reference undertaking does not assume any new insurance or reinsurance obligations;</li> <li>(f) after the transfer, the reference undertaking raises eligible own funds equal to the Solvency Capital Requirement necessary to support the insurance and reinsurance obligations over the lifetime thereof;</li> <li>(g) after the transfer, the reference undertaking has assets which amount to the sum of its Solvency Capital Requirement and of the technical provisions net of the amounts recoverable from reinsurance contracts and special purpose vehicles;</li> <li>(h) the assets are selected in such a way that they minimise the Solvency Capital Requirement for market risk that the reference undertaking is exposed to;</li> <li>(i) the Solvency Capital Requirement of the reference undertaking captures all of the following risks: <ul style="list-style-type: none"> <li>(i) underwriting risk with respect to the transferred business,</li> <li>(ii) where it is material, the market risk referred to in point (h), other than interest rate risk,</li> <li>(iii) credit risk with respect to reinsurance contracts, arrangements with special purpose vehicles, intermediaries, policyholders and any other material exposures which are closely related to the insurance and reinsurance obligations,</li> <li>(iv) operational risk;</li> </ul> </li> <li>(j) the loss-absorbing capacity of technical provisions, referred to in Article 108 of</li> </ul>
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Index	AAE position	Reference to SII and IFRS 17:	Rules
			<p>Directive 2009/138/EC, in the reference undertaking corresponds for each risk to the loss-absorbing capacity of technical provisions in the original undertaking;</p> <p>(k) there is no loss-absorbing capacity of deferred taxes as referred to in Article 108 of Directive 2009/138/EC for the reference undertaking;</p> <p>(l) the reference undertaking will, subject to points (e) and (f), adopt future management actions that are consistent with the assumed future management actions, as referred to in Article 23, of the original undertaking.</p> <p>2. Over the lifetime of the insurance and reinsurance obligations, the Solvency Capital Requirement necessary to support the insurance and reinsurance obligations referred to in the first subparagraph of Article 77(5) of Directive 2009/138/EC shall be assumed to be equal to the Solvency Capital Requirement of the reference undertaking under the assumptions set out in paragraph 1.</p> <p>3. For the purposes of point (i) of paragraph 1, a risk shall be considered to be material where its impact on the calculation of the risk margin could influence the decision-making or the judgment of the users of that information, including supervisory authorities.</p>
		SII Delegated Regulation, art. 39	The Cost-of-Capital rate referred to in Article 77(5) of Directive 2009/138/EC shall be assumed to be equal to 6%.
		SII Delegated Regulation, art. 58	Without prejudice to Article 56, insurance and reinsurance undertakings may use simplified methods when they calculate the risk margin, including one or more of the following: (a) methods which use approximations of the amounts denoted by the terms SCR(t) referred to in Article 37(1); (b) methods which approximate the discounted sum of the amounts denoted by the terms SCR(t) as referred to in Article 37(1) without calculating each of those amounts separately.
		SII Delegated Regulation, art. 59	Without prejudice to Article 56, insurance and reinsurance undertakings may derive the risk margin for calculations that need to be performed quarterly from the result of an earlier calculation of the risk margin without an explicit calculation of the formula referred to in Article 37(1).
		SII Guideline TR 61	1.109. Insurance and reinsurance undertakings should assess whether a full projection of all future Solvency Capital Requirements is necessary in order to reflect the nature, scale and complexity of the risks underlying the reference undertaking's insurance and reinsurance obligations in a proportionate manner. In such case, undertakings should carry out these calculations. Otherwise,

Index	AAE position	Reference to SII and IFRS 17:	Rules
			<p>alternative methods may be used to calculate the risk margin, ensuring that the method chosen is adequate to capture the risk profile of the undertaking.</p> <p>1.110. Where simplified methodologies are used to calculate the best estimate, the undertakings should assess the consequent impact that the use of such methodologies may have on the methods available to calculate the risk margin, including the use of any simplified methods for projecting the future SCRs.</p> <p>1.111. Guideline 62 – Hierarchy of methods for the calculation of the risk margin</p> <p>1.112. When deciding which level of the hierarchy set out below is most appropriate, insurance and reinsurance undertakings should ensure that the complexity of the calculations does not go beyond what is necessary in order to reflect the nature, scale and complexity of the risks underlying the reference undertaking's insurance and reinsurance obligations in a proportionate manner.</p> <p>1.113. Undertakings should apply the hierarchy of methods consistently with the framework set out when defining the proportionality principle and the necessity of assessing risks properly.</p> <p>1.114. Insurance and reinsurance undertakings should use the following hierarchy as a decision making basis regarding the methods to be used for projecting future Solvency Capital Requirements:</p> <p>Method 1) To approximate the individual risks or sub-risks within some or all modules and sub-modules to be used for the calculation of future Solvency Capital Requirements as referred to in Article 58(a) of Commission Delegated Regulation 2015/35.</p> <p>Method 2) To approximate the whole Solvency Capital Requirement for each future year as referred in Article 58 (a) of Commission Delegated Regulation 2015/35, inter alia by using the ratio of the best estimate at that future year to the best estimate at the valuation date.</p> <p>This method is not appropriate when negative best estimate values exist at valuation date or subsequent dates.</p> <p>This method takes into account the maturity and the run-off pattern of the obligations net of reinsurance. Consequently, some considerations should be given regarding the manner in which the best estimate of technical provisions net of reinsurance has been calculated. Further consideration should be given as well as to whether the assumptions regarding the risk profile of the undertaking can be considered unchanged over time. This includes:</p>

