INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Compiled Comments on *Consultation on Higher Loss Absorbency (HLA) requirements for G-SIIs*

25-Jun-15 to 22-Aug-15

Jurisdiction Organisation		Comments
Executive Summary Overview Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issues that should be considered, then please outline them and how they may impact the conclusions reached.		
1	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA is supportive of the IAIS work on HLA and global insurance capital standards more generally. We congratulate the IAIS for the publication of this Consultation Document, which represents a significant milestone on the development of HLA, and appreciate the opportunity to further contribute to its successful and timely finalization. We support the definition of HLA, although it needs to be acknowledged that it does not represent a capital requirement on its own, but only in conjunction with the BCR (and, in the future, with the ICS). HLA is part of the broader IAIS systemic risk framework. It has been developed as one of the policy measures which apply solely to G-SIIs, due to the increased systemic risk which those institutions pose to the financial system as a whole. For this reason, EIOPA is of the opinion that HLA should target the risks which are particular to G-SIIs and that drove their designation. One of the key considerations guiding the policy choices should be that the IAIS will need to explain its measures to the wider public that stays, to the extent possible, with the already published policy statements in this regard. An ideal HLA solution in our view will be such that it can be defended towards stakeholders in a stable and convincing manner. Given the specific nature of insurance activities, HLA cannot represent a simple flat uplift of capital requirements, affecting all activities equally. This would miss the fundamental objective of capturing systemic risk and go against all the statements made by the IAIS on this topic in the past. EIOPA therefore supports a targeted approach to the calculation of HLA, incorporating sufficient safeguards to ensure the reasonableness of the final outcomes. This should provide a fair balance between the conflicting objectives of risk sensitivity, robustness and simplicity, while providing G-SSIs an incentive to decrease systemic risk. Detailed comments about the different components of the HLA framework are provided in the relevant questions below.
2	**Poland** KNF - Polish Financial Supervision Authority IAIS Member	KNF welcomes the opportunity to provide comments on HLA Consultation Document at this stage. We believe that despite fact that the document is not decisive on the key issues, it is definitely an important milestone in the HLA development process. KNF is of the opinion that as a part of a broader systemic risk framework HLA should primarily address the risks which

		led to G-SII designation. Moreover due to complexity of the insurance business as well as non-traditional non-insurance activity that may have systemic nature, HLA cannot be defined as a simple flat uplift of the capital requirements. On the other hand KNF believes that the HLA calculation should not be too complicated and burdersome in its application. KNF looks forward to the next version of the HLA approach which should aim at striking more balance between the elements of its risk sensitivity and simplicity.
3	**USA** National Association of Insurance Commissioners IAIS Member	We do not agree with paragraph 11 that states that the HLA should not exceed "on average" 20%. Rather, we support a maximum uplift of 20%. Designated insurers should not be assigned an HLA in excess of that assigned to banks in the lowest (i.e., least systemic) G-SIB bucket. While we agree with the 33% transitional uplift (alpha of 1.33) as a working assumption based upon the level of the BCR using the single available data point, we strongly support further refinement of the BCR and further review of the 33% uplift as more data points become available. Paragraph 55 explains the value of such refinement and a transition period, with which we strongly agree.
4	**Australia** KPMG International Non-member	Assessment of 20% "add-on' 1) The 20% "add-on' assumed for the HLA seems high and needs further justification. Annex F sets out the rationale for this by comparing with the G-SIB approach, where the lowest category of G-SIBs suffer a 12.5% uplift and the second lowest category an 18.8% uplift in capital requirements. Given the argument that traditional insurance does not give rise to systemic risks, coupled with the fact that Traditional insurance is usually a large portion of an insurer's activities, this suggests that the G-SII HLA uplift should not be significant. Further, there needs to be a clear rationale for making a direct comparison between G-SIIs and G-SIBs e.g. similar levels of systemic risks and why, or similar target probability of solvency. It is not clear what this link is from the consultation document. 2) The starting capital position over which the HLA or capital "add-on' is applied also needs to be made clear before comparing with the banking standards and drawing any conclusions from that comparison. For example, the assumption that the level of PCR is consistent with the base capital requirements for banks needs to be justified - i.e. are they both targeting a 99.5% probability of solvency over a one year time horizon? If they are not consistent across banks and insurers the comparison made in Annex F may not be appropriate and no conclusions can be drawn from them. 3) To prevent capital arbitrage between banks and insurers, we believe the target probability of solvency needs to be consistent between both sectors and clearly articulated as a single percentage (if this is the intended approach). This target probability of solvency can then inform the level of additional capital required by comparing it with the level targeted by the PCR and the assumed loss distribution of the insurer (distribution fitted based on historical data). This approach can be used to quantify the HLA factor to be adopted and provide an independent check on the 20% HLA "add-on' proposed by the IAIS. Purpose of BCR The purpose of the BCR within the broader group wide capital framework being proposed is currently unclear. This

		needs to be clarified. We also remain uncertain whether the ICS will act as the ultimate umbrella requirement of capital, consisting of both an MCR (which the BCR could potentially become) acting as the lower regulatory intervention level, with a PCR acting as the higher regulatory intervention point (consistent with the current ICPs). In this regard, the ICS could be considered "pillar 1' consisting of an MCR, PCR and HLA, with pillars 2 and 3 completing the overall ComFrame framework. Greater clarity from the IAIS on how it is envisaged the suite of requirements will operate would be immensely beneficial. The concepts and discussions of the BCR and BCR uplift in relation to the HLA are not of significance if it is intended that this will eventually be replaced by the ICS. At this stage it appears that the BCR + BCR uplift is effectively at the level of a PCR which is consistent with the ICS. If it is intended that the PCR should be used as a base for the HLA then the ICS should be given greater consideration as part of the HLA calculation approach at an early stage. Discussions around the BCR approach have indicated that it has a number of disadvantages and limitations. This includes a lack of risk sensitivity from being a factor based model, no consideration for diversification or ALM and no consideration of realistic stress scenarios or allowance for management actions. As such, neither the BCR nor the uplift is risk sensitive and the current proposals for HLA (operating as a factor of these measures) will also be insufficiently risk sensitive. As the ICS is a robust, risk sensitive framework, we believe that it would more appropriately serve as the base for HLA capital "add-ons'. The question as to the purpose of the BCR remains open. Application of HLA and BCR uplift to Regulated Banking activities 1) Paragraph 10 states that "Subject to regulatory requirements specified by global requirements for other sectors (in particular regulated banking), the working assumption for the uplift is 33% of the current BCR".. Paragraph 11 states that "The HLA NI required capital relating to regulated banking activities will not exceed the relevant regulated banking requirements for those activities". Presumably this is implying that regulated banking activities will have an HLA component that is capped at the level of the capital "add-on' applying to G-SIBs as per Annex F. This also seems sensible to ensure consistent application of capital standards. HLA objectives 1) It needs to be made very clear how the HLA achieves risk sensitivity. The objectives of the HLA need to be defined precisely in terms of their meaning and then it needs to be explained how these objectives have been addressed through the approach developed. The HLA in its current form does not appear to be risk sensitive. Firstly, it is based on the BCR which is not a risk sensitive measure (as discussed above). Secondly, the proposed HLA approach only has 2 buckets populated (which does not appear sufficiently risk sensitive, especially as the G-SII scores that determine the allocation between buckets have never been published). One added complication is that there are only 9 G-SIIs and so it is unclear how the HLA can be made risk sensitive across such a small population without it becoming "spurious'.

		2) Further, the HLA does not consider the dynamics and unique nature of each individual insurer as the ICS does (which is risk sensitive). Uplift Factor of 33% 1) Presumably the 33% uplift factor applied to the BCR will be amended to better reflect the ratio of ICS to BCR once the calibration levels of the BCR are finalised. The calibration of the ICS or PCR also needs to be made clear to assess the appropriateness of the 33% proposed. 2) Taken together, the 33% BCR uplift and assumed 20% HLA will mean an overall capital requirement around 60% higher than the current BCR. BCR 2014 field test results showed average G-SII core qualifying capital resources/BCR ratio of 376%, suggesting that this increase in requirements should not be burdensome on the G-SII population. As such, the HLA appears as though it could end up being a simple mathematical exercise, rather than acting as any form of disincentive from taking on further potentially systemic activities. However, this could change once the final calibrations are known. Comments on HLA Approach 1) By adopting a factor approach based on BCR components, there is little linkage between what has caused a G-SII to be classified as such (45% based on NTNI activity and 40% based on interconnectivity) and the actual uplift being applied through the HLA. Other than the simple 2 or 3 bucket approach used to organise G-SIIs based on G-SII scores, it is not clear how the HLA will reflect the perceived risk to financial stability posed by an individual G-SII. 2) It is also not clear how the HLA formulas will operate in practice, particularly around the weightings given to NTNI activities and the purpose of the multiple insurance formulae if they all equate to the Full HLA formula. Is the purpose of making the combined formula equal to the full HLA insurance formula only part of an initial calibration exercise across all G-SIIs to determine the prescribed scale factor and gamma? 3) The HLA is based on the BCR which is merely a capital charge based on size (the BCR factors being based on insurance liabilities, assets and non-insurance activities). The larger the G-SII the higher the BCR, and as a result of the HLA methodology proposed, the higher the HLA. However, it is worth noting that size is only a 5% factor in the G-SII assessment methodology. We are concerned that the HLA methodology proposed gives insufficient consideration of the two significant areas of G-SII classification (i.e. the level of NTNI activity and extent of interconnectivity).
5	**Canada** Canadian Institute of Actuaries Non-member	The Canadian Institute of Actuaries (CIA) has reviewed the consultation document, and we are pleased to have the opportunity to provide our feedback. We understand the objective of the IAIS is to reduce the impact on the financial system from a G-SII that becomes distressed or fails, and the probability of that happening. The IAIS desires to achieve this through additional capital requirements known as Higher Loss Absorbency capacity, or HLA. We commend the IAIS's effort to develop proposals for the determination of HLA requirements for G-SIIs in a relatively short time-frame. We have two overarching comments on the proposals:

		(1) It is proposed that the level of HLA required capital for G-SIIs can be 10% to 15% (and possibly up to 20%) of total insurer Uplifted BCR. In appendix D a 15% factor is used to illustrate the calculation. We agree with para. 30, which states "there is little evidence of traditional insurance either generating or amplifying systemic risk", and it is rather the NT/NI operations of G-SIIs that are of concern. Therefore, we would suggest it is more appropriate to target an aggregate amount of HLA as a percentage of NT/NI Uplifted BCR (i.e., set gamma close to 1). Alternatively, it could be targeted as a significantly smaller percentage of total G-SII Uplifted BCR, to reflect that a large portion of G-SIIs' business is in fact traditional insurance, but we believe this would unfairly attach potentially significant HLA required capital to traditional insurance businesses. (2) The formulas proposed include a scale factor. We understand this scale factor will be calibrated to target an aggregate amount of HLA required capital across the G-SII universe. It is less clear whether the scale factor will continue to be re-calibrated on an annual or other regular basis even after an initial calibration period, possibly as a result of individual G-SIIs restructuring their portfolios and altering their risk profiles. We believe it is important that individual G-SIIs ultimately have an ability to forecast and manage their own HLA required capital, without regard to the actions of other G-SIIs. To achieve that, the scale factor would need to be stable, and not be a function of the changing risk profile of other G-SIIs. Section-specific comments are inserted below.
6	**Canada** CLHIA Non-member	- The Canadian Life and Health Insurance Association (CLHIA) appreciates the IAIS seeking stakeholder input and is pleased to provide herein our comments and recommendations on the development of the HLA. Summary of CLHIA key concerns - As we further outline in our answers throughout the Questions, our feedback to the IAIS is summarized as follows: - We agree with the policy objectives of balancing the three key attributes of risk sensitivity, robustness and simplicity. - We agree with paragraph 12 that the final outcome for the HLA needs to be much simpler than the complexity of the HLA formulas as presented in the 25 June 2015 consultation paper. - We are concerned with the proposal to calibrate an HLA systemic risk factor to the entire capital base of the insurer. We disagree with the inclusion of Traditional business in the determination of HLA, as there is "little evidence that traditional insurance either generates or amplifies systemic risk." This would also be consistent with the direction provided in the July 2013 Policy Measures paper. The systemic risk factors should only be applied to the activities of the G-SIIs that pose systemic risks. - We respectfully disagree with HLA being calibrated to a pre-conceived capital level such as "up to 20%" of BCR and Uplift. The calibration should be dynamic to reflect point in time G-SII's activities posing systemic risk. - We view the Scale factor that ties the HLA for a particular G-SII to the average of all G-SIIs as the highly problematic feature of the proposed HLA methodology. We believe that HLA requirements for a particular G-SII should not be based

		on its relative ranking to the average G-SIIs but reflect its own systemically risky activities. - It follows from our comments above that the "gamma" should be 1.0, and the Scale factor should be eliminated. - We suggest that any concerns about volatility of HLA capital be addressed through smoothing/moving average mechanisms applied to exposures. - We are supportive of a transition phase. - We agree with the HLA being based on the ICS once it replaces the BCR. We disagree, however, with the introduction of the Uplift to the BCR in the interim period. The BCR should not be artificially inflated for any expected regime changes, as the estimated impact of the new regime is highly uncertain.
7	**EU** EIOPA Insurance & Reinsurance Stakeholder Group Non-member	The IRSG supports the development of the global capital standards with the purpose to ensure increased resilience of the global financial system, and welcomes that the IAIS exposes further details of its considerations on the HLA framework. It is worth recalling that capital requirements are complementing the G-SII framework's qualitative policy measures (such as enhanced supervision, the preparation of systemic risk management plans as well as recovery and resolution plans and liquidity management plans) to address remaining systemic risks. The IRSG would encourage the IAIS to provide more evidence and rationale for the design choices made including the parameters used. The BCR/HLA framework must maintain a cross-sectorial level playing field - Asset management activities conducted by a G-SII should be charged according to emerging global capital rules for the asset management sector if and when implemented. In the absence of specific global asset management regulation the BCR should not be uplifted and no HLA should be charged. - Regulated banking activities conducted by a G-SII should be charged according to Basel III including bank specific HLA rules. No HLA should be charged unless the banking activity in itself is deemed GSIB. The IRSG would encourage the IAIS to conduct further field testing of the HLA proposals under different economic scenarios before the framework can be finalized. If the IAIS increases the level of detail in the HLA calculation ahead of the submission to the FSB, then another consultation is necessary.
8	**EU and US** Group of Eight GSIIs Non-member	The GSIIs appreciate and value the IAIS' ongoing commitment to dialogue in the development of the proposed policy for higher loss absorbency capacity for GSIIs (HLA proposal). The IAIS will appreciate that given different business priorities and product mixes, it is difficult for GSIIs to come to agreement on all elements of the June 25 HLA proposal. This letter puts forward areas of agreement on the HLA proposal among the GSIIs listed below . It should be noted that these views will be further explored through additional responses. The focus for HLA should be on activities that give rise to systemic risk. Specifically, to achieve the stated IAIS and FSB objectives for HLA it is important that the application of the capital measure is surgically targeted at activities that pose

		risk to the global financial system. We would also note, however, that there is no clear understanding of what systemic activity is and certain GSIIs feel that the current NTNI definition is not a good proxy for systemic risk. We all agree that a thorough analysis of what activities may result in systemic impact should occur and that ideally this would happen before any final determination of an HLA design. Simply put, we believe it is in the interests of all concerned to understand the potential systemic exposure from the insurance sector and whether HLA is indeed the best risk management tool. Until the IAIS work on NTNI and the assessment methodology is complete an HLA design that lends itself to material adjustments may be desirable Moreover the signatories to this letter strongly believe that future considerations of systemic risk in the sector should not focus on individual insurance groups but instead on activities or risk attributes, whether they are conducted inside or outside of a GSII. This position is clearly consistent with recent FSB & IOSCO announcements to primarily focus systemic risk policy considerations for Non-Bank / Non-Insurers (NBNI), especially asset managers, on activities as opposed to individual institutions. We have every reason to believe that such an approach is also highly relevant to insurance. In addition it is important to recognize that pension funds have been excluded from the scope of the FSB NBNI initiatives. In this context, the IAIS must consider the cross-sectorial level playing field with asset management and regulated banking activities such that any HLA construct not result in a "double-counting" of any capital requirements stipulated by standard setters and supervisors, or in treatment that is more onerous than their counterparts in the banking and NBNI sectors. We have strong reservations over the rationale to designate entities rather than activities as systemic and the current designation methodology, which is heavily influenced by the size of an insurer, the definition of NTNI, and the desire to somehow rank GSIIs against their peers rather than an objective measure of risk and does not consider the size of activities in the context of the financial system as a whole. As noted above, the FSB & IOSCO recently recognized the merit of approaching regulation of systemic risk through a focus on activities rather than a handful of designated Non-Banks / Non-Insurers. Calibration of HLA is too high and unlikely to contribute to financial stability. The proposed calibration targets for HLA need to be relative to the level of systemically risky activities undertaken. GSIIs are far less systemic than G-SIBs given the nature of the business model. The IAIS and the FSB have recognized that traditional insurance business does not give rise to systemic risk and insurance groups do not pose the same level of systemic risks as banks (for whom the full balance sheet may be systemically risky). The current proposed calibration targets are far too high in this respect since they do not reflect such differences between banks and insurers and therefore should be materially lower than the uplift applied to the smallest of the G-SIBs.

		BCR + HLA is a blunt tool. The proposed uplift to the BCR will amplify the inherent weaknesses of a necessarily risk insensitive factor based measure that was calibrated at a low level accordingly. This could lead to unintended effects and pro-cyclicality. Further, it will prove a significant challenge to manage the business under metrics which will not act in the same way or in the same proportion under different market conditions and can lead to conflicting risk management incentives. The timing for HLA development and finalisation does not allow GSIIs to conduct sensitivity analysis of the options in the HLA proposal. Last but not least we reiterate our concerns that fundamental elements on which the HLA proposal rests are still under development. There are various factors relevant to the construct of HLA that have yet to stabilise, in particular the IAIS' review and consultation on the GSII designation methodology and NTNI which we understand will be issued in November. This makes it difficult to fully assess the potential impact of the proposed policy measures at this time. In addition, important aspects of the overall framework remain unaddressed such as what is the transmission mechanism for systemic risk in insurance and the role of capital in this regard. Clearly the HLA proposal would have benefited immeasurably from the completion of the work on the definition of systemically risky activity and the assessment methodology. Both of these initiatives hold the very real potential to materially alter the capital requirement outcomes set by any of the proposed HLA constructs. Indeed, certain GSIIs feel so strongly against proceeding before this work is complete and exposed for comment that they call for a delay in in seeking FSB and G20 approval of the HLA proposal, If a delay is not granted, all listed below do however agree that the IAIS, FSB and G20 must allow for an open architecture for the HLA construct to allow alterations following its approval and endorsement in November 2015. This can be achieved by the IAIS clearly stating and reaching agreement with the FSB, G20 and stakeholders that at present they propose an HLA "skeleton" framework as opposed to a static/concrete HLA standard. By 2019, this framework will evolve into a requirement once the results of the G-SII methodology and NTNI consultations finalized are incorporated into the HLA construct. The IAIS should agree to further consultations with the public as they move towards a final HLA construct. We look forward to the upcoming consultations on the definition of NTNI and the GSII assessment methodology and hope that comments received and continued dialogue on these subjects leads to more refined and appropriate regulatory standards for insurers Conclusions The G-SIIs urge the IAIS to give due consideration to the issues raised above. Over the long term, HLA should focus on activities that give rise to systemic risk. Calibration should be proportionate to the residual risk arising from clearly,

		properly and transparently identified systemic activities. The link between enhanced supervision, which we wholly support, and capital charges should be fully understood and the right incentives put in place to limit or reduce systemic risk. Sincerely Allianz SE Assicurazioni Generali S.p.A, Aviva plc, AXA S.A. MetLife Inc. Ping An Insurance (Group) Company of China, Ltd. Prudential Financial, Inc. Prudential plc
9	**France** AXA Non-member	AXA response to HLA consultation paper Introduction AXA thanks the IAIS for providing the opportunity to make comments on the consultation document dated June 25, 2015 on the Higher Loss-Absorbency (HLA) capacity for Global Systemically Important Insurers (G-SIIs). AXA is strongly committed to continuing the constructive dialogue and cooperation with the IAIS. It appreciates the work the IAIS has put into this Consultation Document. AXA would like to complements the European industry submission submitted jointly by ALLIANZ, AVIVA, AXA, GENERALI, PRUDENTIAL to the IAIS consultation on a "Higher-Loss Absorbency' (HLA) for Global Systemically Important Insurers (G-SIIs)' by providing some broader policy observations on the subject in the context of the questions raised in the consultation. AXA also joined the common GSII umbrella letter which puts forward areas of agreement across the GSIIs on the HLA proposal as well the IIF Geneva Association letter to Mr Kawai. It is important to highlight upfront that AXA within the insurance industry community is aligned with the interest of regulators to control systemic risk in the financial system. The industry is ready to provide insights and information about its business that would allow determining to which extent insurance activities could, or could not, be involved in the origination or transmission of systemic risk in the financial system. The following are the main concerns and observations that arise from the current state of the FSB/IAIS framework as regards possible systemic risk in insurance. 1. The designation method is not stabilised and remains un-transparent

		The 2013 designation methodology of G-SIIs, which led to the list of 9 insurance groups in 2013, is currently under review, and a new consultation by the IAIS is expected by end 2015. The main reasons for such review and possible new consultation are (a) the bias towards size of the existing methodology, which is at odds with insurance where size is a stabilising factor, particularly when coupled with international diversification and (b) the unclear scope and definition of systemic activities run by insurers as well as the measurement of the underlying risks. When well-managed, including by using advanced risk management techniques, the world's largest insurance companies are likely to be the most stable companies. Moreover the designation of reinsurers has not yet been clarified. This sheds further doubts on the designation process and method. In addition, the scoring resulting from such methodology (also used in the HLA formula as currently contemplated by the IAIS) still lacks transparency which does not allow a proper understanding of what the key systemic risk drivers are and how they are assessed. The transparency of such methodology is a key issue which should be addressed as an integral part of the forthcoming review of the methodology. The merits of such transparency would be to provide additional guidance on what G-SIIs should focus on in their Systemic Risks Management Plans, greater homogeneity in the data collected for all the G-SIIs and a more robust basis for HLA purposes should the IAIS want to use the ensuing systemic risk scoring as currently contemplated in the HLA formula. The review of the current method, its lack of transparency and the open question regarding reinsurance casts doubt on the current designations and on the justification of imposing an HLA on a set of companies that is not stabilised. 2. The concept of "Non-traditional non-insurance" activities is not defined There is still no clear understanding of what systemic activities mean in the insurance/reinsurance sector and whether "Non-Traditional Non-Insurance' (NTNI) activities encompass all such systemic activities. There is also no coherent definition of NTNI activities, even though those are supposed to present the cornerstone of the HLA framework. The scope and coverage of NTNI activities differ between various FSB/IAIS documents, and a new consultation on NTNI has been announced by the IAIS for end 2015. The HLA consultation paper confirmed that such activities only represent a small fraction of G-SII activities based on 2014 field test (with 13% being so-called NI and 6% being so-called NT activities). Therefore, there is no stabilised basis for an HLA. Moreover, from an industry perspective, one can distinguish between insurance and non-insurance activities but the distinction between "traditional' and "non-traditional' insurance activities is not as it stands a workable categorisation. More specifically discussions around derivatives and variable annuities business need to be addressed taking into consideration their operational management. Most of the systemic risk posed by derivatives has been addressed on both sides of the Atlantic by EMIR and Dodd-Frank regulations which also cover insurers. In addition, the asset-liability management (ALM) of insurers aims at a comprehensive duration and currency matching of assets and liabilities, which requires the use of derivatives. Insurers use derivatives for hedging purposes. Therefore, a measure of systemic risk in insurance which would be based on the

		notional amount of derivatives is not a proper reflection of risks. The risk posed by derivatives should be based on the residual risk resulting from non-collateralized derivatives and the quality of the collateral posted, to the extent they not already otherwise captured through already existing capital charges under applicable solvency frameworks (e.g. capital charges which apply against counterparty credit risk under the Solvency 2 framework). AXA would be pleased to contribute in analysing in more detail the risks associated to derivatives and which may constitute a sensible way of addressing residual risks in an efficient manner. Such further clarification could be used in 2 directions: (a) one for the designation methodology in order to fine-tune certain criteria (e.g. the measurement of risks relating to derivatives in the interconnectedness criteria and the speculative derivatives to be included in the "NTNI' criteria should the latter be maintained) and (b) the other one for HLA purposes in order to properly calibrate the charge on the basis of the underlying residual risks. Likewise, we find it quite challenging to understand the rationale for variable annuities with guaranteed living benefits (GLB) to be treated as non-traditional business, especially when most prominent market risks, such as equity or interest rate risks, are hedged through the use of derivatives. But if they were, we would expect that the related HLA be based on the residual risk not already captured in the existing solvency regulation. We would also like to note that the focus of the designation methodology was on variable annuities with GLBs. Should the review of the methodology result in extending the list of "non-traditional" products with other unit-linked products featuring a death benefit guarantee which is not a straightforward option, this should mechanically encompass variable annuities with death benefits and we would then expect the list of G-SIIs to be revised accordingly. 3. The potentially conflicting issues which may arise from the HLA versus advanced domestic solvency frameworks should be solved. The question of the interplay between an HLA and domestic existing framework cannot be ignored. This topic raises two main issues: - the stabilisation of the design of the HLA ratio which must be clear from the very beginning both in terms of denominator and numerator; and - the sensitivity of the HLA ratio in particular in crisis times and its interplay with other existing solvency ratios. The stabilisation of the design of the HLA ratio is fundamental since, once endorsed by the G 20, the ratio will be scrutinized by the markets and G-SIIs, which are all listed groups, will be requested by analysts and other stakeholders to reconcile such ratio with their existing ratios and elaborate on their relationships. This is the reason why the requirement and the qualifying capital resources need to be clearly defined at the time of endorsement by the G 20. In addition, this means that the way the HLA ratio will move in crisis times need to be understood by the time of endorsement. It would be weird to approve a ratio and then realize that it needs to be adjusted because of undue or undesirable volatility. Beyond the HLA ratio itself, one should also consider its interplay with existing solvency frameworks. In particular, if an HLA framework was approved, the five European G-SIIs, would have to manage a crude and extremely volatile BCR/HLA ratio, alongside the more stable and risk-sensitive capital regime built in Solvency II.

		It is not clear how this dual capital and solvency instrument brings more stability in period of stressed financial market and more effectiveness in the supervision of the largest players. If the systemic risk capital requirement, which ignores ALM, was to take priority over Solvency II, it would lead the E-GSIIs to be in breach of the Solvency II use test which is a key pillar of the risk management governance introduced by Solvency II. AXA would respectfully suggest IAIS to ask the FSB to reconsider again, as a valuable alternative option in this context, to apply the HLA, once calibrated in a sensible way in light of residual risks arising from clearly identified activities, to local solvency ratios such as the RBC in the US and the SCR in the European Union. The current approach based on the BCR is quite challenging because of the limitations of this metric. Any further uplift of the BCR as envisaged in the HLA consultation would significantly worsen this issue as noted in the industry submission to the IAIS paper. Using local solvency requirements for HLA purposes would however solve out several issues, including: - avoiding (a) divergences in the definitions of both the denominator and numerator with the HLA ratio and (b) conflicting movements between the two metrics in stressful times, - capturing existing capital charges against certain systemic risks, - facilitating the swift implementation of the ratio, its follow-up by local supervisors and its understanding by external stakeholders. 4. The timetable has been so compressed that it does not allow addressing still open fundamental issues and conducting impact assessments Even though this IAIS consultation was postponed by six months from the original launch of December 2014, the overall timetable has remained unchanged and an HLA proposal is planned to be presented to the G-20 in mid-November 2015. The short period between August and November 2015 will make it very difficult to clarify a number of open issues that will ultimately weigh on the validity, and efficiency of the proposed HLA. This is particularly true for the review of the designation methodology and the definition of the NTNI activities which are still requiring further work by the end of the year and probably the beginning of 2016. We have also noted that the current timing does not afford any comprehensive quantitative impact study of the proposed capital surcharge, both in terms of volatility, stress testing and levels of capital required. The IAIS will indeed only have 20 days to digest data from the 2015 field test (i.e. a limited set of data reflecting the situation of G-SIIs only based on current market conditions) and the responses gathered during the consultation phase. 5. Expected geographical implementation of an HLA Any new regulation covering GSIIs would need to apply and be implemented consistently across the globe to ensure a level playing field. Given the different national and regional regulatory revisions at play in Europe, China and the United States, there is no evidence at the moment there is a common and shared objective on the timing of application of a harmonized HLA in all jurisdictions. Conclusion

		As a conclusion, we would welcome an active dialogue with the IAIS and the FSB on these numerous questions with insurance industry representatives, and we hope that enough time will be given for a proper impact assessment and fine tuning of the proposal to reach its target. We believe that there are ways to deal with these issues in a sensible manner and timely fashion: - Any proposed HLA should ideally be based on existing capital frameworks (e.g. RBC in the US or SCR under the Solvency II framework) in order to take into account capital charges already applying to certain systemic risks identified by the IAIS and avoid conflicting compasses to manage and assess both capital resources and requirements. In addition, this approach would be a smart way to overcome the limitations and deficiencies of the BCR; - Should such an approach not be retained by the IAIS and the FSB, the revision of the calibration of the BCR as proposed in the HLA consultation is inappropriate: the suggested uplift which is based on speculation about what the future calibration of the ICS might look like is ignoring all the limitations of the BCR and the conflicting issues which will unavoidably arise from the interplay between such uplifted BCR and existing solvency ratios; - The calibration of the HLA should be proportionate to residual risks resulting from well-defined systemic activities, explicitly recognizing existing capital and regulatory frameworks. The percentages which are set out in the HLA consultation (ranging from 10 to 20%) appear to be by far too high when compared to such residual risks. - There should be a link between the designation methodology, the enhanced supervision and the capital charge which would incentivize G-SIIs to implement the most appropriate risk management actions and be able to go off the list, as the case may be.
10	**German** Allianz Non-member	We welcome that the IAIS exposes further details of its considerations on an HLA framework for public consultation. We agree with the high level comments made within the European GSII response. Here we set out more specific points. In considering our answers it is important that they are viewed as a whole, and not individually in isolation of each other. In this context it is worth recalling that capital requirements are complementing the GSII framework's qualitative policy measures (such as enhanced supervision, the preparation of systemic risk management plans as well as recovery and resolution plans and liquidity management plans) to address remaining systemic risks.
11	**Germany** GDV - Gesamtverband der Deutschen	We understand the approach chosen, but already want to highlight some risks and inconsistencies that will be further elaborated in the following sections:

	Versicherungswirtschaft Non-member	- Considering the risks of unintended incentives coming from the uplift of the BCT, please see or comments on Question 12, Section 4.3; - Considering inconsistencies in the HLA-calibration with regards to the 20 % on average, please see our comments on Question 17, Section 5.4 - Considering the open character of this consultation, we believe that further stakeholder engagement in the development should be envisaged; please see our comments on Question 9, Section 3.7; - In general, we support the intention of basing the HLA on a more sophisticated risk-based standard, yet, at this early stage of the ICS development, its future interaction with the HLA should not be finally decided on; please see our comments on Question 7, Section 3.5.
12	**International** International Actuarial Association Non-member	Although Section 2.1 on the whole is quite clear and succinct, the following are key topics where improved clarity would be helpful. Paragraph 11 includes the statement that the HLA will not exceed 20% on average for G-SIIs. While there is some material supporting the rationale for this amount later in the document, Section 2.1 does not provide a context for this key aspect of the HLA. In particular, how was this amount determined? Paragraph 12 speaks to the need to balance three key policy objectives, one of which is "risk sensitivity". This term can have many meanings for various readers but it is not defined in the document. Is it a reference to the ability to capture accurately the risks of a G-SII, some of which are complex and very material but which are not well captured by simple approaches? Is it a reference to formula stability under different scenarios in a way that is to address concerns about pro-cyclicality? Is it a reference to aligning risk management with risks assumed? o There is little discussion in the consultation document of the meaning or intent of this term. Even HLA Principle 2 - G-SII Risks states only that "the HLA should reflect the drivers of the assessment of G-SII status" and that "these drivers are indicative of the risks…. [of] the HLA". We believe, given its importance, that further elaboration of this term would be of benefit. Given that the insurers in question are the world's largest, many outside observers will expect the consultation to address the best ways to provide an additional buffer reflective of each G-SII's specific risks, as opposed to the drivers that have made it classified as a G-SII. If this is not the goal of the HLA, then its true purpose should be stated clearly in Section 2.1. For example, a statement that the HLA is "to reflect the drivers of the G-SII status, not necessarily the specific risks undertaken by each G-SII" would be useful. Lastly, Section 2.1 fails to mention whether it is intended that there be a connection in overall design between the BCR and the HLA. If the HLA is to be built on top of the uplifted BCR (as seems to be intended), there is no articulation of the

		manner in which the design of each is to be complementary or the incentives for risk management they promote (directly or indirectly) for G-SIIs. We believe it would be appropriate for the final HLA design document to include a reference to the fundamental design decisions included in the combined BCR/HLA package, including the decision regarding the foundational financial statements being used.
13	**International** Joint response from Allianz, Aviva, Generali and Prudential plc Non-member	Allianz, Aviva, Generali and Prudential (four of the five European GSIIs) are submitting this supplementary response, to the European GSIIs response, to the IAIS's Higher Loss Absorbency consultation paper of June 2015. We agree with the high level comments made within the European GSII response and therefore are not repeating those comments here. This supplementary response sets out our collective answers to the questions contained in the consultation paper. In considering our answers it is important that they are viewed as a whole, and not individually in isolation of each other, particularly given the interplay between the use of buckets and gamma to provide sensitivity.
14	**International** Joint response of the European GSIIs, Allianz, Axa, Aviva, Generali & Prudential Non-member	European GSII response to HLA consultation paper Introduction Thank you for the opportunity to provide our feedback to the Higher Loss Absorbency consultation paper of June 2015. We value the opportunities for engagement provided by the IAIS throughout the development of the GSII policy framework. This reflects positively on the common interest we share in protecting our policyholders and improving financial stability. It also creates an environment for better coordinated supervision and more effective regulation. The responses provided below reflect the common viewpoint of Allianz, Aviva, Axa, Generali and Prudential the five European GSIIs and should be read in addition to any additional submissions provided by any individual firm. The comments provided herein are - as with the HLA itself - subject to refinement as we are provided with further information and clarification on some of the key outstanding issues around the GSII policy framework including the consultations on designation methodology and NTNI later in the year. We discuss this in more detail below, but logically the HLA should be designed once the key outstanding matters are addressed appropriately. However given where we are in the timeline as a minimum it should be revisited once further progress is made. The consultation paper provides various directions on several key aspects on how the IAIS intends to design the higher loss absorbency framework. We find it challenging to provide definitive comments on the consultation in light of the moving parts underlying both the conceptual framework and the formula, but as stated above would welcome the opportunity for further engagement as these outstanding points are finalised. We welcome the reiteration that the insurance model is different from banking and that there is little evidence that

		traditional insurance either generates or amplifies systemic risk. However, in the absence of evidence on what are the systemic risk drivers in insurance, be it through the NTNI concept or otherwise, any read-across between the systemic exposures of GSIIs and GSIBs should be treated with caution. The recent consultation and discussions on the systemic implications of NBNI activities should also be taken into consideration in the reflection on the design of HLA, in particular the fact that an activity-oriented regulation might prove to be more efficient than an institution-oriented regulation which in addition is suffering from a lack of transparency. Furthermore, decisions must be taken on the pending inclusion of reinsurance activities in the scope of the systemic insurance framework. Accordingly, we embrace the decision for a period of reflection and refinement until 2019 during which HLA will be privately reported. As large listed companies we are subject to scrutiny from the market on our solvency and financial positions. Any HLA proposal endorsed at G 20 level is unlikely to be seen as a temporary measure and the market may question the interplay between the BCR/HLA and the current regulatory requirements. Clearly, further data points are needed to improve the robustness and understanding of the sensitivity of this proposal, ideally before official endorsement. In summary our key messages are as follows: - The focus for HLA should be on activities that give rise to systemic risk (NTNI) - To achieve the stated FSB objectives it is important that the application of HLA is clearly targeted at activities that have the potential to give rise to a systemic impact to the global financial system, whether they are conducted insider or outside of a designated GSII. This has been recognized in the recent FSB & IOSCO considerations for Non-Bank/Non-Insurers and we have no reason to doubt that such an approach would be relevant for GSIIs. In passing, we also note that pension funds were excluded from the scope of the FSB initiatives. - Calibration of HLA is too high and unlikely to contribute to financial stability - The proposed calibration targets for HLA need to be relative to the level of systemically risky activities undertaken. GSIIs, are far less systemic than GSIBs given the nature of the business model. The IAIS and the FSB have recognised that traditional insurance business does not give risk to systemic risk and insurance groups do not pose the same level of systemic risks as banks (for whom the full balance sheet may be systemically risky).The current proposed calibration targets are far too high in this respect since they do not reflect such differences between banks and insurers and therefore should be materially lower than the uplift applied to the smallest of the GSIBs.

