<table>
<tr><td colspan="2">Comments Template on
Consultation Paper on EIOPA's first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation</td><td>Deadline
31 August 2017
23:59 CET</td></tr>
<tr><td>Name of Company:</td><td colspan="2">Allianz SE</td></tr>
<tr><td>Disclosure of comments:</td><td>Please indicate if your comments should be treated as confidential:</td><td>Public</td></tr>
<tr><td></td><td colspan="2">Please follow the following instructions for filling in the template:
⇨ <u>Do not change the numbering</u> in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool
⇨ Leave the last column <u>empty</u>.
⇨ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph or a cell, keep the row <u>empty</u>.
⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below.
Please send the completed template, <u>in Word Format</u>, to <u>CP-17-004@eiopa.europa.eu</u>
Our IT tool does not allow processing of any other formats.

<u>The numbering of the reference refers to the sections</u> of the consultation paper on EIOPA's first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation. Please indicate to which paragraph(s) your comment refers to.</td></tr>
<tr><td>Reference</td><td colspan="2">Comment</td></tr>
<tr><td>General Comment</td><td>We appreciate the opportunity to provide feedback on the consultation paper CP-17/004 regarding EIOPA's first set of advice to the European Commission on specific items in the Solvency II Delegated Regulation. In general we support the observations made in the feedback of the CRO Forum, Insurance Europe and the German Association of Insurers (GdV).
In the following, we provide additional comments on selected specific items.</td><td></td></tr>
<tr><td>1</td><td></td><td></td></tr>
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2.4.4	This change restricts the usage of simplifications to the ones included in the Delegated Acts and is not an error correction. This restriction would increase uncertainties for the application of the regulation and it is in conflict with the principle of proportionality. It is market practice to apply non-listed simplifications based on an interpretation of the regulation that the provided list in the Delegated Regulation is not exclusive. Examples of non-listed simplifications which are widely applied are actually described in this consultation paper. A differentiation between a simplified formula / approach as provided in the SII Delegated Regulation and an approximation or expert judgement in the gathering of necessary input data for the standard formula calculations could be beneficial. The latter should be allowed as long as the requirements of Art. 109 of the Solvency Framework Directive in combination with Art. 88 of the Delegated Acts are complied with. An area where we see the need for the introduction of further simplifications is the look-through approach. We appreciate that this issue will be addressed in the second set of advice.	
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3.4.3	<u>Simplified calculation the for spread-risk sub-module and for the market risk concentration sub-module</u> Reading EIOPA's advice one can get the impression that the simplification can only be applied in case exactly one ECAI was nominated (see text number 144 of the consultation paper). For avoidance of doubt it should be clarified that the simplification is not restricted to cases where exactly one ECAI was nominated by the (re)insurer, but is available to (re)insurance undertakings that have nominated one or more ECAIs that cover most of its debt portfolio. <u>Internal credit assessments</u> We do very well understand that EIOPA does not believe it is appropriate to introduce within the Solvency II framework a new approval process for internal credit assessments. However, we have the opinion that the use of ratings, which are acknowledged as part of an approved internal model of a (re)insurance group, would not require an additional approval process and (re)insurance undertakings should be allowed to use such internal model ratings for unrated debt exposures of group entities that calculate the SCR with the standard formula. Such a possibility to reuse internal model ratings for standard formula calculations in the same group should definitely be considered in the on-going work carried out on unrated debt. Postponing a decision on the usage of internal credit assessments for a few years does not appear appropriate for cases where a (re)insurance group already has available internal credit assessments from an approved internal model. <u>Market implied ratings and accountancy-based measures</u> We do agree that the usage of pure market implied ratings in the standard formula can indeed raise issues, if one is relying solely on observed credit spreads without consideration of additional	

	elements to avoid pro-cyclicality and volatility of ratings/SCR. However, we do believe that it would be worth to consider an approach where through-the-cycle ratings are adjusted for market implied ratings.	
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5.4.2	We understand based on recital (72) of the SII Delegated Regulation that dynamic hedging which relies on future management actions at the time the stress occurs should not be eligible for SCR recognition under the standard formula. It therefore seems worthwhile to take up the discussion on separating rolling hedge arrangements from dynamic ones. The statements in text number 302 (EIOPA CP-17/004) could be interpreted in a way that every strategy where the risk-mitigation in an instantaneous shock scenario differs from the risk-mitigation over a longer time period is dynamic and therefore not eligible for SCR recognition under the standard formula. We like to point out that every rolling hedge using options can have this effect depending on the realized path of the underlying. By design the standard formula calculation with its instantaneous shocks will not capture this.	

	We therefore suggest to include a definition of dynamic hedging strategies into the regulatory guidance (see below proposal). Additionally, we suggest to clarify that an analysis of the difference in risk-mitigation by comparison of instantaneous shock vs. 12-months-period could be taken up in a mandatory backtesting assessment before implementing a rolling hedge arrangement. <u>Proposed definition of dynamic hedging:</u> Dynamic hedging is a hedging strategy • which requires a frequent adaption of the hedging instruments according to the hedge target and • where the risk of the hedge target together with the hedging instruments in place is substantial for an instantaneous shock calibrated on a longer term horizon. Examples for used terms "frequent adaption": e.g. on daily basis "hedge target": e.g. a portfolio of equity index-linked insurance contracts "hedge instruments": e.g. exchange traded equity options and futures "shock calibrated on a longer horizon size": e.g. equity -40%, calibrated on 1 year horizon	
5.4.3	We appreciate the proposal to amend the regulation with regards to the recognition of rolling-hedges in the standard formula SCR. In particular it seems appropriate to introduce a lower minimum initial contract maturity for financial instruments and more frequent adjustments of the hedge instruments.	
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7.4.4	We appreciate the proposal to include an additional USP method for stop-loss reinsurance.	
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