Index	AAE position	Reference to SII and IFRS 17:	Rules
			<p>(a) For all underwriting risks, to consider if the composition of the sub-risks in underwriting risk is the same;</p> <p>(b) For counterparty default risk, to consider if the average credit standing of reinsurers and special purpose vehicles is the same;</p> <p>(c) For market risk, to consider if the material market risk in relation to the net best estimate is the same;</p> <p>(d) For operational risk, to consider if the proportion of reinsurers' and special purpose vehicles share of the obligations is the same;</p> <p>(e) For adjustment, to consider if the loss absorbing capacity of the technical provisions in relation to the net best estimate is the same.</p> <p>If some or all of these assumptions do not hold, the undertaking should carry out at least a qualitative assessment of how material the deviation from the assumptions is. If the impact of the deviation is not material compared to the risk margin as a whole, then this method can be used. Otherwise the undertaking should either adjust the formula appropriately or be encouraged to use a more sophisticated method.</p> <p>Method 3) To approximate the discounted sum of all future Solvency Capital Requirements in a single step without approximating the Solvency Capital Requirements for each future year separately as referred in Article 58 (b) of Commission Delegated Regulation 2015/35, inter alia by using the modified duration of the insurance liabilities as a proportionality factor.</p> <p>When deciding on the application of a method based on the modified duration of the insurance liabilities, attention should be paid to the value of modified duration to avoid meaningless results for the Risk Margin.</p> <p>This method takes into account the maturity and the run-off pattern of the obligations net of reinsurance. Consequently, some considerations should be given regarding the manner in which the best estimate of technical provisions net of reinsurance has been calculated. Further consideration should be given as to whether the assumptions regarding the risk profile of the undertaking can be considered unchanged over time. This includes:</p> <p>(a) For basic SCR, to consider if the composition and the proportions of the risks and sub-risks do not change over the years;</p> <p>(b) For counterparty default risk, to consider if the average credit standing of reinsurers and SPVs remains the same over the years;</p>



Index	AAE position	Reference to SII and IFRS 17:	Rules
			<p>(c) For operational risk and counterparty default risk, to consider if the modified duration is the same for obligations net and gross of reinsurance;</p> <p>(d) To consider if the material market risk in relation to the net best estimate remains the same over the years;</p> <p>(e) For adjustment, to consider if the loss absorbing capacity of the technical provisions in relation to the net best estimate remains the same over the years. An undertaking that intends to use this method should consider to what extent these assumptions are fulfilled. If some or all of these assumptions do not hold, the undertaking should carry out at least a qualitative assessment of how material the deviation from the assumptions is. If the impact of the deviation is not material compared to the risk margin as a whole, then the simplification can be used. Otherwise the undertaking should either adjust the formula appropriately or be encouraged to use a more sophisticated method.</p> <p>Method 4) To approximate the risk margin by calculating it as a percentage of the best estimate.</p> <p>According to this method, the risk margin should be calculated as a percentage of the best estimate technical provisions net of reinsurance at valuation date. When deciding on the percentage to be used for a given line of business, the undertaking should take into account that this percentage is likely to increase if the modified duration of the insurance liabilities – or some other measure of the run-off pattern of these liabilities - increases.</p> <p>Undertakings should give due consideration to the very simplistic nature of this approach; it should be used only where it has been demonstrated that none of the more sophisticated risk margin approaches in the above hierarchy can be applied. When undertakings rely on this method for the calculation of the risk margin, they will need to justify and document the rationale for the percentages used by line of business. This justification and rationale should consider any specific characteristics of the portfolios being assessed. Undertakings should not use this method when negative best estimate values exist.</p> <p>1.115. Without prejudice to the proportionality assessment and the provisions in Article 58 of Commission Delegated Regulation 2015/35, insurance and reinsurance undertakings may use the simplifications defined in Technical Annex IV when applying the hierarchy of methods.</p>
		SII Guideline TR 63	Allocation of the overall risk margin

Index	AAE position	Reference toSII and IFRS 17:	Rules
			<p>1.116.Where it is overly complex to calculate the contribution of the individual lines of business to the overall Solvency Capital Requirement during the lifetime of the whole portfolio in an accurate manner, insurance and reinsurance undertakings should be allowed to apply simplified methods to allocate the overall risk margin to the individual lines of business which are proportionate to the nature, scale and complexity of the risks involved. The methods applied should be consistent over time.</p>