		- BCR + HLA is a blunt tool - The proposed uplift to the BCR will amplify the inherent weaknesses in its design, given that it was necessarily a blunt risk insensitive factor based measure and was calibrated at a low level accordingly. The timing for the HLA development and finalisation does not allow for conducting any sensitivity analysis of the options in the consultation paper. This could lead to unintended effects, pro-cyclicality, and prove a significant challenge to manage the business under metrics which will not act in the same way or in the same proportion under different market conditions and can lead to conflicting risk management incentives. - Key aspects are still under development -There are various factors relevant to the construct of HLA that have yet to stabilise, in particular the IAIS's review and consultation on the designation methodology and NTNI which we understand will be issued in November. This makes it difficult to fully assess the potential impact of the proposed policy measures at this time. Important aspects of the overall framework remain unaddressed such as the perceived transmission mechanism for systemic risk in insurance and the role of capital in this regard. We also have strong reservations over the rationale to designate entities rather than activities as systemic, and the designation methodology which is heavily influenced by the size of an insurer's traditional business, the definition of NTNI, and ranking GSIIs against their peers rather than an objective measure of risk. Finally, the timing for the HLA development does not allow conducting and sensitivity analysis of the options in the consultation paper. We elaborate further on some of these points in our general comments below. Focus should be on activities that give rise to systemic risk (NTNI) It is essential that the sensitivity of HLA to potential systemic risk is maximised. The consultation has identified buckets and Gamma/scale factor as a means to introduce sensitivity to these activities. We fully agree upon focussing HLA design on systemic activities and elements of the proposed formula may contribute to this objective. However, they are intrinsically linked to the designation methodology and the definition of NTNI which are both subject to ongoing development and consultations later in the year. In addition, if the intended impact is to make the financial system safer and more robust the focus of HLA should be on activities that give rise to systemic risk wherever they are undertaken. An approach focused on entities rather than activities and which is applied to the traditional insurance activities which are recognised as not being systemic will not be effective in mitigating systemic risk. We would ask the IAIS to take note of the ongoing debate in relation to Non-Bank/Non-Insurance GSIFIs in this respect and their focus on activities. Therefore, a clear focus is needed on potential systemic activities, where capital is targeted at activities which enables

		management to take informed decisions on the costs of undertaking such activity and can provide an appropriate disincentive, where required, in line with the IAIS's policy aims. If HLA is not focused on this, such activities will migrate to non-designated or non-regulated entities. The approach also does not address the issue of systemic activities carried out in non-GSII firms. We recognize that the use of a range of buckets to reflect sensitivity to potential systemically risky activity when based on the GSII designation methodology is similar to the approach taken to GSIBs, where a range of buckets can be used to achieve sensitivity between entities, however the bucketing is based on a ranking from an un-clear methodology which is still under review. To date, no firm knows how it ranks against the others and the current scoring methodology is based on position relative to the sample of insurers who are considered for designation. This makes an insurer's score dependent on other companies' activities and does not necessarily reflect the insurers' level of systemic activities. The effectiveness of the bucket approach is hence clearly contingent on the adequacy of the designation methodology. Therefore, if the bucket approach is pursued for GSIIs it is important that the revised designation methodology addresses the current designation limitations, is transparent, explains the transmission mechanisms, addresses both insurance and re-insurance appropriately and is focused on systemic activity not size per se which actually contributes to financial stability through diversification. The IAIS should also seek to achieve greater variation, taking up the suggestion that a greater number of buckets will allow for some buckets with enhanced supervision and no HLA - obviously capturing a broader number of firms with systemically risky activities. The use of the Gamma and Scale Factor proposed by the IAIS would reflect sensitivity to the different levels of NTNI undertaken by different GSIIs, with a gamma of one achieving the most focus on systemic activities. This goal is shared by the industry. However, based on the current proposed calibrations/factors in the consultation paper it can lead to a wide spread of results. Therefore its use is contingent on a more appropriate calibration target for HLA, which would reduce this spread, and a cap to ensure that the uplift is not disproportionately high. The refinement of both the designation methodology and the NTNI definition is a prerequisite for the development of an HLA with greater risk sensitivity specifically focusing on activities. For both potential approaches an objective measure of systemic impact needs to be provided rather than ranking designation scores against peers. The current relative assessment between GSIIs means that if all GSIIs reduced systemic activity proportionately there would be no change to HLA and hence no incentive to manage systemic risk. If one GSII reduces systemic activities other GSIIs will become "more systemic". We cannot see the logic or fairness in this approach. A firm's ranking and overall assessment should be based on objective criteria, irrespective of the competitive landscape. The "averaging" approach used by the IAIS with the relative score of GSIIs derived from the designation methodology

		does not appear to be appropriate. It is not conducive to reflecting the true systemic risk profiles of each GSII and makes such calibration contingent upon the characteristics of the considered sample of GSIIs. This approach does not give the right incentive to de-risking and reducing systemic risks. Calibration is too high given low systemic risk in the industry The proposed calibration targets for HLA need to be proportionate to the level of systemically risky activities undertaken. GSIIs are far less systemic compared with GSIBs. The majority of GSII activity is traditional insurance business which is not a source of systemic risk, with NTNI activities contributing only c.20 % to the BCR (including 5% only to "NT" activities). The current HLA proposal sets calibration levels at 10-15%, with on average no more than 20% across the GSIIs. However, in comparison to GSIBs this is dis-proportionately higher given by the nature of their business model, GSIBs are 100% systemic. A logical outcome of this fact should result in a relatively lower capital surcharge compared to banks but this is not the case. The calibration targets for HLA proposed (10% and 15%) are close to the minimum GSIB bucket (12.5% equivalent), yet the potential levels of systemic activity in insurers is likely to be significantly less than in banks, given the above. Accordingly, the current proposed calibration targets are too high in this respect. If a comparison between the GSIBs and GSIIs were being made a more comparable basis for an HLA charge would be 20% of 12.5% GSIB uplift which would indicate that the entry GSII bucket should be 2.5% rather than 10%. BCR is a blunt tool The BCR is a very basic and risk insensitive measure, and was thus calibrated at its current level since it did not explicitly take account of insurers' asset liability management and diversification.It remains important that the risk insensitivity of the BCR is revisited in relation to the Discount Rate in particular. Increasing the BCR by 133% so that it is equivalent to average PCR is disputable as a valuable metric used to calibrate the BCR. It also amplifies its weaknesses and could create potential unintended effects in crisis times with potential pro-cyclical effects It could therefore contribute to, rather than mitigate, potential systemic risk. Given that the uplift to BCR puts it close to PCR there is a risk that the difference in risk sensitivity could mean that the two measures could move in different ways or not in the same proportion in a crisis. While designed differently, various risk sensitive economic metrics are applied across the world such as the Solvency 2 framework in the EU as from 2016 or the RBC in the US. GSII's management cannot run a business with two very different bases and there is currently no assessment and understanding on how these bases would react to changes in

		market conditions and what would then be the expectations from supervisors. It is important to avoid potentially conflicting risk management incentives. Therefore BCR + HLA should not become a binding measure that must be met in all circumstances. The BCR+HLA framework should not give rise to an uneven level playing field with other regulated sectors. As regards Asset Management and Regulated Banking activities sectorial charges should apply, with no HLA assessed unless these activities separately qualify for HLA under the respective sector's systemic regulation. In addition, whilst BCR and HLA are focused on required capital, the IAIS is also looking at definitions of capital resources as part of its work on the ICS and ComFrame. We welcome the fact that capital resources for HLA purposes are based on the definition set out in the BCR technical specifications. Given the relationship between required capital and capital resources for BCR+HLA purposes, it is important that the definitions of capital resources within the BCR are not changed otherwise the ratio, if and as endorsed by the G 20 in November, could be altered. We also continue to consider it essential that transitional/grandfathering provisions in relation to capital resources are introduced. Stability of the foundations on which HLA is being built We appreciate the need to develop this framework in line with FSB established priorities but it must be acknowledged that the two outstanding areas of consultation: GSII assessment methodology and refinement of NTNI make a proper assessment of this proposal challenging. In particular the review of designation methodology is a fundamental aspect which underpins the view on bucketing while the NTNI review will impact the approach to the gamma. A fuller discussion and review of these elements will greatly enhance an analysis of the balance being targeted with this current construction. We continue to consider that the GSIIs policy formulation lacks a detailed analysis of what systemic activities are found in insurers, where they are found and how the policy goals of the GSII project can best be achieved. The industry and the supervisory authorities require a clearer understanding of systemic risk within the insurance sector. Little analysis and research has been done, for example, on transmission or contagion and we would seek to address this with an open and ongoing dialogue with the IAIS. This clarity will also better equip insurance groups to reduce the amount of systemic risk that they create and also a glide path for coming off the GSII list. In the same way, a more thorough analysis of systemic risk in the insurance industry and the means of mitigating and preventing its transmission may allow for the development of other means than capital surcharges to achieve the GSII policy aims. In this respect it should not be presumed that HLA should apply to all designated entities, as other policy measures are likely to be more appropriate to mitigating potential systemic risk.

		Finally, in developing its approach to HLA the IAIS should be mindful of industry developments over the past decade - particularly in the European context where Solvency 2 has moved from aspiration to implementation as well as regulations such as Dodd-Frank in the US or EMIR in Europe. The policy environment is now very different, with measures introduced by the FSB and others to address or implement central clearing of derivatives and haircuts for collateral for securities lending to name but two. Moreover, the framework for enhanced supervision is filling important gaps and without question helping to make the insurance sector a leader in robust risk management. The IAIS should be willing to accept that the measures taken to date has had an impact and the quantum of systemically risky activities undertaken by the insurance industry may now be lower than pre-crisis levels and the insurance groups' understanding and risk management of these activities are now enhanced. Conclusions We urge the IAIS to give due consideration to the issues we have raised. Any HLA should be focused on activities that give risk to systemic risk regardless who undertakes such activities. The calibrations should be proportionate to the residual risk arising from clearly, properly and transparently identified systemic activities and recognise that the core activities of insurance do not give rise to systemic risk. The link between enhanced supervision, which we fully support, and capital charges should be fully understood and the right incentives put in place to limit or reduce systemic risk.
15	**Japan** The Life Insurance Association of Japan Non-member	[Surcharge placing emphasis on the NTNI activities] ·The level of capital surcharge should be determined by placing emphasis on the amount of NTNI activities and in accordance with systemic risk profile of the insurer. (Please refer to the answer for Question 2.) ·As the IAIS has indicated in the past, we recognise: "Traditional insurance activity is unlikely to be a source of systemic risk. However, Non-Traditional and Non-Insurance activities within an insurance group are likely to generate or amplify systemic risk." [Issues resulting from relative evaluation] ·We would like the IAIS to consider the review of G-SII Assessment Methodology to improve foreseeability, considering the following issues resulting from relative evaluation of scores, (i.e. the buckets are determined by comparison between the individual G-SII's full score and the average from the assessment methodology for all insurers participating

		in the assessment.) -In spite of its reduction in NTNI activities, an insurer would remain in the higher bucket and would continue to be required to have a higher surcharge, when other insurers also reduce their NTNI activities. -Some insurers would continue to be designated as G-SIIs even when the systemic importance of the insurance sector as a whole decreases. [Calibration of the surcharge level] ·We support the idea that the HLA calibration level should not exceed the relevant regulated banking requirements, recognising the difference between insurance sector and banking sector in considering the HLA calibration level. Meanwhile, we do not agree with "the calibration level that does not exceed 20%." We believe that it is overly conservative compared with G-SIBs' surcharge level in preceding requirements for banking sector. ·We support the idea that the HLA calibration level should not exceed the calibration level of the relevant regulated banking requirements, recognising that traditional insurance activities are, unlike banking activities, not inherently systemically important in the financial system. ·However, we do not agree with "the calibration level that does not exceed 20%." It is stated in the Annex F that "the calibration level that does not exceed 20%" is typically comparable with the G-SIBs of the lowest banking group, but that level is calculated with the assumption of Basel III capital ratio of 8% of Risk Weighted Assets (RWA). The actual PCR level of banking sector is 10.5%, together with 2.5% capital conservation buffer. For insurance sector, therefore, "the calibration level that does not exceed 15%" is reasonable. (1.5% / 10.5% is approximately equal to 15%) ·Also, traditional insurance activities are, unlike banking activities, not inherently systemically important in the financial system. We believe that requiring the above calibration level to be applied to the overall risk including traditional insurance activities' risk is overly conservative, and therefore, we do not agree with the idea. ·We are concerned that overly conservative calibration level may have adverse effects such as undermining both policyholders' and investors' interests by deteriorating capital efficiency. In addition, there is a concern that introduction of the one-size-fits-all regulation without considering the insurers' systemic risk profile may amplify systemic risks through procyclicality. ·In light of the above, we believe that it is reasonable to set the factors for populated buckets between 5% and 10%, and the emphasis should be placed on NTNI risks when multiplying the subjects by the factors. Besides, we believe that further discussion is needed on the specific calibration level of the HLA, taking into consideration the original goal of the HLA which is to address systemic risks.

		[Possibility of changing the level of surcharge and conditions to change such a level] ·HLA calibration level is likely to have significant impact on each insurer's management strategy and capital policy. We believe that the possibility of changing the prescribed calibration level and the conditions to change such a level (e.g. the level may be reviewed in accordance with changes in banking sector regulation) need to be presented by the IAIS in advance.
16	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	The concept of the "BCR uplift" concerns us, as it appears to effectively recalibrate the BCR at a significantly higher level. Given the deliberately simplistic construct of the BCR and the limited field testing performed on this metric to date, recalibrating the BCR as a higher prudential standard may result in misleading conclusions that do not accurately reflect a G-SII's risks. A simple factor approach, such as that used in the BCR, cannot be a precise measure of solvency. As a result, an uplifted BCR that is calibrated to a more stringent capital standard may generate a high level of false positives, in which capital appears deficient in contrast with a more risk-focused approach. As such, the use of an uplift is inconsistent with the design and intention of the BCR. We recognize that the intent of the uplift is to anticipate the expected calibration of the insurance capital standard (ICS). While we understand that achieving rough comparability between the calibration of the BCR and the ICS would be advantageous, as discussed above, the BCR is designed in such a way that it is unlikely to function effectively as a temporary prudential capital standard. In contrast, although it is still under development, we expect that the ICS will be far more granular and responsive to risk, as well as subject to more robust and extensive field testing. For these reasons, it would be better to design and calibrate the initial HLA with a focus on NTNI risks to augment the existing BCR. Once the ICS is implemented, the HLA can then be recalibrated as necessary to appropriately reflect the calibration of the ICS. If the concept of the BCR uplift is retained in the initial HLA, it should be eliminated once the ICS is in place. As such, this document should explicitly label the BCR uplift as temporary to avoid confusion.
17	**Switzerland** Swiss Re Non-member	Swiss Re would like to thank the IAIS for the opportunity to provide feedback on the proposed HLA methodology. Swiss Re welcomes an ongoing constructive dialog with the IAIS on the HLA as well as the wider issue of systemic risk in insurance. Swiss Re appreciates the acknowledgement by the IAIS that traditional insurance business hardly adds to systemic risks - this case has been well articulated in several publications, e.g. IAIS "Insurance and Financial Stability" (2011) and "Reinsurance and Financial Stability" (2012). The collapse of an insurer does not normally lead to contagion, and externalities typical in the banking sector are very limited in insurance. Size of traditional insurance business is a prerequisite for diversification and therefore for effective loss absorption.

		Insurers add to systemic risks, if at all, by carrying out certain Systemically Risky Activities which are a subset of the NT and NI activities. Systemically Risky Activities can be carried out by insurers who are designated G-SII as well as those who are not. The IAIS should focus on identifying those NT and NI activities that pose systemic risk. Ideally, HLA must be determined based on the economic cost of Systemically Risky Activities, but irrespective of the size or designation of the insurer.
18	**U.S.** American International Group (AIG) Non-member	August 20, 2015 Yoshihiro Kawai, Ph.D. International Association of Insurance Supervisors Bank for International Settlements CH-4002 Basel Switzerland Re: IAIS Higher Loss Absorbency (HLA) capacity for Global Systemically Important Insurers (G-SIIs) Public Consultation Paper from June 25, 2015 Dear Dr. Kawai: American International Group, Inc. (AIG) thanks the International Association of Insurance Supervisors (IAIS) for this opportunity to offer comments on the Higher Loss Absorbency (HLA) capacity for Global Systemically Important Insurers (G-SIIs) Public Consultation Paper dated June 25, 2015. We value both the IAIS and US regulatory authorities' continuing engagement with industry and other stakeholders on these matters. We believe that our discussions to date have been a constructive dialogue which has brought much-needed transparency to the process and will hopefully improve the HLA construct, now and in its future evolution. We support the development and implementation of macroprudential standards that address, deter, and disincentivize the build-up of potential systemic risks within the financial system. If properly designed and responsibly implemented, we believe that such standards can strengthen our companies in the long run, and can appropriately sustain and enhance global consumer confidence in the insurance industry as well. We provide our views on the HLA proposal in the context of the wider IAIS initiative to develop sustainable and meaningful global group capital standards for the insurance industry, in particular the ongoing development of the Insurance Capital Standard (ICS). As we noted in AIG's February 13, 2015 comment letter on the ICS Public Consultation Document, we view it as critical that "a viable and productive ICS be designed and administered in a way that allows it to be aligned with the consolidated capital standards that the Federal Reserve is developing for nonbank

		systemically important financial institutions (SIFIs) in the United States." The same holds true for the HLA. We believe that the current iteration of the HLA proposal can serve as a useful preliminary anchoring point for the IAIS's interdependent work on revisiting criteria for defining non-traditional insurance and non-insurance (NTNI) activities, as well as its methodology for designating insurers as G-SIIs. These three initiatives - HLA design and calibration, NTNI definition, and G-SII assessment methodology - are all tightly woven together in substance and mission. Having a well-defined initial HLA proposal will help to illustrate the interplay between these core components of the collective policy measures to identify and address systemic risk. These measures - when coupled with a still-maturing ICS and the forthcoming US Federal Reserve construct - should be developed and assessed as an integrated whole in order to ensure their consistency, completeness and instrumentality to policy objectives. The Federal Reserve's evolving stress testing and capital planning program is one such important tool for the identification and monitoring of potential vulnerabilities and emerging risks across the financial system; so too is the broader prudential supervision of the SIFIs such as AIG. We believe that a well-designed HLA, crafted to both reflect and complement stress testing and other macroprudential safeguards, can serve a constructive policy purpose by identifying appropriate additional capital charges in an amount calibrated to, and consistent with, the potential for incremental systemic risk posed by certain activities and risk attributes. Such policy tools are particularly useful in identifying and addressing activities such as reliance on short-term wholesale funding, excessive leverage and unhedged or unrecognized risk exposures that the financial crisis revealed as drivers and accelerants of generalized market distress in multiple sectors of the economy. While we share many of the concerns expressed by other firms and trade organizations in response to the Consultation Paper, we have chosen here to focus on the one aspect of HLA that seems most immediate in its impact and most readily amenable to productive modification: calibration. Although we support the concept of an HLA that is appropriately integrated into other capital and macroprudential standards and supervision, we believe that initial calibrations of HLA should be substantially more modest than the current draft of the HLA proposal contemplates. We disagree conceptually with the proposed HLA calibration approach of positing upwards of a 20% HLA and then back-solving for an approach that meets such a predetermined outcome (see §5.4, HLA Consultation Paper). Lower initial HLA calibration would still enable the near term implementation of systemic safeguards, facilitate their productive integration into group capital standards and group prudential supervision, and promote their evidence-based evolution and improvement. Notwithstanding the best intentions of regulators and industry, the potential for miscalibration at the outset of a process that is designed and intended to be an evolving one could trigger unanticipated

		and potentially undesirable market consequences without providing a material countervailing benefit to prudential safety. A more appropriate initial benchmark would be an important first step towards the longer term goal of establishing a calibration that would bind where relevant, but not otherwise. We believe that the IAIS's pre-determined calibration assumptions would benefit from a more nuanced and evidence-based assessment of the degree and quality of potential systemic risk exposure generated by current insurer risk profiles and activities. In our view, the IAIS's proposed calibration approach is premised on an unsubstantiated scalar and potentially overcompensates for the limited current G-SII exposure to the activities that the IAIS has deemed systemically-risky (as measured by the 2014 Basic Capital Requirements (BCR) Field Test). While we recognize that any rulemaking must start somewhere, we urge that a (necessarily) unsubstantiated initial calibration at this high a level creates a real risk that the proposal may in practice impede the fundamental goal of developing an HLA that is (a) aligned with the underlying potential for systemic risk exposure; (b) can be readily integrated into the evolving structure of ICS and Federal Reserve group capital constructs; and (c) minimizes the risk of unintentional market disruption. We believe that our own experience at AIG is directly apposite to consideration of the calibration question, and we share it here in that spirit. The HLA calibration assumptions in the Consultation Draft, if anchored in a meaningful measure of systemic risk exposure, might well have been appropriate to apply to the AIG of 2007, regardless of their potential to drive unlooked for market and product disruptions. But they do not appear to explicitly acknowledge and/or recognize the remarkable actions that we have taken to de-risk our activities since the financial crisis or the integrated and ongoing development of other macroprudential standards and oversight, for AIG and for all G-SIIs. Since the crisis, we at AIG have significantly reduced our potential systemic risk footprint and strengthened our financial position and focus on core insurance operations. Key metrics include: - Repayment in full of the US government lender's stake in AIG, with a profit to taxpayers of roughly $23 billion; - A roughly 99% reduction in securities lending, repo usage, and commercial paper / extendible commercial notes since end-2007 (e.g., securities lending totaled $82 billion and repo $8 billion at end-2007, but are presently de minimis); - A 92% reduction in total gross notional derivatives, from $2.7 trillion at end-2007 to $225 billion as of mid-2015; - A nearly complete elimination of exposure to super senior credit default swaps (CDS), inclusive of multi-sector, corporate arbitrage, and regulatory capital CDS, from $310 billion at end-2007 to about $1 billion at end-March 2015;

		- An 83% reduction in total debt, from $176 billion at end-2007 to $30 billion as of mid-2015; - An 84% reduction in AIG's debt-to-equity since end-2007; and - A 50% reduction in the ratio of total revenue to shareholder's equity since end-2007, reflecting AIG's prudent business volume generation relative to our strengthened GAAP equity base, which stands at $104 billion at end-June 2015. AIG's meaningful financial de-risking has been buttressed and informed by significant investments in revamping our enterprise risk management (ERM) organization, analytical capabilities, and governance. While we cannot speak with detailed knowledge, we know that this evolution is likely characteristic of the governance of our SIFI and G-SII peer companies as well. In concert with our internally-motivated initiatives to build ERM into a core institutional competency, which we view as fundamental to sustainable and risk-aware business decision-making, AIG and the other insurance SIFIs are also subject to the Federal Reserve's prudential group-wide supervision and regulation. This encompasses ongoing on-site monitoring by regional Federal Reserve examination teams, comprehensive stress testing and capital planning assessments, and recovery and resolution planning. Similarly intensified focus on group supervision and capital management is also a focal point for national supervisory authorities of the G-SII companies as well. In a meaningful, practical sense these mutually reinforcing disciplines of a significantly de-risked enterprise, strengthened risk management capabilities, and group-wide prudential oversight substantially help to mitigate potential systemic risk exposure. While they do not eliminate such risk altogether, they are not, we suggest, irrelevant to the regulatory decisions as to where to begin calibration of an HLA construct that is designed to evolve as part of an integrated macroprudential architecture. The IAIS's proposed approach, as stated in the HLA Consultation Paper, is to develop an HLA methodology that adjusts for the "low" proportion of required capital consumed by NTNI activities within the 2014 BCR Field Testing exercise. Notwithstanding the acknowledged shortcomings and lacunae in the current criteria for determining NTNI (which the IAIS is revisiting later this year), this evidence of relatively limited current G-SII exposure to what the IAIS has defined as systemically-risky activities should be further evaluated as part of the overall HLA calibration process. If indicative of a low degree of insurer exposure to the potential for systemic risk presently, then a more effective calibration approach would be to disincentivize a potential future build-up in these and other forms of systemically-risky activity, rather than to run the significant risk of overcompensating for this low (and desirable) current reading with a more aggressive factor calibration. Such overcompensation could pose an attendant and non-trivial risk of creating unintended market disruption

		and unquantifiable market impacts on insurance product availability and pricing, particularly since HLA by design applies to only a small group of market participants. In our view, a more promising avenue would be for HLA policymakers to turn their initial focus to these pre-crisis conditions and forms of risk-taking that by experience have demonstrably contributed to, and exacerbated, financial system stress during the crisis. A focus on the known root causes of financial system stress, including on the particular activities that were revealed by the experience of the crisis to be accelerants of systemic pressures, would drive a policy outcome that is instrumental to disincentivizing activities demonstrated to be systemically risky. An effective HLA calibration should constrain systemically-riskier activities that were accelerants during the financial crisis - activities such as poor or inadequate risk management, excessive usage of short-term funding and leveraged exposure. These systemic risk drivers are not as prevalent today, but policymakers nonetheless should discourage their re-emergence in the future. An inappropriately high but untailored initial calibration could also create inapposite or unwarranted incentives. As an example, the Consultation Paper emphasizes that a core objective of HLA is to neutralize the potential benefits (e.g., lower funding costs) associated with G-SII status. This would be a reasonable policy goal if there were any significant reason to believe such potential benefits existed. AIG's experiences lead us to be very skeptical that they do. AIG firmly believes that it is our successful repayment to US taxpayers, our significant de-risking and stronger management governance, and our strong capital position, rather than our nominal G-SII or SIFI designations, that are the primary drivers of our competitive funding access. We believe that virtually every securities analyst who follows these matters would agree; indeed a prevalent comment from the analytical community revolves around the burdens of such designation, not the benefits. An unsubstantiated and, in our view, erroneous conclusion that AIG derives a funding advantage from its designation as systemically-important could obversely lead to the imposition of a charge for the risk-mitigating actions that our management has taken to enhance our financial strength, to no discernible systemic benefit. These are not the incentives thoughtful stakeholders should want to see embedded in HLA. Moreover, HLA miscalibration could pose unintended market consequences at a product-level, particularly if additional activity-specific HLA charges are layered on top of "standalone" BCR or ICS risk charges that may already embed an appropriate degree of conservatism for the perceived systemic risk or financial risk factor correlation of that activity. Thus although we believe that there is much further work to be done to adapt the current HLA proposals to a wiser and more integrated role in the prudential supervision of insurance group capital, we believe that more moderate calibration is the place where that discussion should begin. AIG believes that modesty in initial calibration is an essential building block towards the development of a sustainable and meaningful HLA construct.

		Given the economic de-risking, the improved governance and risk management, and the heightened prudential supervision now in place for all G-SIIs, we suggest that greater modesty of calibration would provide an appropriate measure of immediate mitigation of potential systemic risk, without incurring unnecessary risks of market and product disruption or skewing the later development of the ICS and the FRB capital standards. This way forward, we urge, will provide better support for the productive evolution of all the integrated components of the regulatory construct. Very truly yours, Daniel L. Rabinowitz
19	**U.S.A.** ACLI Non-member	The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 284 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security . ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of U.S. industry assets and premiums. We appreciate the IAIS' ongoing commitment to dialogue in the development of the HLA consultation. We offer the following comments on the IAIS June 25, 2015, Higher Loss Absorbency Consultation Document ("HLA Consultation") soliciting input on a potential HLA standard for Global Systemically Important Insurers ("G-SIIs") identified according to the IAIS Initial Assessment Methodology for G-SIIs (the "Assessment Methodology") and G-SII Policy Measures issued in 2013. We have threshold concerns that fundamental elements on which the HLA proposal rests are still under development. Both the Assessment Methodology and the underlying category of non-traditional Insurance and non-insurance ("NTNI") activities used in assessing systemic risk are subject to reconsideration in the near future. Clearly the HLA proposal could benefit much from the completion of the work on the definition of systemically risky activity and the Assessment Methodology. Both of these initiatives will have material impact on the capital requirement outcomes set by any of the proposed HLA constructs. Indeed, certain members feel so strongly against proceeding before this work is complete and exposed for comment that they call for a delay in seeking FSB and G20 approval of the HLA proposal. Such a delay would allow domestic regulators who are developing or on the verge of implementing solvency frameworks in their jurisdictions to move forward unhampered by a framework that could substantially change on the basis of the IAIS ongoing review of its Assessment Methodology and definition of NTNI. If a delay is not granted the IAIS, FSB and G20 must allow for significant flexibility in the HLA construct to allow revisions following its approval and endorsement in November 2015. This can be achieved by the IAIS clearly stating and reaching agreement with the FSB, G20 and stakeholders that at present they propose an HLA "skeleton" framework as

		opposed to a static/concrete HLA standard. This framework will evolve into a requirement once the results of the consultations on G-SII methodology and NTNI categories are finalized and incorporated into the HLA construct by 2019. The IAIS should also agree to further consultations with the public as they continue their work to finalize the HLA construct. Significant questions remain about what constitutes systemic activity; whether the current NTNI delineation is a good proxy for risk, let alone systemic risk; and whether requiring additional capital is the best measure for achieving the stated goal of reducing systemic risk. We believe it is in the interests of all concerned to better understand the potential systemic exposure from the insurance sector and whether the HLA is indeed the best risk management tool. Another concern with the current proposal is that the Basic Capital Requirement (BCR), the basis for the HLA, is extremely volatile, and the proposed uplift to the BCR will amplify the inherent weaknesses of a necessarily risk-insensitive, factor-based measure that was calibrated at a low level accordingly. This could lead to unintended effects and pro-cyclicality. Another concern is that the HLA Consultation suggests that HLA capital levels are based on a relative ranking of G-SIIs against their peers. This introduces the possibility that de-risking by a G-SII may not lead to a decrease of its HLA capital charge. This makes it difficult for a G-SII to forecast its capital needs. In the HLA Consultation, the proposed HLA calculation methodology would base a G-SII's HLA requirement, in significant part, on its NTNI activities. We understand that the IAIS will be considering revisions to both the Assessment Methodology and the categorization of NTNI activities used in the Assessment Methodology and G-SII Policy Measures, with proposed revisions expected to be proposed for comment in November of this year at the earliest. The Assessment Methodology and what will be considered NTNI activities will have a substantial impact on any ultimate HLA standard. We believe that a thorough analysis of what activities may result in systemic impact should occur prior to a final determination that HLA is the appropriate risk management tool. We also believe that the current NTNI category includes products or activities that create less risk when properly managed than some traditional insurance activities or products and the current categorizations in the Assessment Methodology unduly penalize U.S. products. We urge the IAIS to consider these HLA architecture issues carefully and deliberatively with the benefit of a thorough threshold analysis of what activities may result in systemic risk. We appreciate your consideration of our views and look forward to further discussion.
20	**United States** Metlife Non-member	MetLife appreciates the opportunity to comment on the higher loss absorbency (HLA) proposal as part of the IAIS's ongoing work to develop appropriate insurance standards. We recognize the hard work and commitment on the part of the IAIS and commend the work stream leaders and their teams for their effort.

		We understand the constraints on the IAIS to complete an HLA proposal for endorsement by the G20 in November 2015. That said, we must emphasize our view that adhering to a timeline is not advisable in cases where the IAIS would be moving forward without information that is critical to developing a meaningful and credible HLA proposal. We must be clear that risk alone is not the issue at hand, but rather systemic risk should be the target of the exercise. Unfortunately, we have scant information on what amount or degree of systemic risk could be in the insurance sector, and therefore what activities insurers engage in that could generate or amplify it. MetLife has always been clear that it does not object to robust, appropriate solvency rules. We have pointed out on many occasions that we would welcome research and the compilation of data that might lead to identification and understanding of systemic risk and its transmission to other financial institutions or the real economy. Only then can an appropriate determination of how to manage that risk be made. Proposing a capital uplift as a risk-mitigation measure in the absence of this information is counter-intuitive and puts the cart before the horse. What is more, the means by which GSIIs are currently designated and the definition of activity that the IAIS equate to systemic risk remain under review. These elements underpin the current HLA proposal. Developing an HLA prior to their resolution puts the IAIS in a position of building on shifting sands. For all these reasons we are very concerned that the IAIS may lock in an inappropriate risk mitigating framework before there is a clear understanding of which activities actually generate systemic risk in the insurance sector and how to manage them. As importantly, we believe the international rule making process should not front-run domestic rule development as this could limit choices available to domestic regulators as they develop or implement domestic solvency/capital rules or other prudential measures for insurers. We reiterate that we understand the constraints placed on the IAIS, but would not ourselves be credible if we did not raise these issues and their logical conclusion that submission of the current HLA proposal should be delayed. Additional time need not jeopardize the earliest implementation date of 2019 and would improve the process and work product immeasurably by curing some of the inconsistencies and unknowns, and thereby making the work product more credible. There are many sound public policy reasons to support delaying the HLA requirement, including: - Additional time would allow domestic regulator members sufficient time to develop and implement their own domestic capital standards before establishing enhanced standards at a global level. - Additional time would allow the IAIS to take the steps needed to solidify the shaky foundations for HLA. These steps could include: - Finalizing the consultation to revise the GSII Assessment Methodology which underpins the proposed bucket system; - As part of the consultation to revise the G-SII assessment methodology, reaching a better understanding of the degree

		to which distress at one insurer, in absolute terms, actually could affect other financial institutions, the financial system and the real economy; - Finalizing the consultation that will revisit the definition of nontraditional insurance (NT), where we have significant concerns that the current application of that definition has almost exclusively been applied to U.S. products, and disregards how products in other regions meet the three principles of NT; - As part of the NT definition consultation, drafters should seek a better understanding of the three risk principles that define NT activity, which we believe the IAIS inappropriately equates to systemic risk without explaining how those NT risks are more systemic than the risks associated with traditional insurance products; - Further definition of capital resources as part of the ICS development as this step is critical to understand the impact of the final HLA proposal Additional time would allow newly launched efforts to answer significant questions which remain unanswered about the potential role of systemic risk in the insurance industry and perhaps a better understanding of what role additional capital might/or might not usefully play as a risk policy measure to achieve the stated goal of reducing systemic risk.
21	**United States** National Association of Mutual Insurance Companies Non-member	This submission represents the collective comments of the membership of the National Association of Mutual Insurance Companies (NAMIC) in the United States. NAMIC is the largest property/casualty insurance trade association in the country. Its membership consists of more than 1,300 property/casualty insurance companies serving more than 135 million auto, home, and business policyholders, with more than $208 billion in premiums accounting for 48 percent of the U.S. automobile/homeowners market and 33 percent of the U.S. business insurance market. More than 200,000 people are employed by NAMIC member companies. NAMIC agrees generally with the comments submitted to this consultation by the National Association of Insurance Commissioners (NAIC), but there are certain distinctions and areas of emphasis that we have added in these remarks. In general, we caution that developing/finalizing these HLA requirements in 2015 is premature for a number of reasons: 1) The IAIS has not done enough field testing and analysis of the field testing that has been completed to appropriately design the Higher Loss Absorbency standards. In fact there is not even a clear definition of NT or NI, and there is insufficient analysis illustrating systemic significance of particular activities. The field testing reports to date indicate that the levels of NT and NI may not be as significant among GSIIs as originally thought. For this reason, at a minimum it seems inappropriate to determine an HLA formula until the analysis is complete and a definition is agreed upon. 2) The IAIS reports that they will propose revisions to the criteria for designating GSII later this year including clarification of NTNI definitions. The IAIS has already indicated that they will need to adjust the HLA after those changes are made, if for no other reason, to address enhanced definitions. Determining an HLA in advance of the decisions on the new criteria/definitions will result in duplicative efforts. The proposed HLA is likely to suffer from numerous weaknesses

		without a fully understood definition of NT and NI. We question whether the duplicative efforts at this time provide any value. 3) Since the HLA is based on the BCR which is a temporary requirement, the IAIS has already indicated that once the ICS is designed and implemented in 2019 the HLA will need to be reconsidered once again. The acknowledgment that the IAIS will need to write and re-expose the HLA portion of the GSII capital requirements three times over the next 4-5 years seem a waste of resources. The significant changes that will affect the HLA structure and calculation warrant a delay in the adoption of the HLA. 4) Even if the IAIS did not have plans to readopt the HLA two more times in the next 5 years, the numerous questions raised in this first and only consultation on the HLA illustrate that even the IAIS is not clear about the direction of the HLA at this time. There will be no final opportunity to weigh in once all comments are received. There will be no opportunity to review the final draft before it is adopted by the G20. The adoption of the standard without providing interested stakeholders a chance to review a final or at least a near-final version fails in meeting the transparency and due process goals that should apply to important international standards. Our more specific concerns about the HLA are as follows: 1) NAMIC is concerned about the assumptions about the comparison between the BCR calibration and the future ICS calibration (Uplift) when calibration decisions have not been finalized about the ICS. We continue to dispute that the ICS must be at a PCR level. The HLA decisions about the level of the Uplift pre-determine decisions yet to be made on the ICS; 2) NAMIC questions the Basel III caps on capital required for banking activities, but lack of similar caps for "traditional" insurance activities. Since 20% of BCR plus Uplift has been set as the goal for HLA, this approach predetermines the weighting of the capital requirements related to the banking affiliates in a manner that could cause unreasonable capital charges for traditional insurance risks; 3) NAMIC is concerned about the potential magnitude of the HLA impact on NT and NI that is not well defined; and 4) NAMIC has concerns about the 20% "average" HLA instead of a "cap" on the HLA impact on individual companies. Overall we urge the IAIS to defer a decision on the HLA until after the NTNI definitions are completed and at least until after the ICS version 1 is completed. Prior to the completion of these two work-streams any effort to adopt an HLA will be an inefficient use of time, will produce an inconsistent impact between jurisdictions, and will likely be ineffective in addressing high loss absorbency for GSIIs.

22	**United States** U.S. Chamber of Commerce Non-member	August 21, 2015 International Association of Insurance Supervisors c/o Bank for International Settlements CH-4002 Basel Switzerland Re: Consultation Regarding Higher Loss Absorbency Requirements for G-SIIs To Whom it May Concern: The U.S. Chamber of Commerce ("Chamber") established the Global Risk and Governance Initiative ("GRGI") to promote modern and appropriate international structures for capital formation, risk management, and corporate governance needed by businesses to fully function in a 21st century global economy, as well as its Center for Global Regulatory Cooperation which has had a particular focus on increasingly the interoperability of insurance regulation. The Chamber appreciates the opportunity to comment on the Consultation Document, Higher Loss Absorbency ("HLA") Requirements for Global Systemically Important Insurers ("G-SIIs"), issued by the International Association of Insurance Supervisors ("IAIS") on June 25, 2015. At the outset, the Chamber wishes to stress the importance of ensuring global stability through the use of capital standards. However, as we have noted in our previous comment letters on Basic Capital Requirements ("BCR") and the development of proposed Insurance Capital Standards ("ICS"), we are concerned about the IAIS' timetable for developing and finalizing HLA requirements for G-SIIs. For this reason, we urge you to delay finalization of these standards until after appropriate testing and recalibration of fundamental concepts and policies associated with the regulation of G-SIIs, which, according to the Consultation Document, will not be addressed until after the HLA requirements have been finalized. These include the definition of non-insurance or non-traditional ("NTNI") activities and the revised assessment methodology for G-SIIs. Discussion In previous comment letters, the Chamber has questioned the international process for the designation of insurance companies as G-SIIs and efforts to develop capital standards for both G-SIIs and internationally active insurance groups. We continue to question whether additional capital requirements are necessary or whether there has been an appropriate determination that G-SIIs or other insurance companies pose a systemic risk. However, we recognize the

		advisory role that the IAIS plays with regard to the HLA and, in that spirit, the Chamber offers the following comments. As stated in the Consultation Document, IAIS plans to finalize its proposed HLA requirements in conjunction with the Financial Stability Board ("FSB") by October 2015. Thereafter, the IAIS will submit the final HLA requirements to the G-20 for its endorsement at the November 2015 Leaders' Summit. Beginning in 2019, HLA requirements will apply to all G-SIIs designated in November 2017 and afterwards. However, in late 2015 the IAIS will also be releasing a second consultation document to reassess the definition of NTNI activities and the current G-SII assessment methodology. We believe that focusing on HLA requirements prior to redefining NTNI and releasing a revised assessment methodology for G-SIIs is procedurally inappropriate and has the potential to artificially raise the amount of capital needed to be held by G-SIIs under the new HLA standard. Moreover, we believe that stakeholders should be given the opportunity to provide their input on what activities properly fall within the scope of NTNI prior to finalization of any HLA standard. We outline below several reasons why a final HLA standard should be delayed until after stakeholders have had an opportunity to review and comment on the revised NTNI definition and G-SII assessment methodology. Delaying finalization of the HLA requirements will permit stakeholders to more precisely identify how much capital will need to be held by G-SIIs and how HLA relates to other capital that must be held by a G-SII. Determining what activities will count as NTNI must be decided before properly calibrating the BCR "uplift" and HLA standards, both of which require G-SIIs to hold more capital based on activities that are considered systemically risky by the IAIS. As described in the Consultation Document, G-SIIs will be required to hold capital to meet the requirements of the BCR, the BCR uplift, and the HLA standard. The definition of NTNI activities plays a significant role in determining the BCR uplift calculation and has a direct impact on the amount of additional capital that would be needed in order meet the new HLA standard. However, the BCR uplift, which is currently estimated to be approximately 33% of the BCR, is only necessary because field testing by the IAIS determined that "BCR capital requirements attributable to NT and NI were low," with only 13% of the total BCR required capital attributable to NI activities and 6% attributable to NT activities. Redefining what activities qualify as NTNI, then, will have a direct impact on the allocation of capital to specific insurance and NTNI activities conducted by an insurer. This could impact the calculation of the BCR and how the IAIS justifies the additional capital needed for the BCR uplift. Moreover, while the combined BCR and BCR uplift amounts should continue to equal the amount of PCR previously held by an insurer, the HLA amount for each insurer may differ considerably depending on what activities count as NTNI. Significant changes to what constitutes an NTNI activity are possible (and, indeed, are encouraged) as part of the revision of the NTNI definition. These changes to the definition of NTNI would reduce the required amount of capital and relative risk score calculated by the IAIS, which could have a significant impact on required HLA capital levels.

		More broadly, we also note that definition of NTNI plays a significant factor in determining whether an insurer is a G-SII in the first place. As a result, revisions to the definition of NTNI and the G-SII assessment methodology should at least be finalized before proposing final HLA standards. As noted in the 2013 G-SII assessment methodology, NTNI activities are the most significant factor considered in determining a G-SII assessment score, accounting for forty five percent of a potential G-SII's weighting. Thus, removing certain activities from the definition of NTNI may result in individual indicators being reweighted upwards (and maintaining the current NTNI category weighting at forty five percent) or reweighting the NTNI category downwards to reflect the removal of an activity that is no longer considered systemically risky. Given the high weighting of the NTNI category in the current G-SII assessment methodology, providing clarity through a revised G-SII assessment methodology before prescribing additional capital under the HLA requirement is an important step. We also believe it is worth highlighting the challenges that domestic regulators face in establishing capital standards for G-SIIs and insurance entities in general, which will be exacerbated by consideration of the interplay between BCR, the BCR uplift, and HLA. This issue is particularly acute in the United States, as highlighted in a June 2015 United States Government Accountability Office report. The report reviewed the development of international insurance capital standards and came to the conclusion that "several important aspects of the design of the [international insurance capital] standards are still unknown." These aspects include issues specific to the United States, including (1) concurrently applying enhanced prudential standards applicable to systemically important financial institutions ("SIFIs") under the Dodd-Frank Act and the HLA standard proposed by the IAIS; (2) which regulator would have responsibility for overseeing group-level capital requirements; (3) the extent to which capital would be "fungible," or moveable between different legal entities; and (4) if state legislation would be required to adopt the new HLA requirements. These concerns are similarly found in other countries throughout the world. In addition to delaying the finalization of an HLA requirement, we believe that the IAIS, in conjunction with the FSB, should conduct additional field testing and a comprehensive impact analysis to better understand how the new definition of NTNI, the revised G-SII assessment methodology, the BCR, the BCR uplift, and the HLA will interact together. A more comprehensive understanding of the capital requirements that will eventually apply to G-SIIs will help global policymakers evaluate and determine what types of assets should satisfy these requirements, the transition period for implementing new capital standards, and their potential effect on insurers and insurance policyholders. These policy issues are significant to G-SIIs and, more broadly, to the efficient functioning of the global capital markets, and should not be resolved in a rushed manner. We also believe it is worth highlighting the challenges that domestic regulators face in establishing capital standards for G-SIIs and insurance entities in general, which will be exacerbated by consideration of the interplay between BCR, the BCR uplift, and HLA. This system works if markets are open, appropriately regulated to ensure an even playing field, and if markets provide useful information to allow participants to

		make decisions on how to best deploy and acquire capital. The insurance sector has played a crucial role in that space, and we would caution the IAIS not to adopt standards that may distort capital flows. Importantly, businesses use the corporate bond markets to raise capital. While not as liquid as equity markets, the bond markets provide a stable form of financing, benefiting businesses and investors alike. As insurers are significant investors in the bond markets, the implementation of poorly designed capital standards on a broad basis could reduce the capital available for investment. We fear that, combined with the impact of other global financial regulatory initiatives, such as the leverage ratio and the liquidity coverage ratio applicable to G-SIFIs, insurance capital standards will have a significant impact on the ability of many businesses to engage in normal capital formation activities, efficient cash management, and effective risk management. Conclusion In sum, the Chamber respectfully requests that the IAIS delay finalization of the HLA standard until after there has been an opportunity to comment on and finalize a revised definition of non-insurance or non-traditional ("NTNI") activities and the revised assessment methodology for G-SIIs. Failure to do so will ignore the importance of properly sequencing new and important capital requirements for G-SIIs, which impact not only the regulated entities but also insurance policyholders and those that benefit from investment by G-SIIs in the capital markets. However, in the event that the IAIS decides not to formally delay submitting HLA requirements to the G-20, we ask that the IAIS agree with the FSB to submit a broad outline of the parameters of the HLA standard to the G-20 instead of a final standard. We believe that these parameters should then be subject to additional refinement based on field-testing and feedback from stakeholders, subject to a public notice and comment period. Thank you again for the opportunity to comment upon the proposed HLA requirements. We would be happy to discuss these issues and concerns in greater detail at your convenience.
23	**United States of America** American Insurance Association Non-member	The American Insurance Association (AIA) [F/N 1] offers the following comments in response to the International Association of Insurance Supervisors (IAIS) June 25, 2015 Public Consultation Document, "Higher Loss Absorbency Capacity for Global Systemically Important Insurers (G-SIIs)" (Consultation Document) [F/N 2]. AIA is concerned that the Consultation Document reveals a flawed development process for HLA. While HLA (and, more generally, the assessment methodology for G-SII designation) should focus on identification of those specific activities that are catalysts for systemic financial instability, IAIS has not yet undertaken that analysis. Indeed, the IAIS has indicated that it will be initiating a separate public consultation on the definition of Non-Traditional Non-Insurance Activities (NTNIA) after

		the HLA Consultation comment period has closed. As a result, AIA is troubled that, absent an activities-based focus, the HLA process may yield a capital surcharge that inappropriately renders G-SIIs unattractive to new capital and imposes a chilling effect on utilizing existing capital to provide coverage. Ultimately, this approach may invite adverse consequences of its own by inadvertently elevating the cost of insurance, making risk transfer less cost efficient and, as a result, stifling overall economic activity. As discussed in AIA's responses to specific consultation questions, we believe that there are several foundational and practical issues with the HLA approach outlined in the Consultation Document: 1. Failure to Identify Systemically Risky Activities: As noted above, the principal flaw stems from the IAIS's failure to identify those activities that would be considered systemically risky and result in the application of HLA to G-SIIs. In section 3.3 of the Consultation Document, the IAIS does restate its general position that insurance should be treated differently than banking for systemic risk assessment purposes, and that "[t]here is little evidence of traditional insurance either generating or amplifying systemic risk." We agree with those conclusions. However, the HLA approach outlined in the balance of the Consultation Document does not analyze the specific activities of a G-SII that would be a potential threat to the financial system or that warrant the application of an HLA. The Consultation Document vacillates between an HLA that is more broadly focused on the G-SII and its full range of activities, and an HLA that is calibrated to be more systemically risk-sensitive, with a resulting approach that is not clearly company or activity-focused. 2. The Proposed HLA Approach Ignores the Fundamental Role of Insurance and Warrants a Review of the G-SII Assessment Methodology: Insurance, by its very nature, acts as a stabilizing influence to the financial system by absorbing unexpected losses. Generally, property-casualty insurance risks and losses are not correlated with financial stress events, and there is no "on-demand" access to insurance assets by policyholders. However, by looking at systemically risky activities through the sector-specific lens of insurance (as the Consultation Document does), the NTNIA approach seems to pre-ordain a conclusion that certain insurance activities should be inherently subject to a higher capital surcharge once they are determined to be "non-traditional." Yet, this narrow, sector-specific view of activities ignores one of the principal objectives of HLA: to identify and discourage those activities that will serve as the cause of external financial instability. As a result, HLA may be incorrectly based on so-called "non-traditional" insurance activities that do not have a systemic effect at all, and G-SIIs will be required to hold capital that could be more efficiently and effectively deployed to provide insurance. Equally important, given the full range of capital adequacy assessment tools, regulators should be hesitant to automatically look to added capital as a tool of first resort. As an alternative, regulators should consider an effective framework for identification of G-SIIs, based on sound financial and historical evidence. In the short term, the most effective way to answer the question of what is the right level of capital to hold is to develop specific stress tests that go beyond what is reported on an insurer's balance sheet and look to the true systemic risk that the G-SII may pose. The documents so far give an impression of regulators being uncertain as to what really

		would bring risk to the financial system - we urge further discussion and evaluation. 3. Adoption of HLA absent a Final NTNIA Definition: Even accepting arguendo that HLA must be appropriately confined to NTNIA, the IAIS has not finalized its NTNIA definition and that definition will be subject to an upcoming public consultation. If the definition changes, the basis for calculating HLA capital will shift as well, and AIA's assessment of the HLA methodology will be different. It would be prudent for the IAIS to wait to conclusively determine its HLA methodology until the NTNIA definition is final. 4. Basing HLA on All G-SII Group Activities: The Consultation Document states that the HLA will apply to all group activities of a G-SII, even if those activities are not a source of systemic risk. This extension of HLA's application moves the capital charge away from a risk-sensitive measure, perpetuating the rudimentary nature of the Basic Capital Requirement (BCR). Moreover, such a basis would seem to penalize G-SIIs for engaging in non-systemically risky activities (contrary to one of the stated purposes of HLA). 5. The HLA is Built on the Flawed Foundation of the BCR: The BCR, by design, is not particularly risk-sensitive; yet part of the HLA process relies on a capital "uplift" to the BCR to effectively produce a prescribed capital ratio (PCR). Aside from departing from the concept of "minimum" regulatory capital applied by local jurisdictions, the proposed HLA process - adding to AIA's concern that HLA does not appropriately consider the important function of insurance to an economy - results in G-SIIs needing to amass more capital without consideration of whether that capital actually advances financial stability by reducing or providing a cushion for systemically risk activity, or whether the trapped capital undercuts a group's ability to advance financial stability by absorbing risk through the provision of insurance. Further, the HLA - like the BCR - uses a factor-based approach. Factor-based approaches are by their nature broad brush and imprecise. They are used for simplicity and, if structured appropriately, provide an indication of stronger versus weaker entities. Due to their imprecision, however, they can only be used for minimum capital setting and are not geared toward an activities-focused, risk-sensitive HLA. 6. The HLA Approach Promotes Multiple and Potentially Inconsistent Objectives: The Consultation Document discusses the need for HLA to serve several purposes, including: (1) reducing the probability that a G-SII will suffer material distress or failure; (2) internally reflecting some of the external costs produced by a G-SII insolvency; (3) providing an "early warning" mechanism for regulatory intervention and increasing G-SII resiliency to systemic events; (4) creating disincentives for continuing systemically risky activities; and (5) offsetting any benefits associated with G-SII status. As such, the HLA approach reveals a mix of going and gone concern objectives, which must be balanced with fundamental insurance regulatory objectives of policyholder protection when determining capital needs for G-SIIs. For example, to remain consistent with local jurisdictional insurance capital standards and the consideration of existing

		insurance resolution mechanisms, only minimum capital requirements should be required for G-SIIs for its insurance activities. Minimum capital requirements mean that the enterprise will be able to sustain a certain level of stress without regulatory intervention, not that it will fail should it undergo stress. When developing the HLA, the connection to local jurisdictional insurance regulatory standards must be considered, particularly where implementation will occur on a jurisdiction-by-jurisdiction basis. Finally and equally important, HLA must be appropriately tailored to a G-SII's systemically risky activities, in order for the capital surcharge to reflect the degree to which the G-SII engages in those activities. The HLA methodology should not compromise a G-SII's ability to engage in insurance activities that will enhance both the firm's and system-wide financial stability, nor should that methodology discourage a G-SII from shedding systemically risky activities to the extent that it wishes to "de-risk" and perhaps exit from G-SII status in the future. Footnotes: F/N 1: AIA represents approximately 325 major U.S. insurance companies that provide all lines of property-casualty insurance to consumers and businesses across the United States and around the world. AIA members write more than $127 billion annually in U.S. property-casualty premiums and approximately $225 billion annually in worldwide property-casualty premiums. F/N 2: Please note that AIA has organized a property-casualty insurance company leaders coordination group to discuss issues related to the development of a group capital standard. The coordination group includes AIA member companies and non-member companies such as ACE, Allstate and Liberty Mutual. That group reviewed and provided input on this submission.
24	**University** Toulouse School of Economics Non-member	Catherine Bobtcheff, Thomas Chaney and Christian Gollier are professors at the Toulouse School of Economics (France). They work on the question of systemic risk in the insurance industry and wrote a policy paper that the authors are going to send to the IAIS in parallel to the answer to the consultation in order it to be posted on the website. In this paper, whose executive summary can be found below, they compare the insurance industry to the banking sector, they analyze the insurance company's size as an identifying factor of systemicity; and they determine the contributions of the insurance and the banking sectors to economic volatility. The main conclusions that are in line with the consultation are that (i) insurance companies do not present systemic risk as far as they have a traditional insurance activity that is they insure risks that can be eliminated by standard diversification principles. But when additional contractual clauses are attached to traditional insurance products (as for instance minimum guarantees or early surrender options in case of life insurance), insurance activities become NTNI: They look more and more as banking activities and systemic risk may be generated. (ii) However, some of these risks are already controlled by Solvency II. Indeed, this European regulation imposes additional capital surcharge for life

		insurers in order to take account of scenarios such as decrease in interest rates and or massive exercise of surrender option by policyholders. The question that arises is to know whether such measures are sufficient to incentivize insurers to manage these risks efficiently. (iii) In the case of idiosyncratic insurable risks, capital requirement per insured unit is decreasing with the size of traditional insurers, in the spirit of the law of large numbers. Size is thus not a robust indicator of systemic relevance; and a better indicator of systemic relevance would be the size of the non-traditional non-insurance activities, weighting them by their consumption-based CAPM beta. However, in the case of specialized insurers with an undiversified portfolio of insured risks, capital requirement per insured unit is independent of the size of the insurer. Size should therefore be cautiously treated when determining the systemicity of an insurance company. Executive Summary 1. Systemic risk is defined as the propensity of a financial institution to be undercapitalized when the financial system as a whole is undercapitalized. The negative externality of such an undercapitalization being larger conditional to a global financial crisis, there is an economic argument in favor of a specific regulation for systematically important institutions. 2. Traditional insurance activities consist in the insurance of risks that can be washed out by diversification. By the law of large numbers, traditional lines of insurance with idiosyncratic non-catastrophic risks cannot be systemic. 3. Although catastrophic risk pools create some form of interconnectedness among (re)insurers, they are necessary to allocate risk efficiently in the economy. Insurance pools create social value by disseminating undiversifiable risks within the largest possible set of risk-bearers. The interconnectedness of insurers through risk pools improves welfare by reducing the social cost of risk, and is an important mechanism of risk management. The regulatory rules should promote this kind of arrangements rather than to examine them with suspicion. 4. The pension industry and the annuity market participants would raise a systemic problem the day a cure to cancer would be found. But, as for an earthquake event for example, this is the risk that is systemic, and not the institutions which manage them efficiently. 5. Some systematic risks, i.e., risks that are positively linked to the aggregate fluctuations of the economy, are traditionally not insured by the private sector. This is because insuring systematic risks would make large insurers systemic. Such systematic risks are NTNI activities. 6. But life insurance contracts often contain a minimum guaranteed return, which yields a systematic component to the

		insured risk. This contractual arrangement is undesirable for a wide fraction of the market, and it makes life insurers potentially systemically relevant, in particular when this portfolio insurance is uncovered by an adapted risk management strategy. 7. Contrary to banks, maturity transformation is not traditional in the insurance sector, thereby immunizing them from most of the interest rate risk. The sharing of the investment risk between the life insurer and its customers organizes an automatic bail-in mechanism that reduces its systemic relevance. 8. The risk of insurance run is limited because of the pre-paid nature of their services. Contrary to banks, the callability of insurance liability can be triggered by predefined events that are usually not under the control of the policyholder. This illiquid nature of insurance contracts makes insurers a net supplier of stable capital in the economy. 9. However, the surrender option often offered in life insurance contracts raises some concerns of systemic relevance in case of an unanticipated fast increase in interest rates. Lawmakers, regulators and insurers should better weight the costs and benefits of the currently excessive liquidity offered in many life insurance contracts. 10. The resolution of insurance claims is usually smoothed over time at a much lower pace than bank claims and margin calls on financial markets. Most systemic risks in traditional insurance activities are thus expected to build up slowly, and are potentially counterbalanced by the insurance cycle. This simplifies the substitutability of insurance activities. 11. Contrary to banks in which depositors do not share the investment risk with the bank, life policyholders usually absorb most of the investment risk of the insurance reserves, when the minimum guarantee is not in the money. As a consequence, the leverage ratio, as defined by the ratio of the value of liabilities over equity, is not a good indicator of systemic relevance in the life insurance sector. 12. Because of the illiquid and long-term natures of their liabilities, insurers are long-term investors on financial markets. This is particularly prevalent in the life insurance market, because of the long-term saving objective of the policyholders. The finance literature demonstrates that long-term investors stabilize financial markets and reduce societal risk aversion by smoothing shocks across time and generations. In particular, they typically behave countercyclically, so that they provide liquidity to financial markets during downturns. That partially offset the fire sales by banks in those circumstances, thereby reducing the systemic risk of the entire financial sector. Imposing solvency constraints that ignore the long-term nature of many insurance activities would destroy this societal value creation of the sector. 13. By penalizing risks in the insurers' balance sheet that are cyclical, Solvency II already addresses some of the concerns associated with the risks created by minimum guaranteed returns and surrender options. The question that arises is to know whether such measures provide the efficient incentives.

		14. In the case of idiosyncratic insurable risks, capital requirement per insured unit is decreasing with the size of traditional insurers, in the spirit of the law of large numbers. Size is thus not a robust indicator of systemic relevance, and forcing the separation of a large company into independent diversified components does not reduce the systemic risk of the sector. Our analysis suggests that a better indicator of systemic relevance would be the size of the non-traditional non-insurance activities, weighting them by their consumption-based CAPM beta. 15. However, in the case of specialized insurers with an undiversified portfolio of insured risks, capital requirement per insured unit is independent of the size of the insurer. Our empirical analysis demonstrates that the insurance sector in the U.S. behaves in a way intermediary to the independent and perfect correlation case. The systemic relevance of specialized insurers depends upon the correlation of their value creation with the GDP. 16. The contributions of the insurance and banking sectors to economic volatility are measured. The insurance sector has been historically substantially more stable than the banking sector. Investment banking is almost twice as volatile as aggregate GDP, while insurance is five times less volatile than aggregate GDP. The insurance sector is a stabilizing force for the US, while investment banking tends to destabilize the economy.
25	**USA** Property Casualty Insurers Association of America (PCI) Non-member	PCI appreciates the opportunity to participate in this consultation. Our nearly 1,000 member companies include a global systemically important insurer (G-SII) and several other major international insurers that are concerned with the approach taken in this consultation. PCI urges the IAIS not to make any final decisions regarding HLA until it has resolved two major issues that underpin the project. The definition of NTNI (non-traditional and noninsurance) activities is critical to the determination of gamma (the extent to which the HLA will be based upon NTNI or another basis), and the IAIS is appropriately attempting to bring greater clarity to that definition, yet the proposed redefinition will not be exposed for consultation until late this year. Without knowing what activities the IAIS intends to define as NTNI, it is extremely difficult to comment - and should be equally difficult for the IAIS to decide - on this basic aspect of the HLA formula. Similarly, the draft proposes to assign G-SIIs to "buckets" based upon their scores according to the G-SII determination formula. This formula is also being revised by the IAIS, but this revision is also not expected to be exposed until late this year. Its results will also be affected by the NTNI redefinition. With these key decisions yet unmade and undisclosed, the IAIS should not adopt an HLA proposal until they are decided and publicly disclosed and stakeholders can consider and comment on their implications. PCI also urges that the maximum HLA charge for any G-SII should be capped at a level no higher than 20%. Since the systemically important activities of any G-SII are likely to be far lower than those of systemically important banks, G-SIIs should not be subject to an HLA charge that exceeds the charge for the banks in the lowest G-SIB bucket.

2. Key HLA consultation points Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issues that should be considered, then please outline them and how they may impact the conclusions reached.		
26	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA supports the use of a factor-based approach for the calculation of HLA. As previously mentioned, we believe the objectives of HLA can only be achieved through the use of a formula targeted on the drivers of systemic risk, which justified the group's designation as a G-SII. If such methodology is adopted, EIOPA does not see the issue of double counting, given that the roles of the G-SII designation and HLA are different, even if driven by the same sources of risk. On the one side, the G-SII designation methodology aims to identify and quantify the systemic risk posed by individual insurance groups to the financial system through a binary "systemic or not" manner, designating them when their importance is sufficiently high. On the other side, HLA is the measure applied to the so designated companies. Designation and measures need to be in coherence. The HLA attempts to quantify those risks, translating them into capital charges, which the G-SII will need to hold as a mitigating tool against the materialization of such risks. To ensure that risk sensitivity is appropriately considered, this should ideally be combined with multiple populated buckets, in order to offer incentives embedded in the framework for the reduction (or, at least, not to increase) the level of systemic activities carried out by the G-SIIs. Regarding calibration, EIOPA supports the view expressed in the paper (Annex F) that G-SIIs rank equally or below the G-SIBs assigned to the lowest bucket of the banking framework. Therefore, the Basel requirements constitute a good starting point for the definition of the calibration targets for HLA. Detailed comments about other components of the HLA framework, namely the mechanisms to ensure that both individual and average results are kept within reasonable limits, are provided in the relevant questions below.
27	**USA** National Association of Insurance Commissioners IAIS Member	We agree that the key consultation points are highlighted in this section. Our specific comments/preferences on these key points are addressed in other sections.
28	**Australia** KPMG International Non-member	1) Broadly agree with the use of a simple factor based approach to calculate the HLA requirements and with the comments made in this section. However, we remain concerned that a factor based approach limits the risk sensitivity of the model and further work is likely to be required regarding the interchange between local jurisdictional requirements and this proposal. See comments in later questions regarding each of these components.
29	**Canada** CLHIA	Paragraph 14 - HLA requirement for a particular G-SII - We support the factor based approach, at least for the first version of the HLA (and perhaps for the first subsequent version that is based on ICS).

	Non-member	- We note that paragraphs 14 and 17 refer to considering the impact on G-SIIs on average. This is a reasonable consideration to evaluate the outcomes, but not to embed this consideration explicitly into the formula through the proposed Scale factor. Having the HLA charge based on a relative industry standing would make the overall capital requirements unmanageable. An individual company cannot control what others are doing and may not have information on it. It may be reducing its "systemic risk" sources but yet find itself being charged more HLA, unexpectedly, as others are reducing those risks faster. The Scale concept should be abandoned.
30	**EU** EIOPA Insurance & Reinsurance Stakeholder Group Non-member	The HLA requirements are based on the Basic Capital Requirement (BCR) with an up-lift and not primarily linked to the activities that generates/ amplifies systemic risk i.e. the Non-Traditional insurance (NT) and Non-Insurance (NI) activities. The HLA therefore appears to respond mainly to the size of a group rather than activities that create the systemically relevance. The definition and guidance on what constitutes NT and NI activities is lacking. This makes it difficult to determine the impact of the HLA. The IAIS proposes that scoring results from the G-SII designation process are utilized to classify G-SII into HLA buckets. This requires that the designation process and results are made fully transparent, which is currently not the case. It is paramount that any new regulation for G-SIIs is designed in a comparable manner and that these requirements are applied consistently. This will then allow the FSB's proposed measures to appropriately address systemic risks.
31	**German** Allianz Non-member	The proposed HLA framework is based on building blocks already scheduled for further review after the HLA consultation closes. Therefore a comprehensive evaluation of the HLA proposals made (i.e. the suggested family of formulas for the HLA) is only possible once the following underlying elements have reached a stable development stage: o Identification of systemically risky activities, i.e. the definition of non-traditional business (planned to be consulted in November 2015). o Identification of GSII, i.e. the GSII designation methodology (planned to be consulted in November 2015). o More risk-sensitive basis for the HLA, i.e. replacement of the simple and risk-insensitive BCR by a measure that better reflects GSII's actual risk profile in particular if BCR is uplifted to the level of existing average risk-sensitive capital requirements.
32	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	We would like to highlight the following aspects that will be further elaborated in the following sections: - Considering the bucketing, please see our comments on Question 15, Section 5.2; - Considering the formulas, please see our comments on Question 16, Section 5.3; - Considering the calibration, please see our comments on Question 17, Section 5.4.
33	**International** International Actuarial Association	The following are several areas in which Section 2.2 should be clarified. 1. Paragraph 14 states that the HLA-required capital formulae will be factor-based. This is stated as a "given" without

	Non-member	elaboration or support. This is one of the most fundamental design choices in the HLA. If the choice of such a simple approach is intended to reflect the choices made in the BCR design, it should be so described. An advantage of using the approach described in paragraph 14 is, of course, simplicity and comparability of results for G-SIIs across the globe. The proposed design enables the size of the HLA to vary, reflecting only very broad measures of the size and significance of G-SII risks. 2. A significant weakness of the proposed approach (perhaps to be rectified by the ICS regime currently being developed) is that the exposure/factor technique is not as effective in measuring specific risk exposures as the shock techniques currently used in modern insurance standard approach capital regimes (e.g., Solvency II, Canadian MCCSR, NAIC C-3 RBC testing, etc.). This weakness is relevant for insurers in their traditional business, as well as their NT businesses where the exposure/factor approach is a poor proxy for the variability of these risks across insurers and also over economic conditions. These issues are magnified for G-SIIs for which it would be even more important that such risk sensitivity be better recognized. 3. Paragraph 14 raises three HLA design issues which have merit and should be considered. Further comments on all three are provided later in this response document. However, at this early stage in the consultation process, it is not sufficiently clear why bullet two (choice of HLA formula) is being advanced as a design issue. Would it not also be appropriate to simply accept the HLA from each of traditional, NI and NT (i.e., an "absolute" calculation), rather than go through elaborate attempts to re-scale them collectively to 15/20% (i.e., a "relativistic" calculation)? We welcome the invitation to discuss the trade-offs between risk sensitivity, robustness and simplicity. But, as mentioned earlier in our comments, without clarity of definition of these terms and concepts (such as risk sensitivity and/or the ability to capture each G-SII's risks accurately, and formula sensitivity), commenters will have many different types of responses. "Risk sensitivity" is mentioned in paragraph 15, while (perhaps) the more general term "sensitivity" is mentioned in paragraph 16. The latter seems to request input on formulaic sensitivity rather than "risk sensitivity". Was this the intent?
34	**Japan** The Life Insurance Association of Japan Non-member	[The use of parameter gamma] ·The level of capital surcharge should be determined in accordance with systemic risk profile of the insurer. To that effect, we support the method of calculating the level of surcharge with emphasis on the amount of NTNI activities (i.e. the use of parameter gamma). In addition, by setting the level of parameter gamma near 100%, the HLA's objective can be reflected even more. ·As the IAIS has indicated in the past, we recognise: "Traditional insurance activity is unlikely to be a source of systemic risk. However, Non-Traditional and Non-Insurance activities within an insurance group are likely to generate or amplify

		systemic risk." ·In light of HLA's objective to "reduce the probability of distress or failure and thus the expected impact" on the financial system, we believe that the level of surcharge should be determined with emphasis on the amount of NTNI activities. ·It is pointed out that an increase in gamma with adjustment by scale factor may lead to an increase in the volatility of results if the amount of NTNI activities is small. However, this concern arises from the calibration that assumes the level of surcharge in preceding requirements for banking sector. If the amount of NTNI activities is small, the level of surcharge should be lowered accordingly. The issue of volatility would not arise in this case. [Possibility of changing the parameter gamma] ·Parameter gamma is likely to have significant impact on each insurer's management strategy and capital policy. We believe that the IAIS needs to present in advance, whether it will intend to disclose the specified value of gamma or not, and the possibility of subsequent change of that value. [The use of scale factor] ·The level of capital surcharge should be determined in accordance with systemic risk profile of the insurer. To that effect, we do not agree with the use of adjustment by scale factor for calibration as suggested in this Document because it may lead to an overly conservative calibration level. ·According to the result of field testing, BCR required capital for NT and NI activities are relatively small. This indicates that the most part of insurers' risk are not systemically important in the financial system. It is irrelevant and overly conservative to ignore this risk profile of insurers and implement the calibration level of surcharge (which is about 10% to 20%) in preceding requirements for banking sector as given. ·We are concerned that overly conservative calibration level may have adverse effects such as undermining both policyholders' and investors' interests by deteriorating capital efficiency. In addition, there is a concern that introduction of the one-size-fits-all regulation without considering the insurers' systemic risk profile may amplify systemic risks through procyclicality. ·Also, if the scale factor is reviewed every year, the scale factor will work as a stabilizer that counters volatility in the share of NT and NI of BCR, and this will be a problem. For example, given that total BCR does not change, total HLA would not decrease even when the share of NT and NI of BCR is reduced and so is the systemic risk for the industry as a whole. Conversely, total HLA would not increase even when the share of NT and NI of BCR is increased and so is the systemic risk for the industry as a whole. This means that total HLA is not sensitive to the change in systemic risk, which is unfavourable from macroprudential viewpoint. Therefore, scale factor should be abolished or fixed at a certain point of

		time. [The use of bucket] ·Taking into account the significant impact of the HLA on each insurer's management strategy and capital policy, we support the idea of "using multiple buckets", especially using more than one populated buckets. ·The HLA would have significant impact on each insurer's management strategy and capital policy, provided that it is necessary for insurers to raise sufficient core capital as HLA required capital. We believe that the use of more than one bucket would enable insurers to reduce cliff effects between the level of required capital for non-G-SIIs and G-SIIs, and thus, it would contribute to the continuous and stable application of capital requirement even for non-G-SIIs. ·Besides, as indicated by the IAIS, we believe that having more than one populated buckets would create an ongoing incentive for the most systemic G-SIIs not to increase their systemic importance. [Measures mitigating the impact of moving up to the higher bucket] ·Taking into account the significant impact of the HLA on each insurer's management strategy and capital policy, we would like the IAIS to consider measures that would contribute to mitigating the impact on G-SIIs when a G-SII moves up to the higher bucket. ·Considering that it is necessary to raise sufficient core capital as HLA required capital, G-SIIs' moving up to the higher bucket would have significant impact on each financial institution's management strategy and capital policy. ·We would like the IAIS to consider measures that would contribute to mitigating the impact on G-SIIs when a G-SII moves up to the higher bucket, for example, placing a grace period for G-SII to satisfy its HLA requirement, or requiring it to be allocated to a higher bucket in a step-by-step manner as a general rule. [Improving the foreseeability with regard to reallocation of a G-SII to another bucket] ·Taking into account the significant impact of the HLA on each insurer's management strategy and capital policy, we would like the IAIS to consider how to improve foreseeability with regard to reallocation of a G-SII to another bucket. ·As the Assessment Methodology for identifying G-SIIs includes relative evaluation, the foreseeability with regard to reallocation of a G-SII to another bucket is restricted. Considering that it is necessary to raise sufficient core capital as HLA required capital, reallocation of a G-SII to another bucket would have significant impact on each financial

		institution's management strategy and capital policy. We believe that how to improve the foreseeability is an important issue. ·In applying HLA to G-SIIs, we believe that insurers are likely to improve their foreseeability with regard to reallocation to another bucket to some extent, for example, by implementing measures such as: -setting caps on score of certain indicators. -setting quantitative threshold, and designate as a G-SII or move to upper bucket only after the insurer has exceeded such a threshold for a certain period of time. ·We would like the IAIS to consider the review of G-SII Assessment Methodology to improve foreseeability, considering the following issues resulting from relative evaluation of scores. -In spite of its reduction in NTNI activities, an insurer would remain in the higher bucket and would continue to be required to have a higher surcharge, when other insurers also reduce their NTNI activities. -Some insurers would continue to be designated as G-SIIs even when the systemic importance of the insurance sector as a whole decreases.
35	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	We consider these points in our comments below.
36	**Switzerland** Swiss Re Non-member	
37	**United States** Metlife Non-member	It is very difficult to comment on the proposed framework without understanding its foundations. The fact that the assessment methodology and definition of NTNI are still under review means that the HLA proposal may make sense in theory, but miss the mark in practice. Our rationale follows: Bucketing If the IAIS settles on Bucketing Choice 1 (or other options whereby GSIIs are allocated to separate buckets based on assessment scores) it will be assigning GSIIs to buckets based on an assessment that it acknowledges remains under review and will likely change.

		In addition, introducing bucketing and capital charges based on relative rankings of companies, rather than absolute assessments of risk, introduces incentives for gamesmanship and is likely to have adverse consequences. One such consequence is the difficulty introduced for firms in projecting and managing capital needs. If capital charges can change based solely on activities of competitors (due to the relative nature of the charges), how can companies accurately project and manage their own results? This concern further supports treating all companies (or activities) to which HLA applies in a It is very difficult to comment on the proposed framework without understanding its foundations. The fact that the assessment methodology and definition of NTNI are still under review means that the HLA proposal may make sense in theory, but miss the mark in practice. Our rationale follows: Bucketing If the IAIS settles on Bucketing Choice 1 (or other options whereby GSIIs are allocated to separate buckets based on assessment scores) it will be assigning GSIIs to buckets based on an assessment that it acknowledges remains under review and will likely change. In addition, introducing bucketing and capital charges based on relative rankings of companies, rather than absolute assessments of risk, introduces incentives for gamesmanship and is likely to have adverse consequences. One such consequence is the difficulty introduced for firms in projecting and managing capital needs. If capital charges can change based solely on activities of competitors (due to the relative nature of the charges), how can companies accurately project and manage their own results? This concern further supports treating all companies (or activities) to which HLA applies in a like fashion, rather than introducing "buckets". Compounding the issue, a major component of companies' assessment scores are based on their volume of NTNI activity as defined under the assessment methodology, which is inconsistent with that of the BCR. The NTNI definition is under review and we understand that the goal is to define NTNI in the same manner for both the assessment methodology and policy measure purposes. We encourage this review to include an assessment of whether these activities actually pose systemic risk or merely pose risk to the company and should be addressed by local regulators, perhaps with guidance from the IAIS. In summary, allocating GSIIs to buckets based on the current assessment methodology is likely to result in an unlevelled playing field among GSIIs on the basis of a flawed assumption that higher GSII scores are indicative of a higher systemic risk. Whether Bucket Choice 1 or 2 is ultimately chosen, the calibration targets proposed in Section 5.4 are much too high given the well-accepted fact that insurance activity does not pose the same level of systemic risk as banking activity and

		it should follow, therefore, that GSIIs receive a proportionately lower capital surcharge. This notwithstanding, the proposed calibration targets for HLA, which could be 10% and 15%, do not reflect this very important difference and should be adjusted to be substantially lower than the lowest uplift applied to GSIBs. Choice of HLA Formula Developing an HLA formula without understanding the risks that should be targeted not only compromises the formula design, but also makes what could be a wrong assumption that additional capital will mitigate the risk(s). As we mention in our response to Question 1 above, empirical research into how insurers may trigger or aggravate a systemic event is lacking and therefore there is currently no understanding of how insurers may contribute to a systemic crisis. Proposing that HLA somehow mitigates this risk is therefore conjecture. For the same reason, choosing to place any emphasis on NTNI as "systemically risky activity" prior to a better understanding of what systemically risky activity is could mean the current proposal will miss the mark. Capital add-ons are not an appropriate substitute, for example, for liquidity concerns which are better addressed with liquidity stress testing and minimum liquidity coverage ratios. For all these reasons, and given that so many elements remain to be defined, we propose that should the IAIS continue to target a November deadline for this first HLA proposal, the best course for the IAIS would be to consider its November work product as a skeletal framework that is flexible enough to be adjusted to accommodate findings flowing from the review of the assessment methodology and work on defining what is systemically risky activity, whether based on the IAIS NTNI review or external research. We would propose, therefore, that of the current options Bucket Choice 2 and a gamma of zero would be most prudent. Finally, with a gamma of zero, the actual HLA factors should be calibrated much lower than currently proposed to achieve a more reasonable comparison to banks, which are accepted as being much more systemically impactful.
38	**United States** National Association of Mutual Insurance Companies Non-member	NAMIC finds it concerning that the HLA includes Basel III caps on capital required for banking activities, but lacks similar caps for "traditional" insurance activities or even for non-bank, non-insurance NTNI activities. Since 20% of BCR plus Uplift has been set as the goal for HLA, this approach predetermines the weighting of the capital requirements related to the banking affiliates in a manner that could cause unreasonable capital charges for traditional insurance risks.
39	**United States of America** American Insurance Association Non-member	In brief, Section 2.2 asks for stakeholder views on the following points, with the assumption that the HLA required capital formula will be factor-based: (1) how many factors should apply to a G-SII (bucketing); (2) how much emphasis should be placed on NTNIA (exposure); and (3) how much of an impact should HLA have on a G-SII. A foundational consideration for responding to Question 2 is the policy objective of the HLA, which in turn determines how risk-sensitive

		HLA should be. As we have noted in the general comments above, AIA believes that the HLA should be risk-sensitive and directly tied to those G-SII activities that are catalysts for instability in the financial system. Factor-based approaches to capital are not risk sensitive, and do not work well for the type of capital charge that would be associated with HLA. The IAIS should specify which activities are systemically risky first, in order to inform responses to the Consultation Document questions. A more well-defined NTNIA may help identify those non-insurance activities that are a systemic threat, with the caveat that we do not believe that property-casualty insurance activities generally are systemically risky and, in fact, insurance activities enhance financial stability. As a result, it may not be beneficial (and may indeed be counter-productive) to define "non-traditional" insurance activities in a way that discourages the development of insurance products to address new and emerging risks, particularly where those products are not correlated with macro-economic stress events. Finally, if regulators are looking to discourage growth in systemically risky activities and to promote de-risking in those areas, it would make sense to develop HLA in a way that ties additional capital held by a G-SII directly and solely to those activities that are an external source of instability to the financial system.
3. Context Overview Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
40	**EU** European Insurance and Occupational Pensions Authority IAIS Member	As already stated in our response to question 1, we would like to support the point made in this section, that HLA does not represent a capital requirement on its own, but only in conjunction with the BCR (and, in the future, with the ICS). EIOPA believes that it is of paramount importance to ensure the consistency among all the G-SII related projects currently developed by the IAIS. The use of the G-SII designation scores as the basis for the assignment of G-SIIs to the different HLA buckets constitutes, in our view, one good step in this regard. By introducing this close link, it is ensured that there is full consistency between the two. For the purpose of HLA calculation, a G-SII should be assigned to the HLA bucket in accordance to its ranking in the designation process . In our view, this feature greatly enhances the ability of HLA to act as an incentive for the reduction of systemic risks posed by G-SIIs.
41	**USA** National Association of Insurance Commissioners IAIS Member	Agree.

42	**Australia** KPMG International Non-member	No Comment
43	**Canada** Canadian Institute of Actuaries Non-member	We understand that the HLA capital requirements are meant to help protect the system against systemic risks posed by the largest insurers. However, as is recognized in this consultation document, the sources of systemic risk tend to arise out of a limited subset of activities of those largest insurers. Therefore, in our opinion, the risk inherent in a particular balance sheet should be as important a consideration as the actual size of an insurer.
44	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	With basic questions yet unanswered, such as the definition of the G-SII designation methodology, forming an opinion on details is a challenging task. The definition of the G-SII designation process has major impact on the HLA development, not only because the scores resulting from the process determine the magnitude of a G-SII's HLA requirement directly. In addition, because the chosen input factors driving the G-SII designation process will indirectly influence the HLA. Please see our comments on Question 28, Section 7.1.
45	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	We have no comments on this section.
46	**U.S.A.** ACLI Non-member	The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 284 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security . ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of U.S. industry assets and premiums. We appreciate the IAIS' ongoing commitment to dialogue in the development of the HLA consultation. We offer the following comments on the IAIS June 25, 2015, Higher Loss Absorbency Consultation Document ("HLA Consultation") soliciting input on a potential HLA standard for Global Systemically Important Insurers ("G-SIIs") identified according to the IAIS Initial Assessment Methodology for G-SIIs (the "Assessment Methodology") and G-SII Policy Measures issued in 2013. We have threshold concerns that fundamental elements on which the HLA proposal rests are still under development. Both the Assessment Methodology and the underlying category of non-traditional Insurance and non-insurance ("NTNI")

		activities used in assessing systemic risk are subject to reconsideration in the near future. Clearly the HLA proposal could benefit much from the completion of the work on the definition of systemically risky activity and the Assessment Methodology. Both of these initiatives will have material impact on the capital requirement outcomes set by any of the proposed HLA constructs. Indeed, certain members feel so strongly against proceeding before this work is complete and exposed for comment that they call for a delay in seeking FSB and G20 approval of the HLA proposal. Such a delay would allow domestic regulators who are developing or on the verge of implementing solvency frameworks in their jurisdictions to move forward unhampered by a framework that could substantially change on the basis of the IAIS ongoing review of its Assessment Methodology and definition of NTNI. If a delay is not granted the IAIS, FSB and G20 must allow for significant flexibility in the HLA construct to allow revisions following its approval and endorsement in November 2015. This can be achieved by the IAIS clearly stating and reaching agreement with the FSB, G20 and stakeholders that at present they propose an HLA "skeleton" framework as opposed to a static/concrete HLA standard. This framework will evolve into a requirement once the results of the consultations on G-SII methodology and NTNI categories are finalized and incorporated into the HLA construct by 2019. The IAIS should also agree to further consultations with the public as they continue their work to finalize the HLA construct. Significant questions remain about what constitutes systemic activity; whether the current NTNI delineation is a good proxy for risk, let alone systemic risk; and whether requiring additional capital is the best measure for achieving the stated goal of reducing systemic risk. We believe it is in the interests of all concerned to better understand the potential systemic exposure from the insurance sector and whether the HLA is indeed the best risk management tool. Another concern with the current proposal is that the Basic Capital Requirement (BCR), the basis for the HLA, is extremely volatile, and the proposed uplift to the BCR will amplify the inherent weaknesses of a necessarily risk-insensitive, factor-based measure that was calibrated at a low level accordingly. This could lead to unintended effects and pro-cyclicality. Another concern is that the HLA Consultation suggests that HLA capital levels are based on a relative ranking of G-SIIs against their peers. This introduces the possibility that de-risking by a G-SII may not lead to a decrease of its HLA capital charge. This makes it difficult for a G-SII to forecast its capital needs. In the HLA Consultation, the proposed HLA calculation methodology would base a G-SII's HLA requirement, in significant part, on its NTNI activities. We understand that the IAIS will be considering revisions to both the Assessment Methodology and the categorization of NTNI activities used in the Assessment Methodology and G-SII Policy Measures, with proposed revisions expected to be proposed for comment in November of this year at the earliest. The Assessment Methodology and what will be considered NTNI activities will have a substantial impact on any ultimate HLA standard.

		We believe that a thorough analysis of what activities may result in systemic impact should occur prior to a final determination that HLA is the appropriate risk management tool. We also believe that the current NTNI category includes products or activities that create less risk when properly managed than some traditional insurance activities or products and the current categorizations in the Assessment Methodology unduly penalize U.S. products. We urge the IAIS to consider these HLA architecture issues carefully and deliberatively with the benefit of a thorough threshold analysis of what activities may result in systemic risk. We appreciate your consideration of our views and look forward to further discussion.
47	**United States** Metlife Non-member	Section 3.1 demonstrates a point that is very important to our point of view, namely that additional time to develop meaningful policy measures that actually target risk to the financial system would be very beneficial to consumers and the market. Work on the potential systemic impact of insurance groups is in its infancy. As we look back to 2013 IAIS risk assessments and pronouncements on policy measures, it is critical that we consider how much more information is available in 2015. It is equally important that we bear in mind that we will all continue to learn over the coming years from the exercises underway to develop appropriate capital standards. We suggest this learning needs to occur prior to targeting particular risks or locking down particular formulas. What is more, as we point out in our response to Question 1, additional time need not jeopardize the earliest implementation date of 2019.
48	**United States of America** American Insurance Association Non-member	Section 3.1 provides a concise chronology of the international work on G-SII assessment methodology and policy measures, with a focus on enhanced supervision, effective resolution, and loss absorption (including HLA capacity). While it has been captured in the HLA principles and objectives, what has been omitted thus far from the policy discussion is preventive regulation: how to reduce the level of systemically risky activities and provide a viable "exit ramp" for G-SIIs that have lowered their systemic risk profile so that they are no longer a "source" of concern. The IAIS could address this void in preventive regulation by precisely and transparently identifying non-insurance systemically risky activities. Doing so would not only be beneficial to G-SIIs, but would provide needed guidance to other insurance groups that want to avoid engaging in the kinds of activities that will cause them to be considered for G-SII designation. In addition, in considering an effective HLA approach, the IAIS should consider how to align the approach with effective resolution. In the U.S., for example, the Dodd-Frank Act acknowledges the continued primacy of the state-based insurance regulatory system for those entities that are subject to "front-end" national prudential supervision and those that may be resolved under the "back-end" orderly liquidation provisions. Thus, in formulating a group capital standard for insurance firms under its national prudential authority, the Federal Reserve Board (FRB) must apply differentiated treatment that contemplates the insurance operations of that firm, while also recognizing that the insurance legal entities continue to be subject to local jurisdiction regulatory capital standards. Similarly, the Federal Deposit Insurance Corporation (FDIC) would defer to existing state insurance resolution mechanisms for insurance entities that might be in danger of default.

4. The purposes of HLA at July 2013 Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
49	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA supports the 2013 IAIS conclusions on the topic of systemic risk and believes that they remain valid in general, providing a good basis for the development of HLA. Naturally, this does not preclude the need to also take into account the additional information and insight which was gained on the topic during the most recent years. We believe that the policy objective should be to limit the systemic risk, since the true costs of a crisis can never be truly internalized. Therefore the objective "Providing disincentives to carrying out activities that pose a threat to the financial system;" was and is central to the HLA design.
50	**Australia** KPMG International Non-member	1) Per paragraphs 26 and 27, it is not evident that the comment "clearly indicates" that the scope of HLA and BCR are the same. HLA Principle 2 (see Annex C) states that the "HLA should reflect the drivers … of the assessment of the G-SII status". NTNI activities (45% weighting) which are a major driver of the G-SII status, should be the target of the HLA "add-on' as opposed to applying the HLA across all business activities considered by the BCR. While the HLA makes some allowance for this though the use of "gamma' weights in the combined HLA formula, it remains to be seen how this will operate in practice and the influence of the level of NTNI activities on capital requirements. 2) While emphasis on NTNI activities may be accommodated for through the gamma factor, the other G-SII factors (interconnectedness (40%) and substitutability (5%)) do not appear to be influencing the HLA requirements. The BCR is based on factors applied to balance sheet positions and the HLA is intended to be a factor of the BCR. By applying this approach, the HLA seems to be focused predominantly on size, as the HLA will increase as the BCR increases (but it is noted that size is only 5% of the assessment criteria). The HLA needs to be more sensitive to the other G-SII factors. 3) On paragraph 28, it is unclear how the proposed HLA design will provide "disincentives to carrying out activities that pose a threat to the financial system". Due to the way in which the capital requirement is calculated, it is not clear what insurers need to do to reduce their HLA requirements.
51	**Canada** CLHIA Non-member	Paragraph 26-27 - While we note reference is made to include all group activities in the determination of the BCR, consistent with our answer to other Questions, we disagree with the inclusion of Traditional business in the determination of HLA, both in this first phase of HLA, and in the ultimate phase when the ICS is the HLA's foundation, as there is "little evidence that traditional insurance either generates or amplifies systemic risk." This would also be consistent with the direction provided in the July 2013 Policy Measures paper.
52	**Germany**	Regarding supervisory intervention originating from BCR/HLA numbers we want to highlight the risk of inadequate and

	GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	conflicting risk management incentives. The BCR by design is simple and risk-insensitive therefore not reflective of a G-SII's true risk profile. Against this backdrop, the current BCR/HLA proposal can only provide indications for further discussions with the group wide supervisor rather than define a binding constraint. Please see our comments on Question 12, Section 4.3.
53	**International** International Actuarial Association Non-member	Although the text is clear, paragraph 28 and the statement of desired outcomes of HLA capacity gives rise to the following comments. 1. The quoted paragraph from the G-SII Policy Measures speaks of "desired outcomes". The need to avoid certain undesirable outcomes should also be mentioned. One such outcome to be avoided is that, as a result of the imposition of HLA requirements, insurers will a) re-structure their affairs to avoid being identified as a G-SII and/or b) maintain their size below G-SII status (for example, by restricting their growth) to avoid the additional capital requirements. 2. The second and third bullets are laudable, but the broad HLA design presented (i.e., the exposure/factor approach) is unlikely to achieve these goals for the specific risks of a G-SII except at a very broad and high level.
54	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	The purpose of the HLA, as laid out in the consultation document, is clear.
55	**Switzerland** Swiss Re Non-member	Swiss Re agrees with the stated purpose of the HLA, but reiterates the response given in question 1 above. Insurers add to systemic risks if at all, by carrying out certain Systemically Risky Activities which are a subset of the NT and NI activities. Systemically Risky Activities can be carried out by insurers who are designated G-SII as well as those who are not. The IAIS should focus on identifying those NT and NI activities that pose systemic risk. Ideally, HLA must be determined based on the economic cost of Systemically Risky Activities, but irrespective of the size or designation of the insurer.
56	**United Kingdom** Institute and Faculty of Actuaries Non-member	The construction of the HLA requirement consists of a single factor applied to a simple uplift to the Basic Capital Requirement (BCR). Whilst it is accepted that a straightforward measure is required to be developed in a limited timescale, it is important to be aware that the use of such a measure could result in management actions that do not appear sensible when viewed on a realistic, economic basis.
57	**United States** Metlife	Section 3.2 cites the July 2013 stated desired outcomes for HLA. One of these is that HLA will be a capital add-on specifically for G-SIIs. We don't believe the case for requiring additional capital has been made, and we certainly do not

	Non-member	believe there is a sound basis for imposing those additional requirements uniquely on GSIIs. When activities with systemic impact have been identified and understood, any proposed measures should apply to all who conduct those activities. Simply put, activity found on a sound basis to be systemically risky should be subject to appropriate higher levels of supervision and regulation that appropriately targets the risk. We have fundamental objections and significant concerns regarding the impact of imposing higher capital requirements on a small number of firms without a well-reasoned and sound basis for doing so. In addition, the IAIS have often stated their intention that the HLA must "bite" and that therefore combined BCR and HLA must exceed existing capital requirements for some/all G-SIIs. In addition to the competition and other legitimate issues we outline above, we still have fundamental concerns regarding BCR. It is an untested approach that relies upon a new, untested balance sheet. It is also very clear that the BCR itself is extremely volatile and could encourage highly pro-cyclical behavior. All told, we fail to see how requiring a BCR and HLA greater than today's regulatory required capital for some or all GSIIs makes sense. Capital standards should be set based on adequacy and appropriateness, not just the concept of "more." If HLA is simply intended to reduce the impact of failure of a G-SII, then it should be applied to the minimum capital base for those companies so designated after an appropriate demonstration of the impact of the failure of the institution on other financial firms and an assessment of the impact on the global economy.
58	**United States of America** American Insurance Association Non-member	Section 3.2 of the Consultation Document outlines the need for HLA to serve several purposes, including: (1) reducing the probability that a G-SII will suffer material distress or failure; (2) internally reflecting some of the external costs produced by a G-SII insolvency; (3) providing an "early warning" mechanism for regulatory intervention and increasing G-SII resiliency to systemic events; (4) creating disincentives for continuing systemically risky activities; and (5) offsetting any benefits associated with G-SII status. As such, the HLA approach reveals a mix of going and gone concern objectives, which must be balanced with fundamental insurance regulatory objectives of policyholder protection when determining capital needs for G-SIIs. For example, to remain consistent with local jurisdictional insurance capital standards and the consideration of existing insurance resolution mechanisms, only minimum capital requirements should be required for G-SIIs for its insurance activities. Minimum capital requirements mean that the enterprise is able to sustain a certain level of stress without regulatory intervention, not that it will fail should it undergo stress. When developing the HLA, the connection to local jurisdictional insurance regulatory standards must be considered, particularly where implementation will occur on a jurisdiction-by-jurisdiction basis. Finally and equally important, HLA must be appropriately tailored to a G-SII's systemically risky activities, in order for the capital surcharge to reflect the degree to which the G-SII engages in those activities. The HLA methodology should not

		compromise a G-SII's ability to engage in insurance activities that will enhance both the firm's and system-wide financial stability, nor should that methodology discourage a G-SII from shedding systemically risky activities to the extent that it wishes to "de-risk" and perhaps exit from G-SII status in the future [F/N 3]. Footnote: F/N 3: We note that paragraph 27 of the Consultation Document interprets the joint Financial Stability Board (FSB) - IAIS commitment to develop a BCR as a clear indication that the HLA was intended to cover all group activities of a G-SII. AIA disagrees. The referenced language talks about the development of BCR as a "foundation" for HLA capacity, and makes no conclusion about either the scope or risk-sensitive nature of HLA.
5. IAIS position on systemic risk Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
59	**EU** European Insurance and Occupational Pensions Authority IAIS Member	As mentioned in our response to previous questions, EIOPA supports the 2013 IAIS conclusions on the topic of systemic risk and believes that they remain valid in general, providing a good basis for the development of HLA. Regarding paragraph 31, where it is stated that "(…) the HLA may not be restricted to only NT and NI activities.", EIOPA supports the concept but believes that HLA needs to put a clear emphasis on NT and NI, given that these have been identified as the primary drivers of systemic risk in insurance. Consistently with the G-SII designation methodology, other elements also need to be taken into consideration within a risk-sensitive HLA framework, with a particular focus on interconnectedness. The use of the designation scores in the HLA calculation (e.g. for the bucket allocation) could play an important role in this regard, as they are largely driven by Interconnectedness (which accounts for 40% of the total score).
60	**Australia** KPMG International Non-member	1) The simplistic approach adopted to calculate the BCR requirements has meant that a number of factors that give rise to systemic risk or G-SII status are not captured as part of the BCR and, by extension, the HLA (as it is a factor of the BCR). 2) Para 31 provides the justification for not restricting the HLA to NTNI activities (as had previously been indicated). We agree with this, but are concerned that the proposed formula is not then complex enough to cater for the main causes of the G-SII classification as systemic in the first place. For example, there are only three BCR charges on assets (Credit - investment grade, Credit - non investment grade and Equity, real estate & non-credit investment assets), so there is no distinction between say derivatives (systemic) and real estate investment. In addition, the BCR makes no allowance for Group and Liquidity risks. 3) Further, the BCR insurance liability charges are mainly based on net measures and so the level of reinsurance (a systemic assessment factor) is not captured within the BCR and by extension to the HLA (unless some allowance to this will be given in the HLA factors).

		4) As a result of the above, the HLA does not feel to be sufficiently addressing the elements of the business that could be regarded as giving rise to systemic risk. While the BCR does not make any allowance for these systemic risk factors, this needs to be given greater consideration as part of the HLA requirements. NTNI activities, which includes some of the examples above, may be given further weight through gamma as part of the HLA formula, although the operation of this approach remains unclear.
61	**Canada** Canadian Institute of Actuaries Non-member	One of the reasons for carrying high-risk activities is to meet shareholders' ROE expectations. This was evident from detailed analyses of companies' behavior leading up to the 2008 economic crisis. Increasing capital requirements (in the form of HLA) may produce unintended consequences, e.g., that G-SIIs take on additional risk to meet those ROE targets or expectations. We believe the IAIS has appropriately assessed the importance of the time dimension in the insurance business model and regulatory actions. Accordingly, we suggest that a stable HLA would be appropriate to avoid undue volatility. We agree with paragraph 30: there is little evidence that traditional insurance either generates or amplifies systemic risk. We would also emphasize that NT and NI activities may (or may not) generate or amplify systemic risk.
62	**Canada** CLHIA Non-member	Paragraph 30 - We welcome the IAIS' recognition of the importance of the time dimension in the insurance business model and regulatory actions. Accordingly, we suggest some degree of stability and mitigation of undue volatility of the HLA through a smoothing mechanism. - We agree there is little evidence that traditional insurance either generates or amplifies systemic risk. We would also emphasize that NT and NI activities may (or may not) generate or amplify systemic risk. - We suggest that the most appropriate way to address concerns about volatility of HLA capital (from basing the charge on NT and NI activities) would be through smoothing/moving average mechanisms applied to exposures. Paragraph 31 - This paragraph inappropriately suggests that the HLA should include in its scope the potential for a G-SII to fail due to Traditional activities. The scope of the HLA should focus on systemic risk only, and it has been agreed through other research that traditional insurance activities do not give rise to such risk.
63	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft	Firstly, it should be noted that this abstract defines the scope of the HLA to be more than NTNI business with no concrete definition of NTNI at hand. For the sake of an orderly development process, a clear definition of NTNI needs to be determined before application areas can be elaborated for it.

	Non-member	The initial idea of the HLA was to pose additional capital requirements to systemically risky activities. Systemic risk, as defined in this section, is the risk of an event causing harm to the financial system and the real economy. We agree with the stated perception that such an event cannot be caused by traditional insurance business, which is not least due to its long-term nature. Systemic relevance may apply only in connection with derivatives trading on the non-(re)insurance balance sheet and mismanagement of short-term funding from commercial paper or securities lending. These are definitely not part of the (re)insurance core business model. Though some insurers do exercise such bank-like activities, their participation is far from being large enough to cause systemic risk. The BCR results of the 2014 field-testing demonstrate this clearly. Instead of accepting, that insurers' share in systemic risky activities is fairly small, the current HLA draft now proposes the inclusion of systemically irrelevant traditional insurance business. This would impose unjustified sanctions on insurers simply based on their size, which is not what the HLA should be aiming at.
64	**International** International Actuarial Association Non-member	The assessments and conclusions made in this section are appropriate. We do have the following comments on it. 1. The "time dimension" reference in paragraph 30 refers to "runs". More commonly, the time dimension is worthy of note, especially for life insurers, due to the length of their insurance guarantees. The length of these guarantees creates a large amplification (present value) effect on the measurement of required capital, which in turn can increase the non-liquidity systemic aspects of a G-SII's risks. 2. We especially agree with the third bullet, which states that traditional insurance neither generates nor amplifies systemic risk. 3. Not explicitly mentioned in paragraph 30 is that certain NT activities involve non-diversifiable risks for which increasing scale has no benefits for the pooling of risks and only increases the concentration of risk in this category.
65	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	We support the IAIS position on systemic risk and agree that traditional insurance does not create systemic risk. For additional details, please see our response to Section 3.4.
66	**Switzerland** Swiss Re	Swiss Re agrees with bullets 3 and 4. The statement in paragraph 31 "HLA may not be restricted to only NT and NI activities" is therefore a contradiction with the purpose of the HLA as stated in paragraph 28. The NT and NI activities should be segregated into Systemically Risky Activities and Non-Systemically-Risky Activities. See also our answers to

	Non-member	Questions 9 and 16.
67	**U.S.A.** ACLI Non-member	The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 284 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security . ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of U.S. industry assets and premiums. We appreciate the IAIS' ongoing commitment to dialogue in the development of the HLA consultation. We offer the following comments on the IAIS June 25, 2015, Higher Loss Absorbency Consultation Document ("HLA Consultation") soliciting input on a potential HLA standard for Global Systemically Important Insurers ("G-SIIs") identified according to the IAIS Initial Assessment Methodology for G-SIIs (the "Assessment Methodology") and G-SII Policy Measures issued in 2013. We have threshold concerns that fundamental elements on which the HLA proposal rests are still under development. Both the Assessment Methodology and the underlying category of non-traditional Insurance and non-insurance ("NTNI") activities used in assessing systemic risk are subject to reconsideration in the near future. Clearly the HLA proposal could benefit much from the completion of the work on the definition of systemically risky activity and the Assessment Methodology. Both of these initiatives will have material impact on the capital requirement outcomes set by any of the proposed HLA constructs. Indeed, certain members feel so strongly against proceeding before this work is complete and exposed for comment that they call for a delay in seeking FSB and G20 approval of the HLA proposal. Such a delay would allow domestic regulators who are developing or on the verge of implementing solvency frameworks in their jurisdictions to move forward unhampered by a framework that could substantially change on the basis of the IAIS ongoing review of its Assessment Methodology and definition of NTNI. If a delay is not granted the IAIS, FSB and G20 must allow for significant flexibility in the HLA construct to allow revisions following its approval and endorsement in November 2015. This can be achieved by the IAIS clearly stating and reaching agreement with the FSB, G20 and stakeholders that at present they propose an HLA "skeleton" framework as opposed to a static/concrete HLA standard. This framework will evolve into a requirement once the results of the consultations on G-SII methodology and NTNI categories are finalized and incorporated into the HLA construct by 2019. The IAIS should also agree to further consultations with the public as they continue their work to finalize the HLA construct. Significant questions remain about what constitutes systemic activity; whether the current NTNI delineation is a good proxy for risk, let alone systemic risk; and whether requiring additional capital is the best measure for achieving the stated goal of reducing systemic risk. We believe it is in the interests of all concerned to better understand the potential systemic exposure from the insurance sector and whether the HLA is indeed the best risk management tool.

		Another concern with the current proposal is that the Basic Capital Requirement (BCR), the basis for the HLA, is extremely volatile, and the proposed uplift to the BCR will amplify the inherent weaknesses of a necessarily risk-insensitive, factor-based measure that was calibrated at a low level accordingly. This could lead to unintended effects and pro-cyclicality. Another concern is that the HLA Consultation suggests that HLA capital levels are based on a relative ranking of G-SIIs against their peers. This introduces the possibility that de-risking by a G-SII may not lead to a decrease of its HLA capital charge. This makes it difficult for a G-SII to forecast its capital needs. In the HLA Consultation, the proposed HLA calculation methodology would base a G-SII's HLA requirement, in significant part, on its NTNI activities. We understand that the IAIS will be considering revisions to both the Assessment Methodology and the categorization of NTNI activities used in the Assessment Methodology and G-SII Policy Measures, with proposed revisions expected to be proposed for comment in November of this year at the earliest. The Assessment Methodology and what will be considered NTNI activities will have a substantial impact on any ultimate HLA standard. We believe that a thorough analysis of what activities may result in systemic impact should occur prior to a final determination that HLA is the appropriate risk management tool. We also believe that the current NTNI category includes products or activities that create less risk when properly managed than some traditional insurance activities or products and the current categorizations in the Assessment Methodology unduly penalize U.S. products. We urge the IAIS to consider these HLA architecture issues carefully and deliberatively with the benefit of a thorough threshold analysis of what activities may result in systemic risk. We appreciate your consideration of our views and look forward to further discussion.
68	**United States** Metlife Non-member	With the exception of bullet 4 (NT and NI activities within insurance firms or groups may generate or amplify system risk) we would agree with the [IAIS systemic risk] position as outlined. We cannot agree with the position taken in bullet 4 as regards the current classification of activity as "non-traditional." In our view, while the approach taken in Section 3.2 of the July 2013 Policy Measures is encouraging, the present NT classification does not reflect risk, let alone systemic risk. One clear example would be simple funding agreements we issue as "Global GICs." These liabilities differ markedly from many bank liquidity instruments as they pose very limited liquidity risk to MetLife. Our Global GICs are fixed liabilities with specified maturity dates well within our normal investment horizon, can be easily cash flow matched, and contain no insurance risk and virtually no operational risk. Compare this to a traditional payout annuity where cash flow requirements go well beyond the typical fixed investment horizon, posing more operational and longevity risk.

69	**United States** National Association of Mutual Insurance Companies Non-member	The findings on systemic risk are consistent with prior studies by the IAIS. However, it is a worthy consideration that the use of increased regulatory capital requirements to address perceived systemic risks in the insurance industry can very likely have unintended consequences. When the capital requirements to conduct business increase, capacity to sell insurance products necessarily decreases. Economic principles predict that a decrease in capacity (supply) with no requisite change in demand will always result in increases in premiums. Ultimately insurance consumers will suffer under this scenario. This is not a concern unique to the HLA, but one that should be considered by the IAIS related to any project seeking to increase capital requirements. The use of regulatory tools other than capital should always be considered to address risks created by GSIIs or, indeed, any insurance entity.
70	**United States of America** American Insurance Association Non-member	AIA agrees with the definition of "systemic risk" set forth in paragraph 29, and the IAIS statement that differences in the traditional insurance and banking models need to be considered when analyzing systemic importance, particularly the ability (or rather inability) of customers to have on-demand access to an insurer's assets. We also agree with the conclusion that "[t]here is little evidence of traditional insurance either generating or amplifying systemic risk." AIA would take issue with some of the other statements made in Section 3.3. First, absent a clear definition of systemically risky activities and a settled definition of NTNIA, it is difficult to agree with the notion that "NT and NI activities within insurance firms or groups may generate or amplify systemic risk." Second, the IAIS should be focused on those activities that are a source of systemic threat. The question of whether activities "amplify" systemic risk does not aid in a determination of where they should be part of an HLA calculation. Most firms, without regard to whether they are G-SIIs, will be impacted by a shock to the financial system. Third, we do not agree with the statement in paragraph 31 that "G-SIIs are designated as such due to an assessment that their distress or failure may result in a systemic risk event." While that consideration may be part of the determination process, the real focus of inquiry should be on those activities that led to material distress or failure of a firm, and the level of interconnectedness between those specific activities and the overall financial system. Finally, and most importantly, the disconnect between Section 3.3 and the HLA approach underscores AIA's strongest objection to the Consultation Document: the more that HLA becomes a product of the evaluation of a company rather than the evaluation of activities that are catalysts for systemic risk, the less effective HLA becomes as an appropriate policy measure for G-SIIs.
71	**USA** Property Casualty Insurers Association of America (PCI) Non-member	PCI agrees with the IAIS' position that "there is little evidence of traditional insurance either generating or amplifying systemic risk", except that we would amend the statement to say "there is no evidence". Traditional insurance activities, by and large, mitigate systemic risk rather than contributing to or amplifying it. Insurers are not subject to "runs on the bank", insurer resolution takes place over a much longer period than bank resolutions, insurer financial condition is not correlated to general economic downturns and there is no evidence that an insurer's financial distress would lead to a "fire sale" of assets that would contribute to a market downturn.

6. Relatively small size reported of BCR NT insurance and BCR NI required capital amounts Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
72	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA acknowledges the challenges which are created by the practical observations reported in this section, in particular regarding the objective of developing a risk-sensitive HLA framework. However, our view is that such observed reality should not be used as a justification for moving away of the sound fundamental principles which should guide the development of HLA. If NT and NI have been identified, and continue to be seen, as the main potential sources of systemic risk in insurance, they should constitute the primary target of HLA. The low amount of NTNI may also be due to an underreporting problem. The quality of the reported NTNI should be analysed and measures to improve the reporting be undertaken. The HLA methodology will need to incorporate appropriate measures to tackle the practical challenges generated by the observed reality. The use of ceilings and floors associated with HLA buckets constitute one of the possible solutions, without adding too much complexity to the framework. If the HLA is not sufficiently risk-sensitive (e.g. by treating all activities and risks equally), this may open the door for future increases in the magnitude of NT and NI activities developed by G-SIIs (and insurance groups in general), which goes directly against some of the fundamental objectives underlying HLA development. EIOPA fully supports an approach that ensures, to the extent possible, cross-sectoral consistency and level playing field. The use of existing Global Capital Standards, for those NI activities where these are in place seems, therefore, appropriate.
73	**USA** National Association of Insurance Commissioners IAIS Member	We agree that the HLA uplift should reflect, in significant part, the activities that drive the G-SII designations (paragraph 33). In particular, the G-SII assessment methodology gives significant weight to NTNI activities as contributing to systemic risk. However we also acknowledge that the data for NTNI exposures reported by firms resulted in a small percent of total BCR required capital attributable to these exposures. In addition, in some cases the capital factors in the BCR were lower for NT than for traditional risk exposures (e.g. for non-life the capital factor for NT is lower than for traditional insurance). Further work is required to define non-traditional insurance and there needs to be greater data credibility and consistency, after which further consideration should be given to the NTNI capital requirements. However, at this point in time, overemphasizing NT as a base for the HLA will lead to volatile results year to year and between firms in required HLA capital. Large disparities in the percentage uplift between companies designated as G-SIIs may not accurately reflect their relative contributions to systemic risk.
74	**Australia** KPMG International Non-member	1) The implications of the points made in paragraph 34 are not clear. Given the nature of NTNI activities, being a small portion of the G-SII business, it is expected that the BCR associated with these activities will be small. It seems only fair that if this business represents significant systemic risk that it should specifically attract higher HLA requirements relative to other business lines. Similarly, it is logical that insurers who mitigate their NTNI activities should be able to gain capital

		relief through the HLA (it should not be relevant if the HLA factor is magnified as a result of the small size (or BCR) of this business). 2) Further, given that the ICS will ultimately replace the BCR, the outcomes for NTNI activities under the ICS will likely be very different and may negate some of these concerns. It is also relevant to note that the level of NTNI activities conducted are not expected to change significantly and so the BCR associated with these activities may continue to remain small. 3) Alternatively, these concerns may suggest having a completely different basis for the HLA NTNI component rather than basing this on the BCR treatment?
75	**Canada** Canadian Institute of Actuaries Non-member	Basic capital requirements are very simple, in particular for the NT components. We expect both the traditional and NT components to evolve to a more sophisticated approach in the global ICS. While NI is largely based on Basel III, the relative weights could change materially as the framework evolves. As a result, applying excessive leverage to the relatively small NT and NI components of the BCR may be inappropriate. Given that traditional insurance is believed to not pose significant systemic risk, having HLA required capital on traditional business may be no more appropriate than the potential volatility associated with the requirements calculated on NT/NI activities. Instead of using the Trad Ins BCR as a stabilizing mechanism to reduce volatility, we suggest that the HLA could be based more heavily on NT/NI Uplifted BCR. To address the potential volatility of this proposed approach, a smoothing mechanism (e.g., a moving average over a number of reporting periods) could be applied to the HLA required capital outcomes. The unsmoothed results would still be calculated, and could be reported confidentially; if these unsmoothed results become unreasonable, the smoothing mechanism also provides some time to adjust the formulas for future periods.
76	**Canada** CLHIA Non-member	Paragraph 32 - The BCR capital requirement places high emphasis on simplicity as the key policy objective, in particular for the NT component. We expect both the Traditional and NT components to evolve to a more sophisticated approach in the global ICS, while NI is largely based on Basel III, so the relative weights could change materially as the framework evolves. Paragraph 34 - Associated with our recommendation that the HLA be solely based on NT and NI activities, the IAIS should utilize smoothing/moving average mechanisms applied to exposures to provide some dampening to the leveraging effects of applying HLA to the relatively small NT and NI components of the BCR. The HLA formula should be reviewed periodically as the underlying ICS for such activities evolves.

		Paragraph 35 - We agree with the approach of capping the NI requirement to relevant regulated banking requirements. Similarly, there should be a cap on maximum capital for NT that is deemed to give risk to systemic risk. Paragraph 36 - There should be sufficient scenario testing of results containing varying compositions of the HLA formula components, with more testing required depending on the level of complexity of the final HLA (i.e. especially important if the Scale factor and gamma are retained).
77	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	13 % of the total BCR required capital attributable to NI activities and a further 6 % to NT activities are apparent evidence that insurers' share in systemically risky activities is rather small.
78	**International** International Actuarial Association Non-member	It is important to distinguish between the field testing finding (as stated in paragraph 32) and a possible misunderstanding by readers that NT risks for each G-SII are necessarily "low". This would be unfortunate, as the exposure/factor approach to assessing certain NT risks (e.g., variable annuity product guarantees and mortgage insurance) may be very broad-based and inadequate to capture the nature and variability of a G-SII's specific risk.
79	**Japan** The Life Insurance Association of Japan Non-member	[The use of scale factor] ·The level of capital surcharge should be determined in accordance with systemic risk profile of the insurer. To that effect, we do not agree with the use of adjustment by scale factor for calibration as suggested in this Document because it may lead to an overly conservative calibration level to that effect. ·According to the result of field testing, BCR required capital for NT and NI activities are relatively small. This indicates that the most part of insurers' risk are not systemically important in the financial system. It is irrelevant and overly conservative to ignore this risk profile of insurers and implement the calibration level of surcharge (which is about 10% to 20%) in preceding requirements for banking sector as given. ·We are concerned that overly conservative calibration level may have adverse effects such as undermining both policyholders' and investors' interests by deteriorating capital efficiency. In addition, there is a concern that introduction of the one-size-fits-all regulation without considering the insurers' systemic risk profile may amplify systemic risks through procyclicality. ·Also, if the scale factor is reviewed every year, the scale factor will work as a stabilizer that counters volatility in the

		share of NT and NI of BCR, and this will be a problem. For example, given that total BCR does not change, total HLA would not decrease even when the share of NT and NI of BCR is reduced and so is the systemic risk for the industry as a whole. Conversely, total HLA would not increase even when the share of NT and NI of BCR is increased and so is the systemic risk for the industry as a whole. This means that total HLA is not sensitive to the change in systemic risk, which is unfavourable from macroprudential viewpoint. Therefore, scale factor should be abolished or fixed at a certain point of time.
80	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	The result reported in Section 3.4 is not surprising, particularly because there generally is not much systemic risk for traditional insurance products and activities. It is possible, however, that additional work on the ICS may conclude that either the definition of NTNI activities and products or the factors applied to NTNI activities and products may need adjustment. For example, the factors applied to NT claim liabilities for non-life insurance are lower than the factors applied to traditional claim liabilities and may need to be reviewed in relation to factors for traditional insurance. While we are not commenting further on this issue for the purposes of HLA, we may do so in our responses to future ICS consultations.
81	**Switzerland** Swiss Re Non-member	Swiss Re disagrees with using large factors to compensate for low BCR capital requirements for NT and NI business. The HLA should be based on the economic costs of Systemically Risky Activities (a subset of NT and NI activities), as opposed to an a-priori preference for the amount of HLA in total. If there is little or no Systemically Risky Activity, there should be little or no capital charge.
82	**United States** Metlife Non-member	We are not surprised by the low amounts of BCR required capital attributable to NT and NI. Data may not have been reported in a consistent manner. Furthermore, we believe that the proportion of NT and NI is impacted by the unjustifiable bias of the definitions that disadvantage US products. The IAIS should not finalize an HLA formula that is so dependent upon the NT definition when the three principles behind that definition in many respects have only been applied to U.S. products. The questioning of the size of reported NT and NI required capital amounts is yet another very important variable that both adds to the unpredictable nature of BCR plus HLA and relates to the fact that current activities classified as NT and NI do not represent risk, let alone systemic risk. As we point out numerous times in this consultation, we need to do the research to identify and understand what activities could have a systemic impact, and fully assess in terms of residual exposure the potential for these activities to impact other financial institutions and the global economy.
83	**United States** National Association of Mutual Insurance Companies Non-member	We have not seen the field testing results so cannot agree or disagree with the findings reported. However we note that the determination of factors did not consider the relative factors under the BCR for traditional insurance. In fact for non-life the HLA capital factor for NT insurance is lower than the BCR factor for traditional insurance. The IAIS needs additional field testing to conclusively analyze NT and NI for systemic impacts and then needs to better define NT and NI

		insurance. With clear, informed definitions and more credible analysis of the data provided, NTNI capital requirements can be developed with relationship to the risks proposed. If the IAIS moves forward with the proposed approach they are likely to have volatile results from year to year and from firm to firm. If the HLA does not appropriately disincentivize true systemic risk then it will be ineffective in meeting the goals of the GSII capital requirements.
84	**USA** Property Casualty Insurers Association of America (PCI) Non-member	The relatively small amount of NTNI activities should suggest that the systemic risk posed by any activities of insurance groups is also small.
7. HLA Relationship with ICS Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
85	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA supports the IAIS work on the development of a global insurance capital standard (ICS), which is a fundamental element for an appropriate supervision of insurance groups, in a context of increased globalization and cross-border activity of insurance groups. Once concluded, the ICS should become the minimum standard which all IAIGs will need to comply with, including all G-SIIs. To avoid the multiplication of capital requirements, it is just reasonable that the ICS replaces the BCR and, therefore, becomes the basis for the calculation of HLA. EIOPA agrees with the assessment that a review of HLA may be necessary, as part of this transition process, given the foreseeable differences between the BCR and the ICS. In this context, we are supportive of the introduction of the BCR Uplift, which aims to approximate the level of the BCR to that which can be expected in the ICS. This should contribute to minimize the disruption associated with the transition from BCR to ICS as the basis for HLA, at least in terms of the level of HLA.
86	**USA** National Association of Insurance Commissioners IAIS Member	Agree with assessments made in this section; however it is worth clarifying a point made in Paragraph 38 which refers to "interactions between a revised HLA and the ICS which it will be based on in the future". We agree that the development of the ICS should drive potential changes to the HLA rather than the HLA driving decisions about the development of the ICS (which will apply to a broader set of insurers).
87	**Australia** KPMG International Non-member	We understand that the BCR will be replaced by the ICS.

88	**Canada** Canadian Institute of Actuaries Non-member	We agree with the proposal to use ICS as the base for HLA, once the ICS is developed. When this change is made, we suggest that it will be imperative that all of the components of the HLA should be reviewed for continued appropriateness and confirmation that they continue to achieve the desired results.
89	**Canada** CLHIA Non-member	Paragraphs 37 and 38 - We agree with IAIS plans to review the HLA and replace the BCR with the ICS as the base for HLA, as documented in this section. - We appreciate that ICS is not an option at this point, but we would like to point out that utmost care is needed to ensure that the HLA charges off BCR are not excessive and that overall they don't contribute to highly volatile regulatory capital requirements. - While we are supportive of (ultimately) basing the HLA on the ICS, we have concerns with the potential inflation of the overall capital requirements through the concepts such as the BCR Uplift. The BCR should be calibrated in its own right and not seek artificially to match or exceed the "local" regimes. - With the introduction of ICS, all the components of the HLA formula will need to be reviewed, as for example, the risk weights of NT and NI could change materially.
90	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	In general, we support the intention of basing the HLA on a more sophisticated risk-based standard than the BCR. Yet, at this early stage of the ICS development, its future interaction with the HLA should not be finally decided on. We strongly agree with the need for review and recalibration of the HLA in case its foundation (BCR) will be replaced by the ICS.
91	**International** International Actuarial Association Non-member	We agree that when the ICS is completed the HLA will need revision, particularly with respect to the factors used.
92	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	We agree that when the ICS is completed the HLA will need revision, particularly with respect to the factors used.
93	**United States** National Association of Mutual Insurance Companies	We do not agree. First, it seems inefficient to develop an HLA requirement that will need to be changed once a more useful definition is adopted and changed again once the ICS is adopted. The acknowledgment that the IAIS will need to

	Non-member	rewrite and re-expose the HLA portion of the GSII capital requirements three times over the next 4-5 years seem a waste of resources. The significant changes that will affect the HLA structure and calculation warrant a delay in the adoption of the HLA. It is also important to note in this section that the HLA was not intended to drive the decisions about the calibration of the ICS. The consultation draft seems to imply that the ICS will be calibrated at the PCR levels of particular jurisdictions. It is not noted that the relationship between the BCR calibration and the prescribed levels may differ between jurisdictions.
94	**United States of America** American Insurance Association Non-member	Section 3.5 states that the ICS, when developed, will replace the BCR as the foundation for HLA, and that process will trigger a review of the HLA approach. It is difficult to comment on this section until the ICS approach has matured. However, whatever the eventual interaction between HLA and the ICS, the IAIS should reinforce that HLA should not apply beyond G-SIIs, and AIA has clearly stated its views that HLA should be tied only to specifically-identified activities that are the source of systemic risk.
8. Principles for development of HLA Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
95	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA supports the Principles for development of HLA agreed by IAIS. We believe that finding the right balance between the different principles and the building up of a compromise based on them is quite challenging and that a compromise between these will need to be achieved in the final HLA framework.
96	**USA** National Association of Insurance Commissioners IAIS Member	Principle 10 - Refinement states the HLA will be refined in light of experience and data gathered through Field Testing. We strongly agree with the need for continued refinement, as this is the only consultation on the HLA prior to seeking endorsement from the FSB and G 20. The need for refinement is particularly relevant for issues related to NTNI activities (i.e., risk sensitivity). As the definition of NTNI is clarified, data quality improves and additional analysis and experience is gained, the IAIS should consider the appropriateness of the NTNI factors in the BCR and the whether additional weight should be placed on NTNI activities in the HLA capital formula.
97	**Australia** KPMG International Non-member	No comment

98	**Canada** Canadian Institute of Actuaries Non-member	Principle 4 calls for the HLA to be resilient, i.e., to remain valid in a wide variety of economic conditions. We agree with that principle. We also recognize that global markets (financial and other) have become increasingly interconnected and correlated. We therefore suggest testing of the HLA requirements should recognize this new normal of higher correlations and also recognize there can be short periods of particularly high correlation between global markets, particularly when markets are stressed.
99	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	Referring to HLA principle 4, we agree with the need for resilience of the HLA. Thus, it is inevitable that the framework finalized in 2015 will not only be informed by the 2015 field-testing results. It must also be valid in fundamentally different economic situations, which could be investigated in a future stress test.
100	**International** International Actuarial Association Non-member	No comment, other than was previously provided above with respect to HLA Principle 2.
101	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	With respect to Annex C, Principle 1, we request clarification of the meaning of "comparable" in the document. Does this refer to entities having the same HLA regardless of the jurisdiction in which they provide insurance? The last sentence of this principle states that results should be similar and comparable over jurisdictions. What results should be comparable? Is it the numerical result or the regulatory action, HLA and BCR or each piece separately? The IAIS should provide clarification. While we understand Principle 3 of Annex C, we believe there is little advantage for a company that is labeled a G-SII. We are pleased to see that the goal of Principle 5 is a "going concern." This is the correct target for the HLA. Finally, in Principle 6, we request clarification on the statement that the HLA requirement must be met by the "highest quality capital." In section 6.1 paragraph 99, the consultation document indicates that the "highest quality capital" is limited to core capital. Both core and additional capital should be considered the "highest quality capital." If the goal of the HLA is to have an ongoing entity, it is not necessary to have assets that are immediately realizable for cash.
102	**Switzerland** Swiss Re Non-member	Swiss Re proposes to focus in principle 2 on Systemically Risky Activities and not on the size of a company. Swiss Re proposes the following refinement to principle 2: "The HLA should reflect the economic costs of Systemically Risky Activities."

		Swiss Re also proposes the following refinement to principle 3: "The HLA should internalize those costs of failure or distress of the company carrying out Systemically Risky Activities that would otherwise be external to the company."
103	**United States** Metlife Non-member	We question whether at this stage in the capital standard development process outcomes can be comparable across jurisdictions. The BCR that forms the basis for the HLA was developed on the basis of one field test. That was the first exercise of its kind and it produced questionable numbers, such as the level of reported NTNI required capital amounts. We would therefore agree that the HLA will need refinement in light of experience and data gathered by the IAIS in the course of the field testing exercise. Indeed, we would go further and emphasize the need for recognition that elements that are fundamental to the HLA proposal, such as the assessment methodology and definition of NTNI are under review. If a delay cannot be countenanced, any framework proposed must lend itself to material adjustments and the IAIS and FSB should state in the "final" HLA document that they are willing to make these adjustments once more data has been gathered and the two consultations on the key elements of the HLA are finished.
104	**United States of America** American Insurance Association Non-member	Section 3.6 references the IAIS's guiding principles for the HLA initiative, which are set forth in Annex C of the Consultation Document. AIA assumes, in responding to Question 8, that there is no intention to reconsider or refine any of the 10 principles. As a result, we urge the IAIS to balance and weigh the importance of those principles when considering an appropriate HLA approach, and have the following specific comments: HLA Principle 1 - Comparability - AIA appreciates the IAIS emphasis on comparability of outcomes generally, but in the context of a risk-sensitive, activities-focused HLA, the need for comparability should yield to a practical and transparent HLA, which applies a capital surcharge only to a G-SII's systemically risky activities and does not otherwise advance comparability to the degree that a G-SII's HLA charge becomes subject to activities that are not within its control. HLA Principle 5 - Going concern - As discussed in response to Question 1, the HLA approach reveals a mix of going and gone concern objectives, which must be balanced with fundamental insurance regulatory objectives of policyholder protection when determining capital needs for G-SIIs. For example, to remain consistent with local jurisdictional insurance capital standards and the consideration of existing insurance resolution mechanisms, only minimum capital requirements should be required for G-SIIs for its insurance activities. Minimum capital requirements mean that the enterprise is able to sustain a certain level of stress without regulatory intervention, not that it will fail should it undergo stress. When developing the HLA, the connection to local jurisdictional insurance regulatory standards must be considered, particularly where implementation will occur on a jurisdiction-by-jurisdiction basis. Finally and equally important, HLA must be appropriately tailored to a G-SII's systemically risky activities, in order for the capital surcharge to reflect the degree to which the G-SII engages in those activities. The HLA methodology should not compromise a G-SII's ability to engage in insurance activities that will enhance both the firm's and system-wide financial stability, nor should that methodology discourage a G-SII from shedding systemically risky activities to the extent that it

		wishes to "de-risk" and perhaps exit from G-SII status in the future. HLA Principle 6 - Quality of Capital - Neither this principle nor the Consultation Document discusses the definition of "highest quality" capital in relation to HLA. AIA will defer comment on this principle until there is a better understanding of the type of capital that would satisfy an HLA charge. HLA Principle 7 - Pragmatic - This principle stresses the need to balance an HLA approach between specificity and simplicity. If adherence to this principle means that HLA should not be focused exclusively on systemically risky activities, AIA would disagree. HLA should be, above all, a risk-sensitive calculation. HLA Principles 8 - 10 - Consistent, Transparent, Refinement - Principles 8 through 10 call for HLA to be consistent, clear, and subject to refinement over time. AIA agrees with these principles. It is vitally important to develop HLA so that it is appropriate and applied correctly to a G-SII's activities, and not let the process be subject to an artificial deadline that may yield a flawed calculation.
9. HLA time frame Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
105	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA acknowledges the challenging timeframe established for the development of HLA and stands ready to support the successful conclusion of the project. It is important to highlight the period of 3 years (2016 - 2018) which is planned for confidential reporting and refinements of the HLA framework, following its initial endorsement by end-2015.
106	**USA** National Association of Insurance Commissioners IAIS Member	The timeline should accommodate sufficient deliberation on the responses and completion of analysis of data recently collected. Furthermore, there should be opportunity for IAIS Member and stakeholder input on any material revisions resulting from the ongoing data analysis.
107	**Australia** KPMG International Non-member	No Comment
108	**China**	We find it difficult to understand the full implication of the suggested approaches in the consultation paper currently.

	Ping An Insurance (Group) of China Non-member	There have been great uncertainties without the definition (and the transmission mechanism) of NTNI. Furthermore, the G-SII Assessment Methodology is subject to potential amendments later on. NTNI and Assessment Methodology are the integral components of HLA formula including beta, gamma and the scaling factor, which are the core of HLA calculation. The risk sensitivity, complexity and volatility of HLA depend greatly on these two dangling but important factors. We suggest that IAIS consider the delay of HLA consultation deadline until the "missing pieces" are filled.
109	**EU** EIOPA Insurance & Reinsurance Stakeholder Group Non-member	The proposed HLA framework is based on building blocks already scheduled for further review after the HLA consultation closes. Therefore a comprehensive evaluation of the HLA proposals is only possible once the following underlying elements have reached a stable development stage: - - Identification of systemically risky activities, i.e. the definition of non-traditional business (planned to be consulted in November 2015). - - Identification of G-SII, i.e. the G-SII designation methodology (planned to be consulted in November 2015). - - More risk-sensitive basis for the HLA, i.e. replacement of the simple and risk-insensitive BCR by a measure that better reflects G-SII's actual risk profile in particular if BCR is uplifted to the level of existing average risk-sensitive capital requirements.
110	**German** Allianz Non-member	Further field testing of the HLA proposals under different economic scenarios is required before the framework can be finalized.
111	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	In general, the envisaged timeframe is ambitious and entails the risk of ending up with a standard that is not well conceived. Continuous involvement of the industry during the whole process is crucial in order to ensure that the outcome is practical. Future field test results should be made available to all stakeholders and consequences must be discussed transparently. As the current HLA draft is still very open to modifications, the consultation of a re-vised version should be considered.
112	**International** International Actuarial Association Non-member	Based on relatively recent experience of certain jurisdictions that have redesigned their approach to regulatory capital, the overall timeframe for the various IAIS initiatives listed appears to be quite ambitious. Each initiative is important and should be assembled with a view to the cohesiveness of the overall governance, resolution and capital requirement framework. It is hoped that the experiences of these jurisdictions will prove useful in the development of the ICS. Since the ICS will apply to all IAIGs, it may be pragmatic to suggest that given the finite amount of insurance industry expertise (e.g., regulatory, insurer, consulting and actuarial), the current work on the HLA should be streamlined to enable comprehensive attention to be given to the more important (and more risk sensitive) work on the ICS.

113	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	The time frame is ambitious.
114	**Switzerland** Swiss Re Non-member	The HLA proposal should ideally be drafted only after completion of work on the definition of Systemically Risky Activities and the G-SII designation methodology. In particular, as proposed in our response to Question 5, the NT and NI activities should be segregated into Systemically Risky Activities and Non-Systemically Risky Activities. The HLA should be based solely on the former. Should an approval and endorsement in November 2015 nonetheless be sought, the IAIS, FSB and G20 must plan for further development of the HLA construct. This can be achieved by the IAIS clearly stating and reaching agreement with the FSB, G20 and stakeholders that the framework will need to be reassessed once the results of the G-SII methodology and NT and NI consultations are finalized. The IAIS should pursue these changes independently in consultations with the public as they move towards a final HLA construct.
115	**U.S.A.** ACLI Non-member	The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 284 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security . ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of U.S. industry assets and premiums. We appreciate the IAIS' ongoing commitment to dialogue in the development of the HLA consultation. We offer the following comments on the IAIS June 25, 2015, Higher Loss Absorbency Consultation Document ("HLA Consultation") soliciting input on a potential HLA standard for Global Systemically Important Insurers ("G-SIIs") identified according to the IAIS Initial Assessment Methodology for G-SIIs (the "Assessment Methodology") and G-SII Policy Measures issued in 2013. We have threshold concerns that fundamental elements on which the HLA proposal rests are still under development. Both the Assessment Methodology and the underlying category of non-traditional Insurance and non-insurance ("NTNI") activities used in assessing systemic risk are subject to reconsideration in the near future. Clearly the HLA proposal could benefit much from the completion of the work on the definition of systemically risky activity and the Assessment Methodology. Both of these initiatives will have material impact on the capital requirement outcomes set by any of the proposed HLA constructs. Indeed, certain members feel so strongly against proceeding before this work is complete and exposed for comment that they call for a delay in seeking FSB and G20 approval of the HLA proposal. Such a delay would allow domestic regulators who are developing or on the verge of implementing solvency frameworks in their jurisdictions to move forward unhampered by a framework that could substantially change on the basis of the IAIS ongoing review of its Assessment Methodology and definition of NTNI.

		If a delay is not granted the IAIS, FSB and G20 must allow for significant flexibility in the HLA construct to allow revisions following its approval and endorsement in November 2015. This can be achieved by the IAIS clearly stating and reaching agreement with the FSB, G20 and stakeholders that at present they propose an HLA "skeleton" framework as opposed to a static/concrete HLA standard. This framework will evolve into a requirement once the results of the consultations on G-SII methodology and NTNI categories are finalized and incorporated into the HLA construct by 2019. The IAIS should also agree to further consultations with the public as they continue their work to finalize the HLA construct. Significant questions remain about what constitutes systemic activity; whether the current NTNI delineation is a good proxy for risk, let alone systemic risk; and whether requiring additional capital is the best measure for achieving the stated goal of reducing systemic risk. We believe it is in the interests of all concerned to better understand the potential systemic exposure from the insurance sector and whether the HLA is indeed the best risk management tool. Another concern with the current proposal is that the Basic Capital Requirement (BCR), the basis for the HLA, is extremely volatile, and the proposed uplift to the BCR will amplify the inherent weaknesses of a necessarily risk-insensitive, factor-based measure that was calibrated at a low level accordingly. This could lead to unintended effects and pro-cyclicality. Another concern is that the HLA Consultation suggests that HLA capital levels are based on a relative ranking of G-SIIs against their peers. This introduces the possibility that de-risking by a G-SII may not lead to a decrease of its HLA capital charge. This makes it difficult for a G-SII to forecast its capital needs. In the HLA Consultation, the proposed HLA calculation methodology would base a G-SII's HLA requirement, in significant part, on its NTNI activities. We understand that the IAIS will be considering revisions to both the Assessment Methodology and the categorization of NTNI activities used in the Assessment Methodology and G-SII Policy Measures, with proposed revisions expected to be proposed for comment in November of this year at the earliest. The Assessment Methodology and what will be considered NTNI activities will have a substantial impact on any ultimate HLA standard. We believe that a thorough analysis of what activities may result in systemic impact should occur prior to a final determination that HLA is the appropriate risk management tool. We also believe that the current NTNI category includes products or activities that create less risk when properly managed than some traditional insurance activities or products and the current categorizations in the Assessment Methodology unduly penalize U.S. products. We urge the IAIS to consider these HLA architecture issues carefully and deliberatively with the benefit of a thorough threshold analysis of what activities may result in systemic risk. We appreciate your consideration of our views and look forward to further discussion.

116	**United States** Metlife Non-member	Please refer to response to Question 1 above
117	**United States** National Association of Mutual Insurance Companies Non-member	We believe that developing/finalizing these requirements in 2015 is premature. The designation as "refinements" of the changes after new GSII designation criteria are adopted or after the ICS is finalized is incorrect. These changes will result in wholesale changes to the HLA. We believe for the following reasons the HLA consultation and proposed adoption by the G20 is premature: 1) The IAIS has not done enough field testing and analysis of the field testing that has been completed to appropriately design the Higher Loss Absorbency standards. In fact there is not even a clear definition of NT or NI, and there is insufficient analysis illustrating systemic significance of particular activities. The field testing reports to date indicate that the levels of NT and NI may not be as significant among GSIIs as originally thought. For this reason, at a minimum it seems inappropriate to determine an HLA until the complete analysis is complete and a definition is agreed upon. 2) The IAIS reports that they will propose revisions to the criteria for designating GSII later this year including clarification of NTNI definitions. The IAIS has already indicated that they will need to adjust the HLA after those changes are made, if for no other reason, to address enhanced definitions. Determining an HLA in advance of the decisions on the new criteria/definitions will result in duplicative efforts. The proposed HLA is likely to suffer from numerous weaknesses without a fully understood definition of NT and NI. We question whether the duplicative efforts at this time provide any value. 3) Since the HLA is based on the BCR which is a temporary requirement, the IAIS has already indicated that once the ICS is designed and implemented in 2019 the HLA will need to be reconsidered once again. The acknowledgment that the IAIS will need to rewrite and re-expose the HLA portion of the GSII capital requirements three times over the next 4-5 years seem a waste of resources. The significant changes that will affect the HLA structure and calculation warrant a delay in the adoption of the HLA. 4) Even if the IAIS did not have plans to readopt the HLA two more times in the next 5 years, the numerous questions raised in this first and only consultation on the HLA illustrate that even the IAIS is not clear about the direction of the HLA at this time. There will be no final opportunity to weigh in once all comments are received. There will be no opportunity to review the final draft before it is adopted by the G20. The adoption of the standard without providing interested stakeholders a chance to review a final or at least a near-final version fails in meeting the transparency and due process goals that should apply to important international standards.

118	**United States of America** American Insurance Association Non-member	Consistent with our agreement with HLA Principles 8 - 10 (see response to Question 8), AIA believes that the IAIS must decide first on the specific systemically risky activities that will form the basis of HLA before approving a final HLA approach. Moreover, even accepting arguendo that HLA must be appropriately confined to NTNIA, the IAIS has not finalized its NTNIA definition and that definition will be subject to an upcoming public consultation. If the definition changes, the basis for calculating HLA capital will shift as well, and AIA's assessment of the HLA methodology will be different. Therefore, it would also be prudent for the IAIS to wait to conclusively determine its HLA methodology until the NTNIA definition is final.
119	**USA** Property Casualty Insurers Association of America (PCI) Non-member	As we mentioned in our response to the Executive Summary, PCI urges the IAIS not to adopt any version of HLA until the redefinition of NTNI activities and revisions to the G-SII determination methodology are complete and their implications can be studied by stakeholders in their comments.
10. BCR Calibration Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
120	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA is supportive of the stated objective underlying the change of BCR calibration: to better approximate the future level of the ICS under development, allowing for the establishment of a more stable HLA framework, which can better resist the transition of its basis (from BCR to ICS). It must be clear, as stated in paragraph 43, that the Uplifted BCR cannot anticipate or prejudge the future level of the ICS, given that it is based on an average of existing PCRs around the World, whereas the ICS is expected to be defined on the basis of clear and transparent target criteria.
121	**USA** National Association of Insurance Commissioners IAIS Member	Agree.
122	**Australia** KPMG International Non-member	No Comment

123	**Canada** CLHIA Non-member	Paragraphs 41-42 - We believe the HLA should just be based on the BCR until the ICS is ready. The Uplifted BCR, as the estimate of the difference between the BCR and the ICS, is an unreliable foundation on which to base the HLA. The relationship between any two different regimes is never static. It changes through time and in response to various shocks. Rather the key driver for the determination of total requirements should be to realize the desired outcomes listed in paragraph 28.
124	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	At this early stage of the ICS development, its future interaction with the HLA is not decided on. We strongly agree with the need for review and recalibration of the HLA in case its foundation (BCR) will be replaced by the ICS, see our comments on Question 7, Section 3.5.
125	**International** International Actuarial Association Non-member	See our comments on Section 4.3 below.
126	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	As noted above, the uplift is inconsistent with the design and intention of the BCR. We suggest designing and calibrating the initial HLA with a focus on NTNI risks to augment the existing BCR.
127	**United States** Metlife Non-member	The BCR is extremely volatile and could encourage procyclical behavior. The 33% uplift magnifies this important concern. We note that the IAIS advised at one point that the BCR was calibrated to 75% of average PCR in part due to recognition of its risk insensitivity and that available capital could be volatile. BCR calibration should be kept low. In addition, the benefits of diversification are not reflected in the sum of the PCR's. The IAIS has developed a Basic Capital Requirement (BCR) to measure the solvency of G-SIIs that relies upon a market value-based measure of available capital. A market-value based solvency measure has shown issues with low interest rates and procyclicality that must be addressed. MetLife strongly suggests the IAIS explore alternative frameworks both for the BCR and the ICS and proposes that a book-value system can work well, or a market value system, if there are adequate smoothing and controls that address interest rates and credit spreads to avoid pro-cyclicality. Applying the current IAIS market value approach would not be an appropriate prudential measurement because:

		- The insurance business is long-term, has relatively illiquid liabilities, and can withstand temporary fluctuations in market value; - It would introduce non-economic, unreasonable levels of pro-cyclicality that would undermine the shock absorbing nature of the insurance sector. We have identified two specific shortcomings within the existing BCR framework and propose alternatives to remedy the shortcomings. 1. Pro-cyclicality arising from the treatment of credit spreads - The current BCR produces a more pro-cyclical measure of solvency than other capital frameworks (e.g., US RBC, Solvency II). - Pro-cyclicality in a capital standard is not desirable unless required by the business model, which is not the case for insurers. - Approaches employed by other solvency frameworks to manage pro-cyclicality may not be appropriate for the BCR, given the insistence on a BCR that is market value-based and very simple. - Therefore, we propose three simple refinements to the credit spread adjustment applied to the liability discount rate: o Measure the credit spread using a basket of assets consistent with the credit quality of G-SIIs' portfolios (as opposed to just very high quality corporate spreads). o Increasing the credit spread pass-through rate (which currently stands at a very low level of 40%). o The credit spread adjustment should be based on the spread term structure for each currency (not just the 10 year point on the curve). 2. Volatility arising from the long-term discount rate methodology In 2014 field testing, the IAIS defined the long-term discount rate for the BCR as a flat spot rate derived from market data, The yield curves released for 2015 field testing revised the long-term discount rates methodology to address some, but not all, of the industry's concerns. We recommend use of a prudent long-term equilibrium rate to balance the desire for a market-consistent view with the long-term nature of insurance. A specific proposal follows: The extrapolation of the discount curve beyond the last liquid point is based on the long-term forward rate. The approach grades the last liquid forward rate to the long-term forward rate. For the 2015 Field Testing exercise, the IAIS approach for determining the long-term forward rate is the sum of the long-term real GDP growth and projected inflation. This approach implicitly assumes that real interest rates are equal to GDP growth and no investment spread is applied to

		the long-term discount rate. The use of GDP growth as a proxy for real rates is unsupported by economic theory, and empirical studies show a very weak relationship between long-term interest rates and GDP growth. Furthermore, the omission of investment spread over risk-free is inconsistent with the liquid portion of the curve. We recommend that the IAIS revise the long-term forward rate methodology such that the long-term forward rate is the sum of: - Historical average real interest rates for long-term bonds; - Prevailing long-term inflation forecasts based on OECD projections for long-term inflation (consistent with the IAIS's current approach); - Historical average credit spreads for long-term bonds, where the credit quality and percentage pass-through are consistent with the approach for liquid portion of the yield curve. In addition, we recommend that the IAIS shorten the period over which rates are phased-in to the long term rates to further reduce the volatility on valuations for long-duration liabilities. Finally, the IAIS long-term forward rates are significantly below other regulatory regimes and benchmarks. A low long-term forward rate will overstate the value of long-term liabilities. This will reduce the availability and affordability of long-term insurance products. This, in turn, will adversely impact customers as these products (e.g. long-term care and annuities) provide valuable social benefits to society.
128	**United States** National Association of Mutual Insurance Companies Non-member	The information in this section may be accurate and correctly indicates that the ICS calibration has not been determined. However, the process described in footnote 11 suggests that the PCR used in the HLA calculations was taken as an average of jurisdictional PCRs. This doesn't take into account the jurisdictions that do not include PCR terminology in their capital requirements. It does not explain how U.S. RBC might have been incorporated into the analysis.
11. Components of total BCR + HLA Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
129	**EU** European Insurance and Occupational Pensions Authority IAIS Member	As stated in previous responses, EIOPA supports the objective underlying the BCR recalibration. The uplift is part of the BCR and not of HLA, therefore the same rules should apply for capital resources, as described in paragraph 47. The consideration of existing global capital standards for non-insurance sectors is important in the context of BCR, as well as HLA, given that it reduces the opportunities for arbitrage and increases the level playing field among all financial market players. This is an approach which should be followed by other global standard setters regarding insurance activities, given that global insurance capital standards are currently being finalized by the IAIS.

130	**USA** National Association of Insurance Commissioners IAIS Member	Agree with the identification of the different components (including separate component for NI financial activities) but further analysis is needed to assess the implications of the caps on the non-insurance portions BCR and BCR uplifted amounts (paragraphs 45, 49 and 78). Paragraph 45 indicates, "where global capital standards are in place for non-insurance sectors, the outcomes from those standards should not be exceeded". Similarly, Paragraph 78 limits the HLA add-on for regulated banking to a limit derived from the banking regime. While not disagreeing with these approaches, the IAIS should carefully assess the implications of such caps when used in conjunction with HLA formulas that give significant weight to the NTNI components. In such cases, the portion of HLA associated with NT activities is increased. This may exacerbate the volatility in dispersion of the HLA amounts between companies, as well as in year over year results.
131	**Australia** KPMG International Non-member	1) The BCR uplift approach of 33% makes sense to arrive at a proxy average ICS based on field testing results as an interim measure. However, it must be acknowledged that this will be a crude measure as the ICS and BCR calculations are not closely aligned. While at an overall industry level, the uplifted BCR will be more aligned with the level of the ICS, the outcomes for individual insurers are likely to be very different when the ICS replaces the BCR (particularly as the ICS is a RBC framework and is risk sensitive unlike the BCR). 2) Capital resources definitions between ICS and BCR qualifying capital also differ and so the IAIS may need to consider the implications of these differences and whether any form of transitional relief should be provided upon transition from the BCR to the ICS. 3) The ICS will also have separate capital ratios to ensure sufficient levels of high quality capital which may be different to the BCR and HLA proposals.
132	**Canada** CLHIA Non-member	Paragraph 44 - We challenge the introduction of any "Uplift" off the BCR (the proposed 33%). - The BCR has its own calibration and methodology. There is no reason to artificially inflate it in anticipation of the ICS whose final design is still very much in the making. The relationship between any two different regimes is never static. It changes through time and in response to various shocks. - In fact, the combination of volatile BCR and add-ons based on it could create unintended and real challenges for ongoing management of capital requirements. We believe that the more prudent approach would be to use BCR as is, add HLA and observe how this combination behaves through time and in relation to PCRs. This would give good insights for the future design of (ICS-plus-HLA) combination.
133	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	The BCR/HLA framework must maintain a cross-sectorial level playing field: - Asset management activities conducted by a G-SII should be charged according to emerging global capital rules for the asset management sector if and when implemented. In the absence of specific global asset management regulation, the BCR should not be uplifted and no HLA should be charged for those activities. - Regulated banking activities conducted by a G-SII should be charged according to Basel III including bank specific

		HLA rules. No HLA should be charged unless the banking activity in itself is deemed G-SIB.
134	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	We have no comments on this section.
135	**United States** Metlife Non-member	Please refer to response to Question 10 above
136	**United States** National Association of Mutual Insurance Companies Non-member	Without knowing how the ICS will be calibrated providing an Uplift that estimates the differences seems without merit. It presupposes a level of calibration of the ICS despite the remarks in section 4.1 that the ICS is yet to be determined. It seems since all agree that the HLA will be redesigned after the ICS is adopted, that it would make more sense to just describe a single HLA calculation that is used to supplement the BCR. That calculation can then be revised once the ICS is adopted. Its inclusion in the draft creates artificial capital goals that could be avoided by eliminating the Uplift. We are not sure that the Uplift is meaningful or beneficial at this stage.
12. Uplifting the BCR Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
137	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA believes that the 33% uplift factor is an appropriate starting point, subject to review over the next years until the entry into implementation of the BCR and HLA (post 2019). However, as stated in our response to question 10, it is very important to make absolutely clear that the target of 100% of existing PCRs cannot anticipate or prejudge the future level of the ICS, given that the ICS is expected to be defined on the basis of clear and transparent target criteria (which may not be fully in line with the current PCR calibrations). In line with our response to the previous question, EIOPA supports the alignment (ceiling) of the uplifted BCR for regulated banking activities with the capital requirements stemming from the Basel framework.
138	**USA** National Association of Insurance Commissioners IAIS Member	Agree, although see response to Q11 relating to the need to do further analysis to assess the implications of capping the required capital for NI activities noted in paragraph 49.

139	**Australia** KPMG International Non-member	1) As 4.2 2) As 2.1 3) Para 51 agreed
140	**Canada** Canadian Institute of Actuaries Non-member	We agree that the Uplifted BCR NI should be capped, so that insurers are not competitively disadvantaged vs. banks by holding more capital than the lowest-ranked G-SIBs for banking risks.
141	**Canada** CLHIA Non-member	Paragraph 48 - As outlined in our answers to other Questions, we disagree with the concept of BCR Uplift(s). Paragraph 49 - We agree that the BCR NI should be capped, so that insurers are not competitively disadvantaged vs. banks by holding more capital than the lowest ranked G-SIBs for banking risks. - We also suggest that the HLA component related to NT also be capped, or through a cap to the combination of BCR and HLA NT in order to ensure reasonability of capital charges
142	**EU** EIOPA Insurance & Reinsurance Stakeholder Group Non-member	The consultation paper does not address the extent to which existing local prescribed capital requirements covers the HLA. The local capital requirement could be high enough to meet the HLA. The paper states that the proposed uplift of the BCR by 33% should align the average (uplifted) BCR level with the average level of local Prescribed Capital Requirements. Given the BCR is fairly simple and risk-insensitive it is not reflective of a G-SII's true risk profile and therefore is likely to provide inadequate and conflicting risk management incentives when uplifted to the level of the Solvency II - SCR or any other local capital requirements. Therefore the current BCR/HLA proposal can only provide indications for further discussions with the group wide supervisor.
143	**German** Allianz Non-member	We are concerned about the proposed uplift of the BCR by 33% to bring it closer to the average level of existing capital requirements. While the BCR is simple and risk-insensitive it is not reflective of a GSII's true risk profile and therefore is very likely to provide inadequate and conflicting risk management incentives when uplifted to the level of the Solvency II - SCR. Therefore the current BCR/HLA proposal can only provide indications for further discussions with the group wide supervisor.
144	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft	The idea of uplifting the BCR to a PCR level seems reasonable considering that the ICS is expected to replace the BCR eventually. It should be borne in mind, though, that this is an artificial uplift, which results from the BCR being calibrated at a lower level than the ICS. In addition, the extent of the uplift of 33 % was constructed by a temporary averaged result

	Non-member	of a selection of insurers and should not be generalized. Thus, the value added by an artificially constructed HLA seems questionable. We are concerned about the proposed uplift of the BCR by 33 %. The BCR by design is simple and risk-insensitive therefore not reflective of a G-SII's true risk profile and very likely to provide inadequate and conflicting risk management incentives when uplifted to the level of the Solvency II - SCR. Against this backdrop the current BCR/HLA proposal can only provide indications for further discussions with the group wide supervisor rather than define a binding constraint. We agree with capping the Uplifted BCR of NI activities. If other sectors have had experts develop sophisticated standards, which best reflect their business model, the BCR/HLA should be informed by these standards. Thus, the cap of the Uplifted BCR for Non-Insurance at the full Basel requirement based on RWA is appropriate, consistent with the BCR idea and contributes to the establishment of a level playing field.
145	**International** International Actuarial Association Non-member	Uplifting the BCR is designed to achieve a result that is similar to the PCR on a broad basis. Using this broad methodology is likely to produce false results (either positive or negative) relative to the true risks of the G-SIIs. Since the uplift is a temporary adjustment, no uplift should be required once the ICS replaces the BCR. We think it particularly important to clarify the specific risks the HLA is meant to reflect, where it needs to be held and how it may or may not interact with the separate ICS discussions.
146	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	As noted above, the uplift is inconsistent with the design and intention of the BCR. We suggest designing and calibrating the initial HLA with a focus on NTNI risks to augment the existing BCR. Further, we suggest that the IAIS clarify whether the uplift will be removed when the ICS replaces the BCR. If so, we recommend explicitly labeling the uplift as temporary in the HLA consultation document.
147	**United Kingdom** Institute and Faculty of Actuaries Non-member	It should be recognised that since the Prescribed Capital Requirement (PCR) calculation methodology will vary significantly according to the domicile of the G-SII, the 33% uplift factor does not represent any specific level of financial strength. In addition, the single factor takes a broad-brush approach, not recognising the differences in insurance liability profiles of the G-SIIs: for example, a G-SII which writes mostly unit-linked business could be less capital intensive than another G-SII which writes guaranteed savings business.
148	**United States** Metlife Non-member	Please refer to response to Question 10 above

149	**United States** National Association of Mutual Insurance Companies Non-member	In addition to the comments included to section 4.2, we continue to have concerns about the application of Uplift to Traditional Insurance, NT and NI other than banking NI activities. The imbalance this could create and the inappropriate risk-weighting for certain activities are concerns.
13. Transition period for Uplifts Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
150	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA does not believe the concept of transition period for the BCR Uplift, as currently defined, is necessary. We support the proposal that the G-SIIs must meet the full amount of the Uplifted BCR once it is implemented (from 2019 onwards) but believe that the collection of any additional capital amount, if necessary, should be done in a flexible way by the relevant groups (in order to cause minimal disruption to their activities or the financial markets). This is, in any case, what the current proposal for a transition period is de facto establishing, given that it does not set any transition plan (specific proportion of the Uplift to be accumulated each year). For this reason, we believe the concept is unnecessary in this context.
151	**USA** National Association of Insurance Commissioners IAIS Member	We agree with a transition period through 2019 for the BCR uplift (alpha), and agree that this will allow for refinement which could avoid overshooting on calibration of BCR + HLA.
152	**Australia** KPMG International Non-member	1) It is not clear how the uplift transition arrangement will operate in practice. Will this be on a gradual increase in the BCR uplift through the transition period, starting from say 0% in 2016 to 33% by 2019? 2) Further ICS will replace BCR by 2019. While the BCR uplift takes the BCR to an approximate ICS at an average level, the results for individual insurers are likely to be different under the ICS and this may result in the BCR + uplift to ICS ratio varying significantly across the G-SII population. Transition arrangements to cover this potential difference will also need to be considered.
153	**Canada** Canadian Institute of Actuaries Non-member	We support a transition period for the Uplifts.
154	**Canada** CLHIA	Paragraph 50 - The transition should also be extended in scope to cover all components of the HLA formula.

	Non-member	
155	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	We strongly support the inclusion of transitional arrangements, as these are crucial for a smooth implementation. Thus, we support the transition period for the BCR Uplift and encourage the introduction of transitionals for other areas. Please see our comments on Question 27, Section 6.1.
156	**International** International Actuarial Association Non-member	If the uplift is adopted, we don't see the value in a transition period. Should there be a concern about a false indication the result can easily be adjusted by a regulator to reflect the true situation.
157	**Japan** General Insurance Association of Japan Non-member	The proposed three-year transition period is premised on using BCR as a foundation for HLA. On the other hand, when the ICS is developed, it will replace the BCR in its role as the HLA´s foundation. While ICS levels are not clearly set at present, we are concerned that G-SIIs could possibly be required to hold more capital in cases where HLA levels are raised on the foundation of the ICS. Therefore, it will be necessary to set another appropriate transition period once the ICS replaces the BCR. In addition, there appears to be an inconsistency between Paragraph 54 (which explains that the full amounts computed for the BCR Uplift would be reflected during the transition period) and Paragraph 53 (which indicates the amount could be phased in over a transition period). How the amount will be treated during the transition period should be clarified.
158	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	As noted above, the uplift is inconsistent with the design and intention of the BCR. We suggest designing and calibrating the initial HLA with a focus on NTNI risks to augment the existing BCR. If an uplift is used, the transition is unlikely to achieve any major purpose. Measuring the results would be just as easy using the full uplift amount. As long as the uplift is shown explicitly, any necessary adjustment could be made.
159	**United States** Metlife Non-member	While we fail to understand how it makes sense to have a transition period for rules which are not yet in effect, we agree that a transition period may be beneficial. However, we suggest it be made clear that the transition period applies to confidential reporting or alternatively should begin upon the implementation of the standard and run to some later date, rather than running during the period of time prior to implementation, as currently suggested by the consultation document.

		We would add here that if a proposal is submitted in November, given the application date of 2019, we urge the IAIS to adopt an HLA design that allows for material adjustments to be made. We would suggest for sake of clarity and transparency to all stakeholders that this objective be stated and written into the final proposal made to the FSB. The IAIS should agree to further consultations with the FSB as they move towards a final HLA construct. We suggest that a design that eliminates buckets or (Bucket Option 1) and establishes gamma at zero would allow adjustments to be made to the HLA construct as may be dictated by additional learning from research and field test exercises. Moving off of a zero gamma should be conditioned on a robust, detailed review and assessment of systemic activities and an evaluation of the most appropriate regulatory policy approach to manage them (capital, liquidity, limits or other prudential measures). The elimination of buckets would also have the advantage of avoiding a gamesmanship and competition issues pointed out in our response to Question 2 above.
14. Overall Approach (Possible HLA required capital formulas) Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
160	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA agrees with the statement that the different elements defining the HLA framework are inter related and that a compromise needs to be achieved regarding the trade-off between risk sensitivity and complexity. Although, in the following questions, we provide details regarding our view on each of the individual components, our responses are taking into account how they would work together as part of the overall solution.
161	**USA** National Association of Insurance Commissioners IAIS Member	Will address underlying issues elsewhere.
162	**Australia** KPMG International Non-member	1) While simple, a factor based approach such as the one being proposed is not likely to be sufficiently risk sensitive to each insurer's level of systemic risk.
163	**Canada** CLHIA Non-member	Paragraph 59 - We view the HLA proposals as being too complex. - Insurers are much less systemic than banks yet banks have much simpler formulas. Complexity makes the predictability of the charge highly uncertain, obstructing orderly capital management.

		- We agree, however, that the degree of risk sensitivity may differ among the various components, reflective of the degree to which activities contribute to systemic risk.
164	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	We would like to highlight the following aspects that will be further elaborated in the following sections: - Considering the bucketing, please see our comments on Question 15, Section 5.2; - Considering the formulas, please see our comments on Question 16, Section 5.3; - Considering the calibration, please see our comments on Question 17, Section 5.4.
165	**International** International Actuarial Association Non-member	With respect to paragraph 56, please note our comments on paragraph 14 that contain much of the same text. Paragraph 59 discusses the need to trade-off risk sensitivity and complexity. Although we agree that this is needed, the paragraph fails to adequately distinguish the type of risk sensitivity being referred to. This lack of clarity makes it difficult to comment on the trade-offs with complexity. For example, consider variable annuity guarantee risks. These risks include complex-to-value financial options that can increase in value exponentially with market conditions as they move "into the money". An exposure/factor approach for these risks is inadequate in valuing these options. Specifically, such an approach will not identify those insurers with the largest "in the money" position unless this is captured in the exposure measure. In addition, the "in the money" position will vary daily with the market values of the underlying assets. This creates a very volatile risk exposure which should consequently result in a similarly volatile (risk sensitive) capital requirement. While such a requirement may not be indicative of a short term liquidity need for cash, it does represent a current estimate of future capital needs over a possible 10 or 20+ year horizon.
166	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	The formula chosen is very simple. Risk sensitivity is focused in the BCR calculation with a secondary effect from the choice of gamma (?). The formula may be more risk-sensitive once ICS is implemented.
167	**Switzerland** Swiss Re Non-member	Swiss Re understands that IAIS aims to present an HLA proposal at the G20 meeting in November 2015. Therefore, in the nearer term we support the HLA formula with gamma equal to 1 and a fixed scaling factor. See our responses provided for questions 15 and 16 for further details. In a next step, e.g. with basing the HLA on the ICS, the HLA must be based on a realistic risk assessment that

		determines the true economic cost of Systemically Risky Activities. See also our response provided for question 9 above.
168	**United States** Metlife Non-member	Please refer to responses to Questions 1 and 2
15. Bucketing Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
169	**China** China Insurance Regulatory Commission IAIS Member	We believe that HLA should have some sensitivity to the systemic risk. The bucketing method should strike the right balance between the simplicity and risk sensitivity. HLA Principle 3 states that "HLA may lead to a reduction in systemic activities by increasing the cost of capital". Having all G-SIIs in one bucket does not effectively distinguish the G-SIIs of different levels of systemic risk and does not provide enough incentive for G-SIIs with higher level of systemic risk to engage in reducing the activities considered to be systemically risky. Therefore, we suggest having more buckets for HLA.
170	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA supports the use of buckets in the calculation of HLA. This feature is well known from the banking HLA framework and, in our view, constitutes a simple but sound solution to achieve three fundamental objectives of HLA: - The introduction of a strong link to the outcomes of the G-SII designation methodology, through the use of the G-SII designation scores as the means to assign each G-SII to the relevant bucket. - The introduction of risk-sensitivity to the HLA framework, driven by the totality of the G-SII designation risk drivers. - The allowance in the HLA framework of incentives for the reduction or, at least, for no increase in the systemic footprint of each individual G-SII. This would be achieved by the inclusion of a penalizing empty bucket at the top. Concerning the number of buckets, EIOPA is of the opinion that 3 buckets are necessary (including one empty at the top) for the abovementioned objectives to be entirely fulfilled. The methodology proposed by the IAIS for the determination of the boundaries of each bucket seems like a reasonable methodology which should be further validated in the context of the current Field Testing exercise.
171	**USA** National Association of Insurance Commissioners IAIS Member	We are open to a bucketing approach for HLA purposes and think the assessments and conclusions here are reasonable. We agree that bucketing may create additional incentives for G-SII's not to become more systemic and prefer this tool (over some of the others presented in Section 5) for reflecting some degree of risk sensitivity. However, we also agree that the working assumptions should be limited to no more than two populated buckets and as discussed further below, we prefer firms within each bucket receive the same percentage uplift.

172	**Australia** KPMG International Non-member	1) See our response to Question 21 regarding the proposed number of buckets to be used. 2) It is worth noting that there are only 9 designated G-SIIs to which the HLA will apply. While increasing risk sensitivity, "bucketing' such a small number of insurers can lead to spurious results and significant movement of insurers between the various buckets through business as usual activities. Imposing a G-SII status that attracts higher capital requirements should be enough of an incentive for G-SIIs to reduce their systemic risk and reduce capital requirements. 3) The use of G-SII scores as a measure of systemic risk does not seem appropriate. The G-SII assessment score is a comparative measure that allows for a comparison of the level of systemic risk across the insurers. If one insurer de-risks their business this will be apparent through a reduction in their G-SII score. However, if all insurers were to de-risk their business, this may not result in a decrease in the G-SII score for an individual insurer (as it is a comparative measure). The result could therefore be that while the systemic risk of the G-SII has reduced, the same HLA factor, based on its bucket, will continue to apply as its G-SII score will remain unchanged. 4) The bucketing approach proposed is based on the overall G-SII assessment score of the insurance groups. The average score from the G-SII assessment exercise of 0.02 is used as a starting point (which is based on 50 participating insurers), - It is unclear whether the G-SII scores for each of the 9 G-SIIs have been published by the IAIS and whether the G-SIIs themselves are aware of their own G-SII scores and consequently which buckets they would fall into. - Further, without knowing the range of G-SII scores it is difficult to comment on the appropriateness of the number of buckets being proposed as well as the "band width' of each bucket. At the moment the bounds of each bucket appear to be arbitrarily chosen. - By implication, G-SIIs would have the highest G-SII assessment scores (i.e. be the top 9 out of the 50 groups assessed) and would all be expected to have a G-SII score above 0.02 (given 0.02 is the average across the 50 groups assessed). As such, it is not clear what is meant by the following statement in paragraph 64 "While it is not considered likely that a designated G-SII would have a score below the average for all G-SIIs, such an outcome is theoretically possible due to the possibility that supervisory judgement may be applied as part of the assessment methodology".
173	**Canada** Canadian Institute of Actuaries Non-member	If there is to be bucketing, then more buckets would be desirable to avoid large changes in HLA required capital (particularly large increases) resulting from a given insurer changing buckets over time.
174	**Canada** CLHIA Non-member	Paragraph 61 - We agree with the premise that bucketing creates incentives for G-SIIs not to become more systemic. On the other hand, bucketing will result in step wise changes in the HLA, as a G-SII risk weights shift, while a gamma, if it is less than 1.0, would be more graduated. To provide some degree of mitigation of G-SIIs frequently moving between buckets, we recommend elements of smoothing/moving averages applied to the exposures.

		Paragraph 63 - We support Bucketing Choice 2 (two buckets).
175	**China** Ping An Insurance (Group) of China Non-member	The purpose of the HLA is to create incentives for existing G-SIIs to reduce systemic activities. However, the current bucketing approach including the assessment methodology may be counter-productive on the following fronts: 1. The bucketing is determined by the G-SII assessment scoring, which is based on the relative position in the assessment population 2. Relative scoring could not reflect the absolute level of risk-taking or de-risking. For example, if all the companies in the assessment population decreased the risk-taking activities by half, the scoring result will stay the same 3. Relative scoring might changedue to the new entrance to the assessment population and the potential changes in G-SII methodology and NTNI definition. We support the purpose of the bucketing for simplicity. However, we would recommend refine the assessment methodology to reflect more on the absolute level of risk-taking or de-risk of given G-SII.
176	**German** Allianz Non-member	- The IAIS proposes that scoring results from the GSII designation process are utilized to classify GSII into HLA buckets. This requires that the designation process and results are made fully transparent to GSII, which is currently not the case. - Additionally current GSII designation criteria implicitly are biased towards assigning high scores to large insurers irrespective of whether the business activities are considered systemically risky or not. In the extreme this approach can lead to high HLA charges for large traditional insurers, while it is commonly acknowledged (including the IAIS) that traditional insurance activities do not pose systemic risks. On the contrary, large traditional insurers contribute to stability through a better diversification of risks. Therefore size should not be discouraged. The bias towards penalizing size seems due to the designation methodology being adopted from global banking regulation, where size clearly correlates with systemic importance of a GSIB to the stability of the global financial system. However due to the different nature of the insurance business model the impact of a GSII is very different from the impact of a GSIB on financial stability. - The boundaries of HLA buckets should be defined in terms of absolute score values from designation rather than relative to the average outcome of the designation process in order to allow for the possibility to exit the GSII list and to provide clear metrics against which a GSII can manage its degree of systemicness. - The focus on systemically risky activities should be implemented through an adequate definition of non-traditional activities, a high value of gamma (i.e. the HLA is driven by BCR NT, rather than total BCR) and a small number of buckets (reflecting the low differentiation between the degree of GSII's systemicness provided through the designation

		score, which is mainly driven by size). - A two bucket approach with an initially empty top bucket seems reasonable in order to provide a disincentive for the most systemic GSII to become more systemic. The degree of systemically risky activities should correspondingly be represented by BCR NT as the exposure base for HLA (i.e. by setting gamma to 1).
177	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	It is very difficult to decide on a detailed property, such as the number of G-SII buckets, at this point in time. The G-SII designation methodology is currently under review, which makes it impossible for us to assess the resulting scores or their range. Once the designation methodology has been finalized, not only the method but also the resulting scores need to be communicated to the affected undertakings transparently. Currently, the scores are implicitly determined based on the size of a G-SII. However, the bucketing should not be executed based on size but rather on the quantity of a G-SII's activities in systemically risky business. Consequently, as long as the scores are mainly an indicator of size, the differentiation of capital requirements for G-SIIs should be achieved by the gamma factor, rather than by bucketing. In general, we support the idea of having an empty top bucket in order to give disincentives for increasing systemically risky activities. At this stage, we support option 2 with one populated bucket for the aforementioned reasons. If the future the G-SII designation methodology will be able to reflect the systemic riskiness of an insurance group, more than one populated bucket could be considered. Yet, this needs to be evaluated when the designation and scoring process has been developed. The boundaries of HLA buckets should be defined in terms of absolute score values and not relative to the average outcome of the designation process. In this way, clear metrics, which a G-SII can manage its degree of systemic riskiness against, are provided.
178	**International** International Actuarial Association Non-member	Assuming that the conceptual clarity indicated earlier is resolved, along with the consistent integration of the HLA method with the BCR and ICS methods, we concur with the concepts presented in Section 5.2. The IAA's normal preference would be to advocate for more buckets or even a variable approach to increasing amounts of risk in order to avoid cliff effects as G-SII status is reached. Nevertheless, as there are a limited number of G-SIIs, comparability to the treatment of G-SIBs is important to the IAIS (i.e., the largest G-SII is in bottom bucket for G-SIBs) and since the BCR/HLA is a stop-gap measure, we can support the simpler IAIS proposal for a 2 bucket (one populated) approach for this purpose. This support is contingent on a subsequent review of the HLA design once the ICS for all IAIG's is developed with a goal of eliminating the bucket approach in favor of one that eliminates the possibility of cliff effects. We do note that having only one bucket for G-SII's can create, on one hand, an incentive not to be a G-SII and on the

		other hand, fail to require appropriately larger HLA amounts for larger G-SIIs. However, given that the largest G-SII is likely no larger than the smallest G-SIB bucket, we understand that a one populated bucket approach may be appropriate to avoid cross-sector capital arbitrage.
179	**Japan** General Insurance Association of Japan Non-member	We understand bucketing helps increase risk sensitivity of the HLA requirement and create incentives for G-SIIs not to become more systemic. In order that bucketing and the level of factors associated with each bucket to be appropriate, we believe that G-SII Assessment Methodology (including the calculation method of the total score) should at least be able to appropriately reflect the level of systemic risk of a G-SII. With regard to the consultation, the calculation of the total score under the G-SII Assessment Methodology lacks necessary information and contains structural problems as described below. We are not currently able to properly determine the appropriateness of bucketing (and the appropriate level of HLA to be raised). We therefore think the introduction of bucketing should be postponed until these problems are resolved. - The details concerning the total score under the G-SII Assessment Methodology and its relationship to additional quantitative assessment (IFS assessment approach), and the cut-off point, etc. are unclear. (In contrast, the G-SIBs bucket allocation, average score, and thresholds, etc., are publicly available.) - The total score under the current G-SII Assessment Methodology is based on a relative assessment of scores attributable only to the insurance sector. Therefore, if a G-SII has reduced its systemic risk but its position within the group of G-SIIs has not changed, no credit would be given for such efforts, i.e., the G-SII may still have a high total score and be allocated in a higher bucket. It would also be difficult to assess the effects of bucketing, including the changes over time of systemic risk held. The total score under the G-SII Assessment Methodology is sensitive to foreign exchange conversion. Buckets to which G-SIIs are allocated could change solely on the basis of exchange rate fluctuations. Therefore, consideration should be given to the easing of sharp volatility. Such considerations could include applying thresholds on the effect of fluctuations, and taking volatility into account on a local currency basis, etc.
180	**Japan** The Life Insurance Association of Japan Non-member	[The use of bucket] ·Taking into account the significant impact of the HLA on each insurer's management strategy and capital policy, we support the idea of "using multiple buckets", namely, using three or more buckets including top bucket (empty bucket). ·The HLA would have significant impact on each insurer's management strategy and capital policy, provided that it is necessary for insurers to raise sufficient core capital as HLA required capital. We believe that the use of more than one

		bucket would enable insurers to reduce cliff effects between the level of required capital for non-G-SIIs and G-SIIs, and thus, it would contribute to the continuous and stable application of capital requirement even for non-G-SIIs. ·Besides, as indicated by the IAIS, we believe that having more than two buckets including top bucket (empty bucket) would create an ongoing incentive for the most systemic G-SIIs not to increase their systemic importance.
181	**People's Republic of China** China Association of Actuaries Non-member	Disagree. As indicated one desired outcome of implementing HLA scheme is to providing disincentives to carrying out activities involving systemic risk. However, we argue that current bucketing method (assigning GSIIs into buckets based on their scores) is not entirely in line with the abovementioned goal due to the fact that GSIIs assessment is constructed on a relative basis rather than absolute measurement. In GSIIs Initial Assessment Methodology (July 2013), scores for particular indicators are calculated by dividing the individual amount by the sample aggregate amount and the final score will be the sum of each score according to predetermined weights. This could be inappropriate. In an extreme case, if all the participating insurers reduce their systemic risk by the same degree, the scores would be unchanged since the bucket assigned will stay unchanged as well as the bucketing factors. It could be argued that this bucketing methodology would not help create incentives for existing GSIIs to reduce systemic risk. We suggest that in the future GSII assessment (and bucketing) should adopt absolute measurement; otherwise it only creates incentives not becoming more systemic relatively to other selected participants.
182	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	The presence of cliffs in regulatory formulas–such as the one being proposed in HLA–can result in unintended behavior by regulated entities. In particular, if an entity finds itself close to the cliff, it may alter its behavior to avoid going over, even if the step does not reduce risk in a significant manner, or at all. For example, a company could make a minor change to a liability estimate, even if there is no, or marginal, justification for the action. The Solvency Committee would strongly urge the IAIS to consider a continuous approach instead. For example, rather than assigning a different value to ß based on the entity's bucket, ß could be a continuous function of an entity's score in the G-SII Assessment Methodology.
183	**Switzerland** Swiss Re	The proposed bucket factor methodology is based on relative scores (relative to the average) among the full set of participating insurers. HLA should be determined by the absolute (as opposed to relative) systemic risk posed by an

	Non-member	insurer. This is also heavily influenced by the size of the insurer, which should not be used as a proxy for systemic risk. Due to the ongoing policy developments on designation and identification of NTNI it is questionable whether a sensible decision on the number of buckets can already be made. If the proposed methodology is used in an initial phase (see our response to question 14 above), Swiss Re would prefer a methodology that does not make use of buckets. Choice 2 (two buckets) is preferred to choice 1 (three buckets).
184	**United Kingdom** Institute and Faculty of Actuaries Non-member	The concept of "bucketing' introduces an arbitrary cut-off between the HLA capital requirements of different G-SIIs. If a G-SII wishes to avoid being re-categorised into a higher bucket, it may have to take sub-optimal actions with an adverse economic impact. Rather than use buckets, the HLA capital requirements could increase gradually as the G-SII becomes more systemically important.
185	**United States** Metlife Non-member	Please refer to response to Question 2
16. Proposed HLA Insurance formulas Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
186	**China** China Insurance Regulatory Commission IAIS Member	Firstly, we think the definition of NTNI is not so clear yet, so the simplicity and accuracy of the HLA formula would not be so good. Secondly, the HLA formula of consultation paper refers to the calculation method of additional capital of G-SIB. Generally speaking, we believe that the systemic risk of insurers is lower than that of banks. Using the similar level of calibration of banks will overestimate the systemic risk of insurers. Thirdly, because of the calibration, a company with high level of NTNI would be double -penalized, and that will lead to double-counting.
187	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA supports the use of a combined formula primarily (but not exclusively) targeted at the main sources of systemic risk within the activities of the G-SIIs. The designation as a G-SII is largely driven by NTNI (45%) and Interconnectedness (40%), but only the former is explicitly captured within the framework of the BCR. For this reason, we believe that the gamma factor should be calibrated at a relatively high level (60%, corresponding to a scale factor of approximately 2, could be appropriate), to put the necessary emphasis of HLA capital requirements in NTNI activities (BCR capital charges on the drivers of Interconnectedness are not explicitly identified within the BCR and cannot therefore be individually targeted). The use of buckets, as described in our previous response, would further contribute to the risk-sensitivity of the framework, while

		capturing the element of Interconnectedness in the definition of HLA required capital as well. As mentioned in previous responses, the fact that the NTNI reported component within the BCR was in 2014 less material than expected should not lead to the development of a framework for HLA which is not technically sound or in line with the long-held IAIS views on systemic risk. To counter for any practical consequences of this reality, an alternative mechanism is suggested instead (use of ceilings and floors).
188	**USA** National Association of Insurance Commissioners IAIS Member	Further work is required to define NT and refine the NTNI capital requirements generated by the BCR. Please refer to our response to Q6.
189	**Australia** KPMG International Non-member	1) The idea of the gamma approach makes sense in that it enables the weighting to NTNI activities (a major component in the classification as a G-SII) to be increased. However, para 69/70 then says that the IAIS will "introduce a scale factor to ensure the average outcomes are the same" as "the full Insurance formula on average". - This introduces complexity and questions around how this is going to work in practice. We acknowledge that the IAIS says "the Scale factor is chosen such that the outcome from a combined HLA Insurance formula gives the same outcome on average over the set of G-SIIs as the full HLA Insurance formula on average." However, in practice, does this mean that the IAIS will initially calibrate the scale factor, based on a specified gamma, such that the full HLA insurance formula (at an industry level across all G-SIIs) is equal to the combined formula; and then prescribe that scale factor and gamma for all G-SIIs to use? 2) For insurance, the IAIS could consider an alternative formula to improve transparency in the actual weighting being given to traditional and non-traditional insurance. One alternative is to apply a gamma factor to the BCR NT uplift and a (1-gamma) factor to the BCR traditional uplift. In this way, the weights assigned to the traditional and NT insurance components are transparent. The current proposed formula has weights applying to BCR uplift and BCR NT uplift which has the NT component in both exposures.
190	**Canada** Canadian Institute of Actuaries Non-member	We support the proposal to use a Combined HLA Insurance formula (third bullet of para 69). One of the key inputs to the overall HLA approach is the average BCR weights of G-SIIs (table D-1 uses 80/5/15). These average G-SII weights will determine the initial scale factor. This makes the HLA required capital for a specific company very sensitive to the BCR weights of the average of the G-SIIs. We support the use of a high gamma factor to make the HLA risk sensitive to the level of the NT and NI exposures of the company. We expect the scale factor will be refined throughout the initial calibration period, which may last some years.

		Subsequently, we expect that the scale factor would be further refined infrequently and with sufficient advance notice to G-SIIs. We are concerned about more-frequent adjustments to the scale factor. More-frequent adjustment, e.g., an automatic recalibration to reflect the evolving risk profile of the G-SII universe, would make it impossible for a G-SII to proactively manage its capital ratio. Companies would be unable to anticipate changes caused by the scale factor, and thus could not appropriately forecast their capital ratio. From a practical perspective, it is important to understand how often the scale factor would change. Annual updates may result in abrupt and unpredictable changes in the HLA requirement. We suggest further clarity be provided on how and when the IAIS expects to set and then update the scale factor, and how and when it will communicate changes to the scale factor.
191	**Canada** CLHIA Non-member	Paragraph 69 - As outlined in our answers to other Questions, the HLA should be based solely on NT and NI activities, i.e. "gamma" should be 1.0. - BCR may grow for many reasons. In the case of growth due to Traditional business it's not appropriate to base charges for "systemic risk" off this growth that is not related to the risk the HLA is trying to cover through higher capital. - While there could be a tradeoff here between risk sensitivity and stability, basing HLA off the entire BCR does not necessarily promote stability given the volatility inherent in the BCR methodology, in particular in response to interest rate changes. And having the HLA formula work off the entire book of business would miss the very purpose of this charge. - Any concerns about volatility arising from the leveraging effect of only applying HLA to a subset of the insurers' business (i.e. non inclusive of Traditional), can be addressed through the use of moving averages and/or caps/floors on exposures. Paragraph 70 - The Scale factor concept should be eliminated. A company may make progress on reducing its systemically important activities but yet get no capital relief from it through HLA or be charged even more depending what its peers have done (e.g. if they reduce such activities even faster). The opposite is also true: a company may increase its systemically risky activities yet be charged the same or even less for these if its standing relative to other companies changed. - The Scale factor concept combined with calibration target based on up to 20% of Uplifted BCR, creates perverse incentives as when all insurers reduce their systemically important activities, there is no credit through the total lower HLA if other businesses keeps growing. Similarly, there could be no penalty for increasing these activities if all increase them at the same time. In addition, there are practical problems with the Scale factor. The average G-SII results are unknown to individual G-SIIs, so how are they communicated? How often are they updated? It makes the HLA for a

		given company unpredictable, obstructing proactive capital management.
192	**German** Allianz Non-member	- To address systemic riskiness the HLA should discourage systemically risky activities (i.e. activities that trigger or amplify risks to the stability of the global financial system) and should correspondingly be driven by the volume of non-traditional activities (as measured by BCR NT). - A two bucket approach with an initially empty top bucket seems reasonable in order to provide a disincentive for the most systemic GSII to become more systemic. The degree of systemically risky activities should correspondingly be represented by BCR NT as the exposure base for HLA (i.e. by setting gamma to 1). - The empty top bucket should have a beta of 2.5% (instead of 20% as proposed by the IAIS) consistent with GSII's balance sheet being 20% systemically risky (as measured by the portion of BCR NTNI within total BCR according to the last field test).
193	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	As stated in our comments to Section 3.3, we do not consider the inclusion of traditional insurance business in the formula of required capital justified. In Section 3.3 (paragraph 30), it is acknowledged that traditional insurance is not likely to generate or amplify systemic risk. In the successive paragraph, it is explained that, however, traditional insurance business can also cause the distress or failure of a G-SII, which could then lead to a systemic risk event. Even though this argumentation is understood, it does not justify the inclusion of this exposure in the required capital formula. This would have the effect that a larger amount of traditional insurance would lead to a larger amount of capital requirement. The implication that more traditional business increases the probability or effect of a G-SII's distress of failure is incorrect and is not in line with the initial idea of the HLA. Therefore, we strongly support a formula which has a clear focus on the systemically risky business and is unaffected by traditional insurance business, i.e. the NT HLA formulas. Furthermore, the HLA should give incentives to decrease the amount of systemically risky activities. With the inclusion of traditional insurance business in the HLA formula, this goal cannot be maintained. The scale factor is chosen such that the outcome from a combined HLA insurance formula gives the same outcome on average over the set of G-SIIs as the full HLA Insurance formula on average. We wonder, however, whether it is worthwhile doing so. The bucketing factors ßj already consider the relative score of an individual group compared to the G-SII average; in combination with a ? factor of 1, it would lead to a desirable HLA variation among the G-SIIs, mainly driven by the NTNI activities. This is something that we would deem as a reasonable outcome.
194	**International** International Actuarial Association	The options presented in this section (especially paragraphs 69 and 70) seem more complex than is required. We agree that it may be appropriate to distinguish in the HLA requirement between traditional insurance risks and NT risks.

	Non-member	Therefore we suggest that this be accomplished by simply requiring a different HLA percentage for each type of business (e.g., 10% for traditional and 25% for NT - these percentages are only meant as directional indicators. Without more clarity on the purpose and location of the HLA we cannot make any specific recommendation). We do not advocate trying to achieve a G-SII average result across all G-SIIs of 20% as seemed to be suggested in various worksheets in the consultation document. In advocating this view we put forth the following points to more appropriately link the charges with the underlying risks: 1. G-SII difficulties (like many insurers), may stem from operational risks such as senior management dominance. This can occur regardless of the traditional/NT split in the G-SII. 2. NT activities tend to result in greater inter-connectedness and systemic risk than do traditional insurance activities. For this reason the HLA percentage should be much greater for NT than for traditional insurance. 3. If the treatment of NT risks in the BCR was felt to be less representative of the true risk, then this also would be a reason for selecting a much higher NT HLA percentage than for traditional insurance. 4. As mentioned elsewhere in our response, the consultation document fails to document why the same (or different) HLA % was chosen relative to the banks. We believe that the basis for this decision should be provided.
195	**Japan** The Life Insurance Association of Japan Non-member	[The use of parameter gamma] ·The level of capital surcharge should be determined in accordance with systemic risk profile of the insurer. To that effect, we support the method of calculating the level of surcharge with emphasis on the amount of NTNI activities (i.e. the use of parameter gamma). In addition, by setting the level of parameter gamma near 100%, the HLA's objective can be reflected even more. ·As the IAIS has indicated in the past, we recognise: "Traditional insurance activity is unlikely to be a source of systemic risk. However, Non-Traditional and Non-Insurance activities within an insurance group are likely to generate or amplify systemic risk." ·In light of HLA's objective to "reduce the probability of distress or failure and thus the expected impact" on the financial system, we believe that the level of surcharge should be determined with emphasis on the amount of NTNI activities. ·It is pointed out that an increase in gamma with adjustment by scale factor may lead to an increase in the volatility of results if the amount of NTNI activities is small. However, this concern arises from the calibration that assumes the level of surcharge in preceding requirements for banking sector. If the amount of NTNI activities is small, the level of surcharge should be lowered accordingly. The issue of volatility would not arise in this case. [The use of scale factor] ·The level of capital surcharge should be determined in accordance with systemic risk profile of the insurer. To that

		effect, we do not agree with the use of adjustment by scale factor for calibration as suggested in this Document because it may lead to an overly conservative calibration level. ·According to the result of field testing, BCR required capital for NT and NI activities are relatively small. This indicates that the most part of insurers' risk are not systemically important in the financial system. It is irrelevant and overly conservative to ignore this risk profile of insurers and implement the calibration level of surcharge (which is about 10% to 20%) in preceding requirements for banking sector as given. ·We are concerned that overly conservative calibration level may have adverse effects such as undermining both policyholders' and investors' interests by deteriorating capital efficiency. In addition, there is a concern that introduction of the one-size-fits-all regulation without considering the insurers' systemic risk profile may amplify systemic risks through procyclicality. ·Also, if the scale factor is reviewed every year, the scale factor will work as a stabilizer that counters volatility in the share of NT and NI of BCR, and this will be a problem. For example, given that total BCR does not change, total HLA would not decrease even when the share of NT and NI of BCR is reduced and so is the systemic risk for the industry as a whole. Conversely, total HLA would not increase even when the share of NT and NI of BCR is increased and so is the systemic risk for the industry as a whole. This means that total HLA is not sensitive to the change in systemic risk, which is unfavourable from macroprudential viewpoint. Therefore, scale factor should be abolished or fixed at a certain point of time.
196	**People's Republic of China** China Association of Actuaries Non-member	For current HLA proposal we suggest not apply scale factors and gamma in the HLA formulas for two main reasons. 1. So far NTNI is not clearly defined yet, and the rationale of NTNI contributing to GSIIs' systemic risk requires further clarifications. As a result, any formula components based on NTNI need clear explanation and careful calibration. 2. According to the field testing results, less than 20% of total BCR capital requirement is attributable to NTNI activities. It is not hard to see that applying gamma factor under this circumstance would result in a greater calibration for the scale factor, hence increase the volatility of HLA requirement across all the GSIIs and the uncertainty of HLA frame.
197	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	Please see our responses to previous questions regarding the use of a BCR uplift and the cliff in the bucketing proposal. We also have addressed our concerns about the choice of ? in our response to Section 5.7.
198	**Switzerland** Swiss Re	The HLA should be based on the economic costs of Systemically Risky Activities (a subset of NT and NI activities), as opposed to an a-priori preference for the amount of HLA in total. Based on the currently-proposed methodology, a

	Non-member	gamma factor of 1 is most consistent with Swiss Re's belief that HLA should be based on Systemically Risky Activities. However, the resulting formula is still insensitive to risks due to its factor-based nature. Moreover, the scaling factor as proposed in paragraph 70 "reverse engineers" the HLA calculation so that the total HLA over the entire G-SII group is the same regardless of the level of gamma (NT and NI sensitivity) chosen. This should not be an objective of HLA (see also our response to Question 6 above). The total HLA of all insurers should decrease/increase as the systemic risk of activities carried out by the industry decreases/increases. Further, since the scaling factor is based on a G-SII group average, this introduces additional volatility that is out of the control of the insurer at hand - that is, this "artificial volatility" is driven by the actions of other G-SIIs and is not at all driven by the systemic risk of the insurer at hand. This further introduces a "black box" character of the HLA, where individual insurers are unable to plan future capital requirements, since these are dependent on the actions of other insurers. As an alternative approach that can be implemented in the nearer term, Swiss Re proposes a fixed scaling factor. It should be based on the field testing and what is deemed a necessary surcharge for the economic cost of the field-tested level of Systemically Risky Activities pursued by G-SIIs (or of the field testing population). This factor should not be changed unless the structure of the HLA formula is changed. It should apply to all insurers and reinsurers.
199	**United States** Metlife Non-member	Please refer to responses to Question 2
17. Calibration of HLA Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
200	**China** China Insurance Regulatory Commission IAIS Member	In this consultation document, the risk-based globally insurance capital standard is not set down yet. It's only estimated that it will be obviously higher than BCR, and the higher level of uplift factor is set down based on this reason. We believe that the uplift and uplift factor set down in this way are more subjective and lackaccuracy. At the same time, the weight of uplift factor of BCR is too high. Applying the same factor to all the companies, insurance and NI activities will lack the risk sensitivity and pertinences of HLA. So we suggest that the uplift factor should be set down based on the result of bucketing and the types of activities.
201	**EU** European Insurance and Occupational Pensions Authority	EIOPA believes that the calibration level proposed by the IAIS (20% of the total Uplifted BCR) is appropriate and applicable to the top empty bucket. This means that populated buckets should be calibrated at lower levels.

	IAIS Member	In line with our previous responses, EIOPA is supportive of the use of an HLA insurance formula primarily targeted at the drivers of systemic risk and G-SII designation. This means that, contrary to the application of the simplest Full HLA insurance formula, the outcome (as a percentage of Uplifted BCR) will not be constant. However, EIOPA suggests the use of ceilings and floors, to ensure that the overall framework is still consistent and avoids unduly high or low charges for individual G-SIIs (compared to the central target calibration embedded in each bucket). Please refer to our response to question 24 for further details on this topic.
202	**USA** National Association of Insurance Commissioners IAIS Member	This section opens by saying the "IAIS proposes that the HLA Insurance formula should produce results up to 20% of the total of Uplifted BCR Insurance required capital amount." We agree with this assessment. We understand this to mean that each individual result will be less than 20%. As in our response to Q1, we believe that 20% should not be an average but rather a maximum. An HLA with an average result of 20% (and potential individual firms being allocated HLA significantly above 20%) is calibrated too high and may yield HLA capital requirements in excess of what is required of the lowest bucket G-SIBs, whether an average or a maximum. Table 5.1 under paragraph 73 sets the top populated bucket for HLA at 15%. We agree with that as a static charge for all firms falling within the bucket. However, if the 15% is interpreted as an average, we would not support any firm be assigned HLA capital exceeding 20%.
203	**Australia** KPMG International Non-member	1) As per our response in Q1, the IAIS needs to set out clearly its case for proposing a HLA that is 20% of the uplift BCR. We would welcome clarity being provided regarding the target probability of solvency 2) The factors proposed for each bucket also needs to be justified 3) We agree that a review of bucketing factors will be needed over time 4) The factors in Table 5.1 appear quite arbitrary at the moment (although para 76 makes clear the final factors will take into account the field testing results).
204	**Canada** Canadian Institute of Actuaries Non-member	We understand that the conclusion to target calibration of the HLA up to 20% of Uplifted BCR is based on a review of the HLA applied to the G-SIBs under Basel III. Given that traditional insurance is noted as not generating or amplifying systemic risk (paragraph 30), we suggest the calibration target be applied with relatively more weight to the NT and NI components of the Uplifted BCR, rather than evenly to the full amount of the BCR. This implies a gamma closer to 1.
205	**Canada** CLHIA Non-member	Paragraph 71 - We have concerns with the HLA being targeted to an overall level through the use of what appears to be static percentage applied to the BCR. - The overall calibration of HLA for G-SIIs should differ from the overall calibration for HLAs for G-SIBs, reflective of the differences in activities posing systemic risk from each of these respective G-SIFIs. It has been concluded that activities of even the largest insurers pose considerably less systemic risk than activities of large banks do.

		- Charges for G-SIIs should be determined based on their industry specific contributions to systemic risk. Given that traditional insurance is noted as not generating or amplifying systemic risk (paragraph 30), the calibration target should focus only on the NT and NI components of the BCR, not to the full amount of the BCR. - There is not currently an indication of how frequently the calibration should change. We recommend it must be dynamic, reflective of how much systemic risk the point in time composition of G-SII NT and NI activities pose. - If the calibration (such as through a flat percentage) is static or sticky, a company may make progress on reducing its systemically important activities and yet not only not get to capital relief from it through HLA but be charged more depending what its peers are doing (e.g. if they reduce such activities even faster).
206	**China** Ping An Insurance (Group) of China Non-member	See Q23
207	**German** Allianz Non-member	- The boundaries of HLA buckets should be defined in terms of absolute score values from designation rather than relative to the average outcome of the designation process in order to allow for the possibility to exit the GSII list and to provide clear metrics against which a GSII can manage its degree of systemicness. - A two bucket approach with an initially empty top bucket seems reasonable in order to provide a disincentive for the most systemic GSII to become more systemic. The degree of systemically risky activities should correspondingly be represented by BCR NT as the exposure base for HLA (i.e. by setting gamma to 1). - The empty top bucket should carry a beta of 2.5% (instead of 20% as proposed by the IAIS) consistent with GSII's balance sheet being 20% systemically risky (as measured by the portion of BCR NTNI within total BCR according to the last field test): This results from the observation that the most systemic GSII is less systemic than the least systemic GSIB. The lowest GSIB HLA charge amounts to 12.5% (1% point HLA on top of 8% of risk weighted assets equals 1/8 = 12.5%). The 2014 Field Test has shown that 20% of the BCR is due to non-traditional/non-insurance activities. Therefore by comparison with the lowest GSIB bucket and by taking into account that rather than 100% of the balance sheet only 20% of the balance sheet is systemically risky as measured by the BCR NTNI, the highest GSII bucket should carry an HLA charge of 12.5% HLA * 20% (average portion of BCR NTNI within Total BCR) = 2,5%.
208	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft	We support the idea of capping the HLA in order to prevent exorbitant results. Referring to the reasoning in Annex F of the consultation document, it is a suitable approach to determine the height of the cap under the assumption that the highest (empty) G-SII bucket is equated to the lowest G-SIB bucket.

	Non-member	The lowest banking bucket assigns 12.5 % HLA as explained in Annex F (paragraph 4) of the document. However as determined in the 2014 field test on average the value of G-SII's BCR NTNI, which measures the level of systemic risky activities, amounts to only 20 % of the full BCR. Therefore, the level of systemic risk of G-SII has been identified at about 20 % of the level of systemic risk of G-SIBs (on average). Therefore only 20 % of the lowest G-SIB HLA charge should apply in the case of G-SIIs, i.e. 20 % * 12.5 % = 2.5 %, when the basis for HLA is chosen to be BCR (i.e. gamma = 0). Within the framework set out in the document this would imply a beta of 2.5 % in the empty bucket, while the scaling factors of the example on page 38 would remain unchanged.
209	**International** International Actuarial Association Non-member	As noted in our response to question 16, we support having separate HLA percentages for traditional and NT business. We also believe that they should be calculated on an "absolute" rather than "relativistic" approach as suggested in the consultation document.
210	**Japan** The Life Insurance Association of Japan Non-member	[Calibration of the surcharge level] ·We support the idea that the HLA calibration level should not exceed the relevant regulated banking requirements, recognising the difference between insurance sector and banking sector in considering the HLA calibration level. Meanwhile, we do not agree with "the calibration level that does not exceed 20%." We believe that it is overly conservative compared with G-SIBs' surcharge level in preceding requirements for banking sector. ·We support the idea that the HLA calibration level should not exceed the calibration level of the relevant regulated banking requirements, recognising that traditional insurance activities are, unlike banking activities, not inherently systemically important in the financial system. ·However, we do not agree with "the calibration level that does not exceed 20%." It is stated in the Annex F that "the calibration level that does not exceed 20%" is typically comparable with the G-SIBs of the lowest banking group, but that level is calculated with the assumption of Basel III capital ratio of 8% of Risk Weighted Assets (RWA). The actual PCR level of banking sector is 10.5%, together with 2.5% capital conservation buffer. For insurance sector, therefore, "the calibration level that does not exceed 15%" is reasonable. (1.5% / 10.5% is approximately equal to 15%) ·Also, traditional insurance activities are, unlike banking activities, not inherently systemically important in the financial system. We believe that requiring the above calibration level to be applied to the overall risk including traditional insurance activities' risk is overly conservative, and therefore, we do not agree with the idea. ·We are concerned that overly conservative calibration level may have adverse effects such as undermining both policyholders' and investors' interests by deteriorating capital efficiency. In addition, there is a concern that introduction of the one-size-fits-all regulation without considering the insurers' systemic risk profile may amplify systemic risks through procyclicality. ·In light of the above, we believe that it is reasonable to set the factors for populated buckets between 5% and 10%, and

		the emphasis should be placed on NTNI risks when multiplying the subjects by the factors. Besides, we believe that further discussion is needed on the specific calibration level of the HLA, taking into consideration the original goal of the HLA which is to address systemic risks.
211	**People's Republic of China** China Association of Actuaries Non-member	We suggest that beta calibration should not exceed 10% for following two reasons. 1. Based on last year field testing GSIIs have a low level of NTNI thus a lower potential systemic risk. 2. Insurance business (especially traditional insurance) are less systemically risky compared to banking business which involve derivatives trading and inter-financial transactions etc. Hence simply referring to GSIBs additional capital requirement may overestimate HLA for GSIIs (Note that Annex F addresses this issue).
212	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	The reasonableness of using 20 percent of the uplifted BCR (or ICS when it is implemented) will depend on a number of factors, including: the risk sensitivity of the BCR itself, the risk factors applied to HLA, and the revised definitions and risk charges of NTNI. It is difficult to make a determination of the usefulness of the calibration without this information.
213	**Switzerland** Swiss Re Non-member	See our responses to questions 15 and 16 above.
214	**United Kingdom** Institute and Faculty of Actuaries Non-member	For Choice 1, "bucketing' factors are 10%, 15%, 20%; for Choice 2, they are 15%, 20%. It is not clear why for Choice 2, 15% was used instead of interpolating between 10% and 15% to give 12.5%. It would be helpful to provide the rationale for the Choice 2 factor of 15% or consider a factor less than 15%.
215	**United States** Metlife Non-member	We propose any HLA needs to be proportionate to the level of systemically risky activities undertaken. The proposed calibration is too high. It is universally recognized that the potential systemic impact of any insurer is much less than that of a bank. Therefore, if GSIIs are to be subject to a capital surcharge, it should be proportionately lower than that of the lowest G-SIB charges. Instead, the consultation document proposed calibration targets for HLA could be 10% and 15%. While these are close to the minimum GSIB bucket (12.5% equivalent), as the potential levels of Instead, the consultation document proposed calibration targets for HLA could be 10% and 15%. While these are close to the minimum GSIB bucket (12.5% equivalent), as the potential levels of systemic activity in insurers are likely to be significantly less than in banks,

		surcharges should reflect this fact and not simply apply the bank surcharge calibration to insurers.
216	**USA** Property Casualty Insurers Association of America (PCI) Non-member	As we stated in our response to the Executive Summary, the maximum HLA charge for any G-SII should be no higher than 20%.
18. HLA Non-Insurance required capital formulas Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
217	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA supports that the same approach is used for HLA Insurance and HLA NI formulas. Please refer to our response to the previous question for additional details. Furthermore, and in line with previous responses, EIOPA supports the introduction of the link (cap) between the HLA framework and the existing HLA global capital requirements applicable to the banking regulated activities. The use of the lowest bucket of the Basel framework is, in our view, compatible with the relatively low systemic relevance of G-SIIs (when compared to the designated G-SIBs).
218	**USA** National Association of Insurance Commissioners IAIS Member	We agree with the content of the Section; however as in our response to Q11, we again note that capping of NI may result in the NT component of the uplifted BCR carrying more influence in setting the HLA. This may exacerbate the volatility in dispersion of the HLA add-on between companies as well as in year over year results.
219	**Australia** KPMG International Non-member	1) Overall, agree with this approach 2) See Q1 as well for commentary on this 3) There is also the possibility of using different buckets and different prescribed factors for NI activities compared with insurance activities.
220	**Canada** CLHIA Non-member	Paragraph 77 - We support the approach for NI, including having it capped to recognize banking specific regulatory capital requirements, so that insurers are not competitively disadvantaged vs. banks by holding more capital than the lowest ranked G-SIBs for banking risks. - We believe that capital charges for NT activities deemed to give rise to systemic risk should be similarly capped to ensure that the charges are not excessive in relation to the actual non-traditional insurance exposures.

		Paragraph 78 - We agree that the same bucketing approach should be used for HLA NI as benefits, if any, of introducing a separate bucketing approach would not be commensurate with the additional complexity introduced.
221	**China** Ping An Insurance (Group) of China Non-member	We appreciate the ceiling introduced for regulated banking. However, IAIS should consider distinguishing the regulated banking/asset management which follow their sectorial rules from other unregulated NI.A better solution would be to carve out these regulated activities from the HLA calculation. Should these activities/separated entities be considered to be significant in term of systemic riskiness, they should follow their sectorial rules including the extra capital buffer imposed by their respective standard setters and supervisors. Such treatments help not only create a cross-sectorial level playing field and reduce the possibility of capital buffer "double-counting" but enable IAIS to focus on insurance-related and other unregulated NI systemic activities.
222	**German** Allianz Non-member	The BCR/HLA framework must maintain a cross-sectorial level playing field o Asset management activities conducted by a GSII should be charged according to emerging global capital rules for the asset management sector if and when implemented. In the absence of specific global asset management regulation the BCR should not be uplifted and no HLA should be charged. o Regulated banking activities conducted by a GSII should be charged according to Basel III including bank specific HLA rules. No HLA should be charged unless the banking activity in itself is deemed GSIB.
223	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	Please see our comments on Question 16, Section 5.3.
224	**International** International Actuarial Association Non-member	We have no comment on the assessments and conclusions in this section, except that a simpler alternative might be to use the BCBS requirements for banking activities.
225	**People's Republic of China** China Association of Actuaries Non-member	Agree. In particular, we agree that the regulated banking component of NI should not exceed the relevant regulated banking HLA requirement, and should be set in the consistent way with other sectorial rules to avoid regulatory arbitrage. We

		suggest IAIS focus on the non-regulated NI requirement.
226	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	Capping the NI HLA at the level for regulated banking may not be reasonable. If the IAIS believes regulated banking activities pose systemic risk and that systemically important firms should be required to hold additional capital, then it may be reasonable to require G-SIIs to hold more capital for their banking operations than the Basel requirements require.
227	**Switzerland** Swiss Re Non-member	See our responses to questions 15 and 16 above.
19. Outcomes for a range of Combined HLA required capital formulas Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
228	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA appreciates the insight which the example provides regarding the functioning of the Full HLA formula and the Combined HLA formula. It should also be highlighted, as noted multiple times across the consultation document, that the example provided has been based on an individual data point which constituted the first time several G-SIIs were asked with the information under the proposed format and valuation methodology. Further review and analysis, in the context of the ongoing Field Testing exercise is, therefore, desirable. As stated in previous responses, EIOPA is supportive of the use of a HLA formula which is primarily targeted at the drivers of systemic risk and G-SII designation. A gamma of 60% (corresponding to a scale factor of approximately 2 for NTNI required capital) would be consistent with that objective and therefore constitutes, from our point of view, a good starting point.
229	**USA** National Association of Insurance Commissioners IAIS Member	Will respond to underlying issues in questions on Section 5.7.
230	**Australia** KPMG International Non-member	1) See Q1 - practical use of HLA formulas. 2) It is unclear whether the IAIS will prescribe a specific scale factor and gamma for all G-SIIs to use.

231	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	Please see our comments on Question 16, Section 5.3.
232	**International** International Actuarial Association Non-member	As noted in our response to question 16, the numerical approach detailed in this section seems overly complex. We recommend that a simpler technique be used to distinguish a separate HLA percentage for traditional and NT activities. The worksheet in Table 5.2 appears to force a combined G-SII average HLA % across all activities of 15% (total HLA capital of 20 in the example provided across all values of gamma). It is not clear why forcing such an aggregate average value across G-SIIs with varying amounts of NT and NI business is appropriate or in keeping with the overall simple design of the BCR/HLA combination. We favor a simple absolute value calculation using (possibly) separate percentages for the traditional and NT business within a G-SII.
233	**Japan** General Insurance Association of Japan Non-member	In order that the HLA requirement effectively incentivize insurers to become less systemically important, we do not think the scale factor level should be periodically changed for the reasons illustrated below. In addition, when determining the level of scale factor based on reference data, due consideration should be given to what point in time the data is from. It is assumed that each insurance group has been constantly reducing sources of systemic risk since the financial crisis in 2007 / 2008. The scale factor level could be determined considering such a trend. The above-mentioned comments are not intended to deny the review and refinement process used for the HLA requirement including the BCR, as described in the paragraph 109. We call for a HLA requirement, which appropriately reflects the effect of reductions in systemic risk. The following is an example illustrating what happens if a G-SII reduces NTNI activities by 10% each year and the scale factor is changed three years later. Even if the group of G-SIIs reduces the relative amount of NTNI activities, which are regarded as major sources of systemic risk, periodical changes in the level of the scale factor would lead to a scale factor increase resulting in a rise in the level of HLA, which would be equal to the level the HLA was at when first implemented. - Implementation Uplifted BCR 133 of which traditional insurance 106, NTNI 27: NTNI ratio 20%

		When gamma is 0.9, scale factor would be 3.57 When ßis 15%, HLA is 20.0 - A year later Uplifted BCR 133 of which traditional insurance 109, NTNI 24: NTNI ratio 18% Scale factor is 3.57 (no change from the previous year) HLA is 18.7 (-1.3 from the previous year) - 2nd year Uplifted BCR 133 of which traditional insurance 111, NTNI 22: NTNI ratio 16% Scale factor is 3.57 (no change from the previous year) HLA is 17.5 (-1.2 from the previous year) - 3rd year Uplifted BCR 133 of which traditional insurance 114, NTNI 19: NTNI ratio 14% Scale factor is 4.32 (changed) HLA is 20.0 (+2.4 from the previous year)
234	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	Given the assumed factors, we understand the potential outcomes.
235	**United States** Metlife Non-member	Please refer to response to Questions 1 and 2.
20. Coverage ratios using various calibration reference points Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
236	**EU**	EIOPA acknowledges the potential problems caused by the use of a more risk-sensitive combined HLA formula and

	European Insurance and Occupational Pensions Authority IAIS Member	agrees that undue volatility in the results might jeopardise the credibility of the entire framework. In the next questions, we detail our view regarding the manner in which the tension between risk sensitivity and robustness of the calculation results could be managed, using a combination of the solutions provided.
237	**USA** National Association of Insurance Commissioners IAIS Member	Will assume the reference to coverage ratios relates to Section 5.8. No comment on that section. See our responses below to the remaining questions in Section 5.7.
238	**Australia** KPMG International Non-member	1) Table 5.3 and bullet point 4 in paragraph 97 suggest that the HLA will not be onerous for any G-SII and that almost all, if not all, of their coverage ratios will be in excess of 1. As existing group PCR requirements are more onerous, we question the likely implications that the BCR uplift + HLA will have on G-SIIs and the potential benefit of disincentives to reduce capital requirements.
239	**Canada** CLHIA Non-member	Paragraph 88 - Depending on the design, we have concerns that the overall capital requirements may end up being quite volatile - BCR is crude and volatile in response to, for example, interest rate changes. Having additional add-ons based on this measure would magnify its foundational volatility. Preferably, there would be a smoothing mechanism in place (such as through a moving average of exposures) that would gradually introduce or remove charges. This would be a more risk-sensitive way of addressing volatility than through the formulas that base HLA charges off the entire capital base.
240	**EU** EIOPA Insurance & Reinsurance Stakeholder Group Non-member	-
241	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	Please see our comments on Question 16, Section 5.3.

242	**International** International Actuarial Association Non-member	Our responses to this section are contained in the responses to the specific questions asked after paragraph 92 (see below).
243	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	We have no comments on this question.
244	**Switzerland** Swiss Re Non-member	As provided in our responses to Questions 14 and 16, should the current methodology be introduced in an initial phase, we believe a gamma of 1 is most appropriate for HLA. However, this combined with the scaling factor as proposed in paragraph 70 introduces excessive volatility and overly penalizes those insurers with higher NT and/or NI activities. The approach proposed by Swiss Re in Question 16 would alleviate this issue.
245	**United States** Metlife Non-member	Please refer to response to Question 2.
21. The IAIS is currently considering putting G-SIIs into one or two populated buckets when determining the HLA required capital. How many buckets should the IAIS consider selecting to manage the tension between risk sensitivity, complexity and volatility when calibrating the HLA required capital? Please provide a rationale for your response and suggest how this may be done if you consider it should be done.		
246	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA supports the use of two populated buckets as a mean to introduce an appropriate degree of risk sensitivity in HLA required capital, as well as a strong link to the outcomes of the G-SII designation methodology scores. Such approach would ensure that a fundamental principle would be maintained: a higher degree of systemic risk, reflected in a higher G-SII designation score, should, ceteris paribus, lead to higher HLA required capital. The use of a one-size-fits-all approach would break this fundamental principle and greatly reduce the incentives for the reduction or, as a minimum, maintenance of the systemic footprint of G-SIIs, which clearly result from the introduction of multiple populated buckets. Finally, EIOPA believes that an empty penalizing bucket should be placed on top of the empty buckets, to strengthen the negative incentives embedded in the HLA framework for an increase of the systemic risk footprint by G-SIIs.

247	**Russia** the Central Bank of the Russian Federation IAIS Member	From our perspective, it is rational to create two populated buckets for G-SIIs since it will add sensitivity to the HLA requirement on the one hand and increase comparability with the G-SIBs methodology, which has 4+1 buckets. We support introducing several buckets, which would increase risk sensitivity of the formula. While bucketing does not heighten the emphasis on the NTNI in the formula (as does the increased gamma), it allows differentiating between the G-SIIs which are at the top and the bottom of the ranking of the G-SII full scores (45% of which are explained by NTNI activities under the current G-SII identification methodology). At the same time it is worth noting that the 2013 and 2014 G-SII lists are very short. The scores of the identified G-SIIs discussed at the FSB at the end of 2014 differ very slightly and their division into two buckets would be only technical and would not reflect a material difference in the riskiness of the companies' operations. However, it is likely that the on-going process of G-SII assessment methodology review, which will establish the selection process for the companies that carry out reinsurance activities and other specialty lines of business, will increase the number of companies in the list and raise robustness to the bucketing process.
248	**USA** National Association of Insurance Commissioners IAIS Member	We believe that an approach with two populated buckets lends itself to a better means for incorporating a reasonable level of risk sensitivity rather than an approach relying on the formulas / gamma , especially given the immaturity of the NT components of the BCR. As using G-SII scoring provides a means to emphasize NTNI, the two bucket approach strikes the right balance between simplicity and risk sensitivity. This also allows all companies within a given bucket to receive the same percent HLA add-on; this is an approach that we support. This would eliminate the need for choosing a formula / gamma at present and obviates the need for individual firm caps (or floors) on HLA. While we are not opposed to a one populated bucket approach in principle, we recognize that the G-SII scoring may not provide sufficient risk sensitivity in such an approach. For reasons expressed in response to Q24, we believe that any formula that is too focused on NTNI would require imposition of individual firm caps, and consequentially floors. (See also our answer to Q24 regarding caps and floors.)
249	**Australia** KPMG International Non-member	The optimal number of buckets that the IAIS should consider using will depend on a number of factors, including: - Range of G-SII assessment score applicable to G-SIIs - The variation in the scores themselves over a 12 month horizon - The "band width' of each bucket - The number of G-SIIs (currently only 9). The more buckets that are adopted for this purpose, the greater the risk sensitivity of the framework as the capital factors applying can gradually increase as the G-SII assessment score increases and moves into higher buckets. However, see our earlier comments regarding the lack of risk sensitivity caused by basing the HLA on the BCR. There is also a relationship between the number of buckets adopted and the "band width' (or size) of each bucket. The larger the number of buckets, the smaller the "band width' of each bucket will be in order to cover the range of G-SII

		scores. The band width of each bucket will also depend on the volatility or normal movement of G-SII assessment scores over a 12 month horizon (as part of usual business activities). The band width needs to be large enough to allow for stability in capital requirements applying to G-SIIs so that they are not moving between buckets on a frequent bases, unless this results from a change in their perceived level of risk to financial stability. Enough buckets should be chosen to cover the full range of G-SII scores for all groups without the need for unpopulated buckets (which serves no purpose in our view). It is also relevant to bear in mind that there are currently only 9 G-SIIs, suggesting a maximum number of buckets of 9. Arguably, 9 G-SIIs represents a small enough sample size of insurers that a single factor or capital add-on can be applied to all G-SIIs. Segregating such a small population into subcategories could lead to spurious results. The question that remains is whether there is significant variation in systemic risk across G-SIIs to warrant the need for multiple buckets. Ultimately, the 9 G-SII scores will be required in order to make any assessment as to the suitability of the number of buckets proposed.
250	**Canada** Canadian Institute of Actuaries Non-member	We believe a larger number of buckets would be needed to prevent large changes in total company HLA required capital resulting from a G-SII changing from one bucket to another (see our comments in 5.2). Having the beta factor, which is multiplied by some function of BCR, also being risk-sensitive effectively compounds the risk-sensitive nature of HLA, perhaps excessively so.
251	**Canada** CLHIA Non-member	- From an incentive perspective, more than one bucket is required. - To avoid jumps in the HLA factor from year to year, we recommend Bucketing Choice 2 (all companies in the 15% bucket, with a 20% bucket as a disincentive) be used initially. - The designation of a particular G-SII to one of the two buckets should be based on the level it contributes to systemic risk, i.e. allocated to the buckets based on its absolute score. G-SII's should not be allocated to the buckets on a relative basis (like a bell curve). - If the buckets are populated based on company score relative to the average G-SII, then all the concerns over predictability and manageability we have with the Scale factor would pertain to the bucketing approach as well. - For example, a company could be moved from one bucket to another based on the change in average G-SII score as opposed to its own activities.
252	**China** Ping An Insurance (Group) of China	We believe that HLA should be sensitive to the systemic riskiness of the company. The bucketing method should strike the right balance between the simplicity and risk sensitivity. In HLA Principle3, it states that "HLA may lead to a reduction

	Non-member	in systemic activities as they become more expensive and therefore less attractive". Having all G-SIIs in one bucket does not effectively distinguish the G-SIIs of different levels of systemic risk and does not provide enough incentive for G-SIIs with higher level of systemic risk to engage in reducing the activities considered to be systemically risky. Therefore, we incline to have more buckets for HLA.
253	**EU** EIOPA Insurance & Reinsurance Stakeholder Group Non-member	- The IAIS proposes that scoring results from the GSII designation process are utilized to classify GSII into HLA buckets. This requires that the designation process and results are made fully transparent to GSII, which is currently not the case. - The IRSG would encourage the IAIS to provide more evidence and rationale for the design choices made including the parameters used. - Specific comments to the design of the buckets o The boundaries of HLA buckets should be defined in terms of absolute score values from designation rather than relative to the average outcome of the designation process in order to allow for the possibility to exit the G-SII list and to provide clear metrics against which a G-SII can manage its degree of systemicness. o A two bucket approach with an initially empty top bucket seems reasonable in order to provide a disincentive for the most systemic G-SII to become more systemic. The degree of systemically risky activities should correspondingly be represented by BCR NT as the exposure base for HLA (i.e. by setting gamma to 1). o The empty top bucket should have a beta of 2.5%* (instead of 20% as proposed by the IAIS) consistent with GSII's balance sheet being 20% systemically risky (as measured by the portion of BCR NTNI within total BCR according to the last field test). - The current G-SII designation criteria implicitly are biased towards assigning high scores to large insurers** irrespective of whether the business activities are considered systemically risky or not. In the extreme this approach can lead to high HLA charges for large traditional insurers, while it is commonly acknowledged (also by the IAIS) that traditional insurance activities do not pose systemic risks. - To address systemic riskiness the HLA should discourage systemically risky activities (i.e. activities that trigger or amplify risks to the stability of the global financial system) and should correspondingly be driven by the volume of non-traditional activities (as measured by BCR NT). Notes: * Comparison with lowest bucket of banking HLA: 12.5% HLA * 20% (average portion of BCR NTNI within Total BCR) = 2.5%. ** Which is due to the designation methodology being adopted from global banking regulation, where size clearly correlates with systemic importance of a G-SIB.
254	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft	With the G-SII designation methodology currently under review, it is difficult to decide on the number of buckets. The choice of buckets is strongly dependent on the designation process and the resulting scores, range and volatility. Thus, we believe that the tension between risk sensitivity, complexity and volatility cannot be managed by the choice of buckets at this stage.

	Non-member	Once the G-SII designation criteria have been determined, the choice of buckets can be a helpful factor for creating a balance between risk sensitivity, complexity and volatility. Yet, we believe that this balance cannot be achieved on theoretical grounds, but must be thoroughly tested. As mentioned in our comments to Question 15, Section 5.2, we suggest the initial selection of two buckets (one of which is populated) and examine over time whether a different bucketing is appropriate. This examination should be carried out publicly and involve stakeholders, e.g. in a public consultation.
255	**International** International Actuarial Association Non-member	See our response to question 15 (bucketing) and question 32 (risk sensitivity, volatility, complexity).
256	**International** Joint response from Allianz, Aviva, Generali and Prudential plc Non-member	The purpose of bucketing is to capture different levels of systemic activities across designated firms. Buckets are therefore a good tool for allowing differentiation between firms and would help in the overall assessment of a firm's systemic risk and thus provide a good disincentive for undertaking systemic activities. Unlike GSIBs the current GSII bucketing is based on ranking as per the designation methodology which is unclear and not fully transparent - no firm knows how it ranks against the others, the rankings are relative to each firm rather than based on objective absolute measures and the linkage between the designation methodology and systemic risk needs to be further analysed. The effectiveness of the bucket approach is clearly contingent on the adequacy of the designation methodology. Therefore, if the bucket approach is pursued for GSIIs it is important that the revised designation methodology addresses the current designation limitations, is transparent, explains the transmission mechanisms, addresses both insurance and re-insurance appropriately and is focused on systemic activity not size per se. In terms of the numbers of buckets proposed, we believe that the IAIS should also consider the future direction, i.e. designation of re-insurers and whether the number of insurers on the list are expected to increase. Of the two proposals, we would favour the option to have three, rather than two, buckets as this would offer the potential for greater distinction between levels of potential systemically relevant activity. However, the IAIS should seek to achieve greater variation, taking up the suggestion that a greater number of buckets will allow for some buckets with enhanced supervision and no HLA -capturing a broader number of firms with NTNI activities. However, increasing the number of buckets will only be effective if the designation methodology is revised and appropriately captures the systemic risk posed by insurers and re-insurers rather than size per se.

257	**Japan** General Insurance Association of Japan Non-member	Please refer to our comments on Q15.
258	**Japan** The Life Insurance Association of Japan Non-member	[The use of bucket] ·Taking into account the significant impact of the HLA on each insurer's management strategy and capital policy, we support the idea of "using multiple buckets", namely, using three or more buckets including top bucket (empty bucket). ·The HLA would have significant impact on each insurer's management strategy and capital policy, provided that it is necessary for insurers to raise sufficient core capital as HLA required capital. We believe that the use of more than one bucket would enable insurers to reduce cliff effects between the level of required capital for non-G-SIIs and G-SIIs, and thus, it would contribute to the continuous and stable application of capital requirement even for non-G-SIIs. ·Besides, as indicated by the IAIS, we believe that having more than two buckets including top bucket (empty bucket) would create an ongoing incentive for the most systemic G-SIIs not to increase their systemic importance.
259	**People's Republic of China** China Association of Actuaries Non-member	We agree that grouping insurers into buckets based on their risk similarity and assigning betas for each bucket is one appropriate way managing the tension between risk sensitivity and complexity. Assigning any specific number of buckets to HLA may be lack of justification. In general, we prefer more buckets than less for the reasons that firstly it is more risk sensitive (but also not overly complex) and secondly, which is more important, it could provide incentives for G-SIIs reducing systematically risky activities (however, referring to question 15 we argued that current GSIIs assessment is on a relative basis). Hence, while we would choose the option of three-bucket out of the two, we believe giving the buckets clearer definition is more important than choosing specific number of buckets.
260	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	As discussed above, we suggest the IAIS adopt a continuous approach to determining HLA rather than a bucketing approach. Use of a cliff may lead to insurers taking action to avoid the cliff, which runs contrary to the IAIS's intended goals.

261	**Switzerland** Swiss Re Non-member	See our response to question 15 above.
262	**United Kingdom** Institute and Faculty of Actuaries Non-member	We suggest it would be better to have one populated bucket to avoid an arbitrary level of requirements being applied to some G-SIIs. Having two populated buckets will increase the risk sensitivity in particular for systemic aspects that are not captured in the BCR. A possible improvement would be that if using two populated buckets care should be taken to avoid continuous up and down movement between the buckets resulting in a volatile HLA.
263	**United States** Metlife Non-member	Please refer to response to Question 25.
22. Should the IAIS consider selecting the size of gamma to manage the tension between risk sensitivity, complexity and volatility when calibrating the HLA required capital? Please provide a rationale for your response and suggest how this may be done if you consider it should be done.		
264	**EU** European Insurance and Occupational Pensions Authority IAIS Member	As stated in previous responses, EIOPA supports a HLA formula primarily targeted on the drivers of systemic risk and G-SII designation. Therefore, EIOPA is in favour of a combined HLA formula, which introduces a relevant capital surcharge for NTNI risks. A gamma of 60%, broadly corresponding to a duplication of NTNI HLA required capital (compared to the application of the simplest Full HLA formula) would seem as an appropriate starting point. The focus on Interconnectedness (which accounts for 40% of the total G-SII designation scoring methodology) would be introduced by the bucketing system, as detailed in our previous responses (given that the BCR framework does not separately attribute required capital to interconnectedness).
265	**Russia** The Central Bank of the Russian Federation IAIS Member	We suggest finding a right balance between the emphasis on the traditional insurance and NT activities. In order to limit the volatility of the results and, thus, avoid negative effects of possible methodological inaccuracies, the gamma should be set on a conservative level (bearing in mind that additional formula sensitivity is provided by bucketing). Such an approach would also help solve the issue described in item 34. As well, it should be noted, that another major source of systemic risk for insurance companies is interconnectedness (40% of the score), which should be granted appropriate attention when constructing the HLA formula. Interconnectedness appears from the traditional activities of insurance companies (such as investment) as well as from non-traditional operations. Therefore, traditional activities of G-SIIs should be covered by appropriate amount of capital. It might be reasonable to have the NTNI percent of the total required capital to be at the level of 45% (same as its share

		in the G-SII assessment methodology). According to Table D1 such a level is achieved when gamma equals 70%. At the same time if there are two populated buckets, some sensitivity is added by the varying bucket factors. Thus, with bucketing factor (ß) equaling 15% the gamma might be decreased to the level of 50%-60% (resulting to NT+NI % of Total Required Capital to be at 33%-38%).
266	**USA** National Association of Insurance Commissioners IAIS Member	No, we do not favour the use of gamma in this regard. While we continue to favour HLA that is mainly applied based on the drivers of systemic risk, the definitions of non-traditional (NT) activities require further development. An assessment of impact and coordination with the G-SII assessment process is necessary before these definitions can be more fully relied upon as indicators of risk sensitivity or managers of volatility for HLA. At this time a simpler approach that relies on G-SII Scores to assign a flat charge to two populated buckets is the best course of action in order to manage the risk sensitivity and volatility of HLA. If a single populated bucket is chosen, we oppose consideration of any gamma that results in HLA in excess of 20% being assigned to any individual firm. In that light of that, only those formulas with gammas of less than 50% should be considered.
267	**Australia** KPMG International Non-member	The current capital impact from the HLA is determined through the full HLA formula as the stated purpose of the scale factor in the combined HLA formula is to adjust the required capital so that it is equivalent to the result from the full HLA formula. There are currently open questions regarding what this means in practice. From our understanding, one approach would be to set the capital arising from the combined formula equal to the full HLA formula at the outset by solving the scale factor for a given level of gamma. Once this is determined, the capital requirements for the G-SII will be determined on this basis going forward. In future periods of reporting, the full HLA formula may not be equal to the combined formula. We agree that the size of gamma should be selected by the IAIS. One possible approach is to provide NTNI activities with a weighting that is consistent with the weighting applied to those activities from the G-SII Assessment Methodology to ensure consistency in approach.
268	**Canada** Canadian Institute of Actuaries Non-member	We agree the IAIS should consider selecting the size of gamma to facilitate more uniform application of the HLA approach across jurisdictions. We suggest a higher value of gamma be selected as the HLA should be focused on the NT and NI exposures. This serves the purpose of acting as a disincentive to significant NT or NI activities. The challenge will be to manage to the desired purpose of the HLA while also having an acceptable level of stability in the results. Our own analysis suggests that the HLA required capital can become quite volatile for individual G-SIIs when a higher gamma is selected. We would therefore recommend some element of a smoothing mechanism be introduced to the

		resulting HLA or the underlying exposure measures.
269	**Canada** CLHIA Non-member	- We believe gamma should be set to 1.0 to recognize that NT and NI activities are those which pose systemic risks. - Volatility can be dampened through the use of smoothing/moving averages applied to NT and NI exposures.
270	**China** Ping An Insurance (Group) of China Non-member	We do not believe using gamma to enhance to the sensitivity of NTNI to HLA is the right method because of 1. its lack of theoretical foundation 2. the possible double-counting 3. issues in implementation 4. great uncertainties without clear NTNI definition We think the introducing gamma to boost the sensitivity of HLA to NTNI is a step backward from "broader base" of systemic risk. Despite the fact that there is lack of theoretical and academic evidence on NTNI's contribution to systemic risk, NTNI already accounts for 45% of the score of G-SII Assessment Methodology. A company with NTNI can be overly-penalized by having both high beta and gamma, which is lack of clear justification and make lead to double-counting. Given the low level of NTNI of G-SIIs in average based on the existing NTNI definition, low gamma (e.g. NTNI studies have not been released when the HLA consultation paper is published. It is difficult for G-SIIs to assess the impact of gamma without this important part of the calculation.
271	**EU** EIOPA Insurance & Reinsurance Stakeholder Group Non-member	The focus on systemically risky activities should be implemented through an adequate definition and guidance on what constitutes NT and NI activities, a high value of gamma (i.e. the HLA is driven by BCR NT, rather than total BCR) and a reduced [small ?] number of buckets (reflecting the low differentiation between the degree of GSII's systemicness provided through the designation score, which is mainly driven by size).
272	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	Referring to our comments to Question 16, Section 5.3, we do not support the inclusion of traditional insurance business in the HLA formulas. Thus, we advocate a gamma factor of 1.

273	**International** International Actuarial Association Non-member	The consultation document appears to suggest the selection of a single gamma that all G-SIIs (regardless of NT %) would apply to determine their HLA amount. We do not understand the beneficial effect of this complex calculation and suggest that our approach (see response to question 16 or 19) is more direct, risk sensitive, simple to calculate and more transparent. However, if the gamma approach is adopted, we believe a gamma set close to 1.0 would be more reflective of the actual risk exposure. Also see our response to question 32 (risk sensitivity, volatility, complexity).
274	**International** Joint response from Allianz, Aviva, Generali and Prudential plc Non-member	The use of the proposed Gamma and Scale Factor proposed by the IAIS would reflect sensitivity to the different levels of potential systemically relevant activity undertaken by different GSIIs and is therefore welcomed. Given that the overall designation methodology is also heavily influenced by the size of an insurer's traditional business which is not a source of systemic risk, it is important HLA reflects the nature of potential systemically relevant activity within the BCR. It should ensure that the HLA is sensitive to such activities and meet its stated purpose of reducing the probability and impact on the financial system of the distress or failure of a GSII. A gamma of "1' would provide the maximum link between NTI activity as measured in the BCR and HLA and provide incentives to insurers to manage the level of NTI they undertake. However, this has to be considered in the context of the current review of the NTNI definitions and also in the context of applicability to reinsurers. We also note that the scale factor along with a high gamma can lead to a wide dispersion in the HLA levels between insurers in the same buckets. The level of dispersion is also driven by the high pre-determined HLA targets that are proposed. We believe that a very wide dispersion should be avoided as currently, the IAIS has failed to explain why certain activities give rise to systemic risk and the transmission mechanism of the risk. Therefore, the scale factor and a high gamma would be acceptable only if the overall calibration targets were lower, thereby making the dispersion lower. We understand that the objective of the scale factor is to achieve the pre-determined target levels of HLA for the G-SIIs as a whole. We believe that the current proposed targets are too high for the level of systemic risk posed by insurers and we address this in our response to Q23. In addition as the scale factor is based on the average distribution of NTNI it should be locked down prior to HLA becoming a requirement to ensure that where GSIIs reduce potential systemic activity it results in a reduction of HLA. If the scale factor were to be periodically revised it could lead to an inappropriate outcomes, for example if all GSIIs were to reduce their systemic activity the average NTNI would decrease and their HLA uplift could increase if a GSII were above the new average.

275	**Japan** General Insurance Association of Japan Non-member	Although we understand that gamma would not be exactly 1 considering the argument of this consultation document, gamma should be set at a level near 1 to the extent possible, for the following reasons: - As the IAIS position on systemic risk says, ´NT and NI activities within insurance firms or groups may generate or amplify systemic risk´, while ´there is little evidence of traditional insurance either generating or amplifying systemic risk´. - The level of gamma should be raised so that the impact of NTNI activities, which are regarded as major sources of systemic risk, would be relatively increased, thereby increasing HLA sensitivity to the risk.
276	**Japan** The Life Insurance Association of Japan Non-member	[The use of parameter gamma] ·The level of capital surcharge should be determined in accordance with systemic risk profile of the insurer. To that effect, we support the method of calculating the level of surcharge with emphasis on the amount of NTNI activities (i.e. the use of parameter gamma). In addition, by setting the level of parameter gamma near 100%, the HLA's objective can be reflected even more. ·As the IAIS has indicated in the past, we recognise: "Traditional insurance activity is unlikely to be a source of systemic risk. However, Non-Traditional and Non-Insurance activities within an insurance group are likely to generate or amplify systemic risk." ·In light of HLA's objective to "reduce the probability of distress or failure and thus the expected impact" on the financial system, we believe that the level of surcharge should be determined with emphasis on the amount of NTNI activities. ·It is pointed out that an increase in gamma with adjustment by scale factor may lead to an increase in the volatility of results if the amount of NTNI activities is small. However, this concern arises from the calibration that assumes the level of surcharge in preceding requirements for banking sector. If the amount of NTNI activities is small, the level of surcharge should be lowered accordingly. The issue of volatility would not arise in this case.
277	**People's Republic of China** China Association of Actuaries Non-member	It is not suggested by us to determine the increased emphasis on NT exposure by introducing gamma factor for following reasons. 1. Since the definition of NTNI has not been finalised, introducing gamma factor may result in more uncertainty for HLA requirement. 2. An insurer with relatively high proportion of NTNI business is likely to attract only not high beta and but also high gamma. This double-counting penalization may need further justification.
278	**Solvency Committee, Risk Management and**	Because the IAIS has stated that systemic risk in insurers arises from NTNI activities, the amount of the HLA should be

	Financial Reporting Council American Academy of Actuaries Non-member	based primarily on a G-SII's level of NTNI activity. Therefore, we recommend that ? be set close to 1.0 in order to reflect the systemic risk of each entity.
279	**Switzerland** Swiss Re Non-member	See our response to question 16 above.
280	**United Kingdom** Institute and Faculty of Actuaries Non-member	The size of the gamma should be less than one as there is a need to strike a balance between the desirable greater risk sensitivity and the imperfect capture of NT/ NI (*) risk by using the simple BCR. (*) NT: non-traditional insurance; NI: non insurance.
281	**United States** Metlife Non-member	Please refer to response to Question 25
23. Should the IAIS consider selecting the calibration levels of the factors to manage the tension between risk sensitivity, complexity and volatility when calibrating the HLA required capital? Please provide a rationale for your response and suggest how this may be done if you consider it should be done.		
282	**China** China Insurance Regulatory Commission IAIS Member	According to the existing document, there are greater uncertainties in different kinds of assessment factors, parameters and standards, so it's hard to get a balance between risk sensitivity and complexity. We suggest that IAIS could consult again after it's done.
283	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA supports the calibration ceiling proposed by the IAIS in this Consultation Document (20% of the Uplifted BCR), applicable for the top empty bucket. The populated buckets should be calibrated at a lower level. This is consistent with the perception of systemic risk of G-SIIs, from a cross-sectoral perspective (as detailed in Annex F).
284	**Russia** the Central Bank of the Russian Federation	We support the notion that the HLA requirement should be comparable with the requirements applied to the G-SIBs in the lowest bucket. Therefore, uplift to the ICS should be in the range of 10% to 20%.

	IAIS Member	Choice 1 of Table 5.1 is considered reasonable. As an alternative, we suggest widening the gaps between the factor scores. The proposed approach would increase the formula sensitivity, since the higher is the gap between the factors applied to different buckets, the greater is the difference between the requirements to G-SIIs that belong to different buckets. It might be even considered to let the top bucket factor exceed the 20% limit to emphasize the differentiation between the buckets. Since the top bucket is expected to be kept empty, and its main function is to discourage insurers from increasing their systemic risk, the factor growth would have no influence over the outcomes of the HLA application. Overall, it should be noted, that though the increased gap between the factor scores for lower and upper buckets will raise volatility, it will make the HLA requirement more risk sensitive.
285	**USA** National Association of Insurance Commissioners IAIS Member	Yes, subject to the following understanding: In terms of calibrating the level of the HLA, we agree with the bucketing factors shown in Table 5.1 as flat factors for all G-SIIs within a given bucket. Consistent with our response to Q17, if a course of viewing these factors as averages (as opposed to flat factors) is pursued, then the factors should be calibrated to a level such that 10% or 15% currently specified for a given bucket in Table 5.1 are the maximum HLA add-ons.
286	**Australia** KPMG International Non-member	The IAIS should consider calibrating the factors in line with the targeted probability of solvency for G-SIIs. See Q1.
287	**Canada** Canadian Institute of Actuaries Non-member	The underlying required capital is the best place to balance risk sensitivity and volatility; the bucket factors are not granular enough to be appropriately risk-sensitive. The calibration of the beta factors for each bucket should be kept simple, as the underlying NT and NI exposures have enough complexity and risk sensitivity.
288	**Canada** CLHIA Non-member	- In our view the calibration level is not the appropriate place to manage risk sensitivity versus volatility. Instead, the overall capital requirements for NT and NI are the best places to do so. The calibration of the beta factors for each bucket should be kept simple, as the gamma factors (if they are not set to 1.0) introduce enough complexity.
289	**China** Ping An Insurance (Group) of China Non-member	We welcome the ceiling introduced by IAIS on HLA for regulated banking activities in response to our suggestion on consistent treatment between insurers and banks. However, the beta calibration is applied not only on NTNI but traditional insurance BCR on certain level, depending on Gamma. The suggested calibration levels from the consultation paper present apparent similarity with the G-SIB calibration, i.e. additional capital is set to 1%-3.5%(IAIS used the 1%-1.5%,the lowest 2 of the G-SIB level) for G-SIBs. We believe that

		G-SIB calibration may not be the best reference for the G-SII calibration. Systemic risk of banking is generally higher than that of insurers given the natural of banking business has much higher degree of interconnectedness and complexity (e.g. derivative trading, etc). Using the similar level of calibration of banking in HLA significantly overestimates the systemic risk of insurers. In order to reflect similar significance in terms of required capital for the same activities, the HLA calibration for insurers should be markedly lower than that of banking to compensate the higher risk sensitivity in the assessment methodology. It appears that the same activities are far more significant in G-SII assessment than in G-SIB assessment. Based on our rough estimate, Ping An Bank contributes more than 55% towards the final score of G-SII Assessment*. In comparison, Ping An bank is only approx. 1/10 of ICBC (which is in the lowest bucket of G-SIBs) and approx. 1/8 of China Construction Bank (which is not even a G-SIB) in term of total assets. Ping An Bank do not have significant investment banking and overseas operations. It clearly shows great discrepancy between G-SII and G-SIB assessment scoring and risk sensitivity. IAIS should consider introducing lower risk bucket, e.g. 2.5%, to reflect the overall lower systemic risk of insurers. (Please do not publish this paragraph). * We employ a high-level method to estimate the contribution of banking towards the overall G-SII scoring since we do not know our relative ranking for each G-SII indicator. Firstly, we split our business into 3 business lines: insurance, banking and other. It is then assumed that Ping An scores equally in all indicators, except for two we are expected to score close to zero (reinsurance and non-traditional insurance). We are able to calculate the contribution from each of the business lines based on the weighting of indicators in G-SII score from the assessment methodology. Per our 2015 G-SII designation data, insurance, banking and others contribute 32%, 57% and 11%, respectively.
290	**EU** EIOPA Insurance & Reinsurance Stakeholder Group Non-member	The bucketing, choice of HLA formulas and calibration of outcome is, as stated by the IAIS, inter-related issues. It is therefore difficult to evaluate the impact, if certain issues (e.g. the bucketing, definition of NT and NI) are still to be analysed or field tested. Given that the IAIS approach is factor based with uplifts, it is less risk sensitive than some of the existing capital regimes (e.g. Solvency II). If the approach was made mandatory directly for the firms, it may therefore impose challenges for the management and the communication of a firm, since the BCR/HLA may react differently and provide conflicting risk management incentives compared with other metrics applied. Those potential conflicts could be avoided, if the HLA would work as a benchmark only for local/regional requirements but not as an immediately binding capital standard.
291	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft	The BCR by design is simple and risk-insensitive therefore not reflective of a G-SII's true risk profile and very likely to provide inadequate and conflicting risk management incentives when uplifted to the level of the Solvency II - SCR. Against this backdrop the current BCR/HLA proposal of calibration can only provide indications for further discussions with the group wide supervisor rather than define a binding constraint.

	Non-member	
292	**International** International Actuarial Association Non-member	We have no comments on calibration levels directly, although we note that it will be important to field test the impact of the BCR/HLA requirements on G-SIIs by jurisdiction (i.e., to determine if jurisdictional specificities result in consistent G-SII coverage bias in their jurisdiction). Also see our response to question 32 (risk sensitivity, volatility, complexity).
293	**International** Joint response from Allianz, Aviva, Generali and Prudential plc Non-member	We have the following comments on the sensitivity, complexity and volatility in relation to the measures in the IAIS's consultation paper. We have broken down our comments to reflect the various components of the proposed HLA construction. BCR uplift The BCR is a very basic and risk insensitive measure, and was thus calibrated at its current level since it did not explicitly take account of insurers' asset liability management and diversification. It remains important that the risk insensitivity of the BCR is revisited in relation to the Discount Rate and use of implied volatility in valuation guarantees in particular. For discount rates, concepts similar to measures utilised in Solvency II such as Matching Adjustment and Volatility Adjustment should be considered for BCR also. Increasing the BCR by 133% so that it is equivalent to average PCR has the effect of amplifying its weaknesses. This will give rise to unintended consequences - including potentially increasing procyclicality. It could therefore contribute to, rather than mitigate, potential systemic risk. While the uplift to BCR puts it close to PCR based on market conditions at the field testing dates, the difference in risk sensitivity will result in the two measures moving in different ways as market conditions change. In a European context, Solvency II introduces a risk sensitive economic approach. GSII firms' management cannot run their business to two very different bases, particularly in times of crisis, and we do not currently understand how the different bases will move relative to each other across a wide range of market conditions. It is therefore important that BCR + HLA should not become a binding measure that must be met in all circumstances and we would propose that the uplifted BCR should be lower than the average PCR to mitigate the risks highlighted above. In addition whilst BCR and HLA are focused on required capital, the IAIS is also looking at definitions of capital resources as part of its work on the ICS and ComFrame. Some of the changes being considered are already impacting the BCR balance sheet, such as changes to the ICS discount rate methodology. Given the relationship between required capital and capital resources, it is important that the definition of capital resources in the BCR are not changed otherwise the ratio, if and as endorsed by the G20 in November, could be altered. We also continue to consider it essential that transitional/grandfathering provisions in relation to capital resources are introduced.

		HLA calibration target The calibration targets for HLA proposed (10% & 15%) are close to the minimum GSIB bucket (12.5% equivalent), yet the FSB has deemed that all banking activity is systemic due to the nature of their business model, whereas in insurance only NTNI has the potential to give rise to systemic risk. Therefore, the HLA calibration targets proposed are too high. The approach applied to banks effectively uses size of systemic activity as a proxy for systemic impact and applies HLA to those banks that undertake the largest volume of systemic activity. It should also be noted that in the context of insurance, size is beneficial as it gives rise to significant diversification benefits and makes large insurers safer than smaller insurers. Applying similar HLA calibration targets relative to the total balance sheet to GSIBs and GSIIs results in a more penal charge for insurance than for banking as most insurers business is traditional business (80% on average according to the IAIS's paper). Both the IAIS and FSB have determined that traditional insurance business does not give rise to systemic risk, whereas the core business of banking is all systemic. In the absence of a transparent measure of systemic impact, any penal charge should reflect the different nature of banks and insurers, and as insurers pose much less risk, the charge should be calibrated accordingly. This will be consistent with the rationale of applying buckets in the first place - to distinguish between firms that pose higher systemic risk from those that pose a lower risk. A lower target will also reduce dispersion of results when a high gamma is used. The IAIS indicates that average NTNI for GSIIs is 20%, therefore theoretically as on average only 20% of GSIIs activity has potential to be systemic and the HLA uplift is calibrated to total BCR, an uplift based on 20% of the GSIB uplift would seem a more comparable basis for an HLA charge (20% of 12.5% GSIB uplift would indicate that the entry GSII bucket should be less than 2.5%). HLA on NI activities subject to sector regulation The IAIS is proposing that non insurance activities that are subject to sectorial prudential regulation should be subject to an HLA uplift. This creates a level playing issue as the same activities, particularly asset management, do not currently attract any systemic risk charge when they are carried out by non-insurance groups. In particular, we note that for asset managers, it is currently being debated whether activities rather than entities should be subject to systemic risk regulation. Applying HLA to asset management businesses owned by GSIIs will create a competitive distortion between them and

		other asset managers who are not owned by GSIIs. This would also be an ineffective measure as such activities would likely migrate to non-regulated entities. Therefore, we do not consider that the HLA uplift should be applied to Non Insurance subsidiaries that are subject to a separate prudential regime. Gamma As noted in our response to question 22, the overall designation methodology is heavily influenced by the size of an insurer's traditional business which is not a source of systemic risk. It is therefore important HLA reflects the nature of potential systemically risky activity within the BCR to ensure that the HLA is sensitive to activity. Therefore a high gamma should be applied to provide the maximum link between NTI activity and HLA, to provide disincentives to insurers for the level of NTNI they undertake. Scale factor As noted in our answer to question 22, the additional scale factor can lead to a wide spread of results due to the high calibration target of the HLA. A lower (and more appropriate) calibration target would narrow this spread. It would also be appropriate to apply a cap. If the current high scaling factors are maintained (and therefore high calibration targets of the HLA), a cap should be applied so the HLA uplift does not exceed, either, the target calibration of the next level bucket or the minimum uplift applied to GSIBs. In addition as the scale factor is based on the average distribution of NTNI it should be locked down prior to HLA becoming a requirement, to ensure that where GSIIs reduce potential systemic activity it results in a reduction of HLA. If the scale factor were to be periodically revised it could lead to inappropriate outcomes, for example if all GSIIs were to reduce their systemic activity the average NTNI would decrease and their HLA uplift could increase if a GSII were above the new average even though it had reduced relevant activity.
294	**Japan** The Life Insurance Association of Japan Non-member	[Calibration of the surcharge level] ·We support the idea that the HLA calibration level should not exceed the relevant regulated banking requirements, recognising the difference between insurance sector and banking sector in considering the HLA calibration level. Meanwhile, we do not agree with "the calibration level that does not exceed 20%." We believe that it is overly conservative compared with G-SIBs' surcharge level in preceding requirements for banking sector.

		·We support the idea that the HLA calibration level should not exceed the calibration level of the relevant regulated banking requirements, recognising that traditional insurance activities are, unlike banking activities, not inherently systemically important in the financial system. ·However, we do not agree with "the calibration level that does not exceed 20%." It is stated in the Annex F that "the calibration level that does not exceed 20%" is typically comparable with the G-SIBs of the lowest banking group, but that level is calculated with the assumption of Basel III capital ratio of 8% of Risk Weighted Assets (RWA). The actual PCR level of banking sector is 10.5%, together with 2.5% capital conservation buffer. For insurance sector, therefore, "the calibration level that does not exceed 15%" is reasonable. (1.5% / 10.5% is approximately equal to 15%) ·Also, traditional insurance activities are, unlike banking activities, not inherently systemically important in the financial system. We believe that requiring the above calibration level to be applied to the overall risk including traditional insurance activities' risk is overly conservative, therefore, we do not agree with the idea. ·We are concerned that overly conservative calibration level may have adverse effects such as undermining both policyholders' and investors' interests by deteriorating capital efficiency. In addition, there is a concern that introduction of the one-size-fits-all regulation without considering the insurers' systemic risk profile may amplify systemic risks through procyclicality. ·In light of the above, we believe that it is reasonable to set the factors for populated buckets between 5% and 10%, and the emphasis should be placed on NTNI risks when multiplying the subjects by the factors. Besides, we believe that further discussion is needed on the specific calibration level of the HLA, taking into consideration the original goal of the HLA which is to address systemic risks
295	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	Due to the simplicity of the BCR, the uplift/recalibration could result in a high level of false positives. The calibration level may need to be set lower for non-complex approaches or those in which the resulting capital charge is more volatile. For complex approaches, the calibration levels are unlikely to significantly impact the risk sensitivity, complexity, or volatility of the formula as proposed.
296	**Switzerland** Swiss Re Non-member	See our responses to questions 15 and 16 above.
297	**United States** Metlife Non-member	Please refer to response to Question 25

24. Should the IAIS consider introducing ceilings and/or floors on results for G-SIIs to manage the tension between risk sensitivity, complexity and volatility when calibrating the HLA required capital? Please provide a rationale for your response and suggest how this may be done if you consider it should be done.		
298	**China** China Insurance Regulatory Commission IAIS Member	IAIS should consider introducing ceilings not only on the sector (i.e. banking) but overall. We welcome introducing ceilings on banking capital. This is an important step to achieve greater consistency among G-SIFI regulatory frameworks and to reduce the possibility of regulatory arbitrage. The overall cap of the HLA can be achieved through the bucketing method, similar to the G-SIB methodology.
299	**EU** European Insurance and Occupational Pensions Authority IAIS Member	The use of ceilings and floors would constitute an appropriate solution to ensure consistency and robustness of the outcomes of a HLA framework which is simultaneously based on a sufficiently risk-sensitive and targeted calculation methodology. The use of ceilings and floors would ensure that, despite of the use of a combined HLA formula with a significant focus on NTNI risks, the individual G-SII results would still fall sufficiently close to the stated average target calibration for each bucket. Assuming that the calibration included by the IAIS in the Consultation Document would be adopted, this is an illustration of how the ceilings and floors could be defined: [% of Uplifted BCR] Floor Central calibration Ceiling Top bucket (Empty) 17,51% 20% 22,50% Middle bucket (Pop.) 12,51% 15% 17,50% First bucket (Pop.) 7,51% 10% 12,50% It could also be considered to only apply a global ceiling and floor, and not one for each bucket. That would secure that no G-SII is subject to a HLA above the intended maximum, while at the same time also the lower G-SIIs would be subject to a relevant and credible HLA. Depending on the stability of the HLA results, caps and floors could be considered transitory measures to be removed over time. From EIOPA's point of view, the introduction of such ceilings and floors would allow the HLA framework to strike a good balance between the conflicting objectives of risk sensitivity and volatility, without unduly compromising the element of complexity.
300	**Russia** the Central Bank of the Russian Federation IAIS Member	Introducing ceilings and floors on the results for G-SIIs might be a very effective solution against an excessive volatility of the outcomes that arises out of different business strategies of G-SIIs (different amounts of NTNI activities). A floor and ceiling might be introduced at the NT and NI exposure levels to the amount that will guarantee particular lower and upper HLA required capital limits. More precise figures can only be provided on the basis of the field testing outcomes.
301	**USA** National Association of Insurance Commissioners	If a gamma methodology is chosen to allocate HLA to the firms, we believe that ceilings and floors on results would help manage the tension between risk sensitivity, complexity and volatility. At a minimum, the IAIS should adhere to the point

	IAIS Member	that the most systemic G-SIIs are less systemic than the least systemic G-SIBs. This implies a cap of (at most) 20% in the HLA uplift for each individual G-SII. Selection of formulas in the low range of gammas could similarly address this issue. Furthermore, if calibrating to an average HLA uplift, it would mean that there would be some G-SIIs that are deemed by the designation process to contribute to systemic risk without bearing any of the cost (or a trivial amount of the cost). In this sense, we would also support a floor. A floor would also be implied to address the allocation of HLA in excess of the cap if the pool of HLA to be allocated remains constant.
302	**Australia** KPMG International Non-member	Ceilings and floors could be considered as part of the approach, however, this increases the complexity of the process and raises further questions around the amount/calibration of these levels and how they will be determined and therefore question the need for these additional components.
303	**Canada** Canadian Institute of Actuaries Non-member	Caps and floors should be considered, especially since HLA is entirely factor-based and BCR is quite rudimentary, at least until such time as the ICS and ComFrame may come on stream and the overall framework stabilizes.
304	**Canada** CLHIA Non-member	- We believe that caps and floors should be introduced on the maximum level to be charged for dollars of exposure creating "systemic risk". Otherwise relatively small NT and NI activities may attract disproportionately large amounts of capital in particular if a notion of HLA as a fixed percentage of the BCR "on average" is retained. Without such caps and floors, one can be in a situation where many multiples of exposures are charged, out of proportion with "risk". While there is a natural cap for NI activities in this regard based on capital requirements, for example on banks, there is no such "natural" cap for NT activities and hence it should be developed.
305	**China** Ping An Insurance (Group) of China Non-member	IAIS should consider introducing ceilings not only on the sector (i.e. regulatedbanking) but overall. We welcome introducing ceilings on regulatedbanking capital requirement. This is an important step to achieve greater consistency among G-SIFI regulatory frameworks and to reduce the possibility of regulatory arbitrage. The overall cap of the HLA can be achieved through the bucketing method, similar to the G-SIB methodology.
306	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	We support the idea of capping the HLA in order to prevent exorbitant results. Referring to the reasoning in Annex F of the consultation document, it is a suitable approach to determine the height of the cap under the assumption that the highest (empty) G-SII bucket is equated to the lowest G-SIB bucket.

307	**International** International Actuarial Association Non-member	The IAA believes the simpler and more direct approach included in our response to question 22 would reduce this concern. Also see our response to question 32 (risk sensitivity, volatility, complexity).
308	**International** Joint response from Allianz, Aviva, Generali and Prudential plc Non-member	As noted in our response to Question 23, if the calibration target is lowered, the spread of HLA results would be lower. This would reduce the need for a ceiling to limit HLA outcomes. We consider floors as inconsistent with incentives to reduce systemically risky activities. If the current high scaling factors are maintained and therefore high calibration targets of the HLA, we believe the IAIS should apply a cap to the maximum HLA uplift that can be applied to a GSII in each bucket. In addition, given that the designation methodology is heavily influence by the size of traditional insurance business, consideration should be given to entry level bucket where HLA is calibrated to zero for GSIIs that only undertake immaterial levels of potential systemically risky activity in comparison to GSIBs, and their systemic risk management plan and liquidity risk management plan demonstrate that any such risks are being effectively managed.
309	**People's Republic of China** China Association of Actuaries Non-member	Agree. 1. We suggest that IAIS should introduce ceiling, but no floor on a sector basis as well as on the overall level. 2. We believe that introducing ceiling of capital requirement for insurance sector could achieve consistency among GSIFI regulatory frameworks and hence reduce the possibility of regulatory arbitrage.
310	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	A clear floor of approximately 10 percent might be reasonable. Without such a floor, it is questionable whether an entity should be considered a G-SII.
311	**Switzerland** Swiss Re Non-member	In our view, the proposed approach provided in our responses to questions 15 and 16 above would be more suitable than introducing ceilings and floors, since the methodology should reflect the true economic costs of Systemically Risky Activities.

312	**United States** Metlife Non-member	Please refer to response to Question 25
25. Should the IAIS consider using a combination of the above approaches to manage the tension between risk sensitivity, complexity and volatility when calibrating the HLA required capital? Please provide a rationale for your response and suggest how this may be done if you consider it should be done.		
313	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA is of the opinion that a compromise between the different approaches needs to be achieved, in order to achieve an appropriate solution. In summary, our proposal is to define an HLA required capital framework which is based on: - Three buckets, two of which populated. The allocation of G-SIIs to each bucket should be made on the basis of the G-SII designation scores. - A calculation formula primarily targeted on the drivers of systemic risk and G-SII designation. A gamma of 60% would seem an appropriate level (approximately corresponding to a duplication of the required capital stemming from NTNI activities). - A calibration level of maximum 20% (for the empty bucket). - The use of ceilings and floors, as the means to manage the tensions between conflicting objectives, overcome the challenges posed by the practical reality of G-SIIs (low NTNI exposures) and bring all the components together to ensure the soundness and consistency of the final results. However, ceilings and floors should work as "safety net" and should not lead to an abnormal alignment of the HLA of G- SIIs for instance by removing incentives to reduce systemicness.
314	**Russia** The Central Bank of the Russian Federation IAIS Member	The above responses are given from the prospective that all of the proposed measures are implemented together. We strongly support the idea of using them in combination. Notwithstanding the fact that applying them together would increase the complexity, such an approach would leave enough "room for manoeuvre" in case the HLA methodology needs to be revised in the future (for example, such a need occurred in case of the G-SIB BCBS methodology when the appearance of new data on one bank made it necessary to change methodology).
315	**USA** National Association of Insurance Commissioners IAIS Member	- We agree with an approach with two populated buckets, each bucket having a single HLA percent uplift applicable to all G-SIIs within that bucket; - We agree with the use of the G-SII scores to allocate firms to one of the two populated buckets; - We agree with using the factors included in Table 5.1 as THE factors to be applied to all G-SIIs in a given bucket. Although not our preference, if the formula / gamma approach to allocating HLA is used in either a one populated or two populated bucket approach, we are opposed to any G-SII getting an HLA add-on that is greater than 20% of the uplifted

		BCR. In that light, we would then support either limiting the gamma to less than 50%, imposition of caps and floors or both as necessary to stay within the 20% maximum add-on. Our preferences reflect the following considerations: Risk sensitivity: We agree that there should be emphasis on the drivers of systemic risk in the HLA methodology. Of the options presented, using G-SII scores - which places a significant weight (45%) on NTNI - to allocate G-SIIs to one of two buckets is a simple way to reflect some systemic risk sensitivity. Given that the definitions of NTNI that flow into the BCR and HLA calculation are still being developed, some of the other options that are very sensitive to the NTNI score are not advisable at this juncture. (See our response to Q6.) Complexity: We agree that simplicity is a desirable property for the HLA approach. The approach supported by NAIC provides a balance of simplicity and risk sensitivity. Volatility: We do not support a HLA percent uplift for an individual G-SII that is greater than that applied to the least systemic G-SIB. One way to address this is having a cap (and an offsetting floor) on each individual G-SII's uplift. Another way is to limit the gamma weight on NTNI activities captured in the BCR. If a two populated bucket approach with constant factors is used, the issue of caps / floors or limiting the gamma could be avoided.
316	**Australia** KPMG International Non-member	Covered by our earlier responses regarding what should be used.
317	**Canada** Canadian Institute of Actuaries Non-member	This has merit, especially since HLA is entirely factor-based, until such time as the ICS and ComFrame may come on stream and the overall framework stabilizes. We have indicated above the approaches we feel have most merit in response to previous questions. We agree that a combination of approaches may ultimately be needed to achieve the stated objectives. The challenge for the IAIS will be to collect sufficiently detailed results on each approach considered during field testing without over-burdening the G-SIIs.
318	**China** Ping An Insurance (Group) of China Non-member	In summary, we support the bucketing method in principle. However, appropriate balance should be achieved between the simplicity and risk sensitivity (Question 21). We are sceptical of the usage of gamma to boost the sensitivity of NTNI to HLA (Question 22).

319	**EU** EIOPA Insurance & Reinsurance Stakeholder Group Non-member	The IAIS should test the BCR/HLA measures under a variety of scenarios that are different to the current scenarios. For example, it is especially important to see how the measure would have behaved during the last financial crisis. It is paramount that any new regulation for G-SIIs is designed in a comparable manner and that these requirements are applied consistently. This will then allow the FSB's proposed measures to appropriately address systemic risks.
320	**International** International Actuarial Association Non-member	The IAA believes the simpler and more direct approach included in our response to question 22 would lessen this concern. Also see our response to question 32 (risk sensitivity, volatility, complexity).
321	**International** Joint response from Allianz, Aviva, Generali and Prudential plc Non-member	Within the overall design options included within the consultation paper the maximum sensitivity to potential systemically risky activity can be achieved through both including more, rather than less, buckets and applying a Gamma, to differentiate between GSIIs in the same bucket with differing levels of relevant activity. As noted in our answer to question 23 and 24 the calibration target for HLA for each bucket needs to reflect that traditional insurance business is not a source of systemic risk and it is only the presence of certain activities on a scale that could make them difficult to manage that could give rise to the potential for systemic impact. The G-SIB methodology, by the use of a bucketing approach, differentiates between firms based on the extent of systemic risk posed by them. This rationale justifies a lower HLA target for insurers relative to banks and the IAIS should reduce the level of currently proposed HLA targets. In addition as also noted in our answer to question 23, HLA when added to BCR, should not become a binding measure given the risk insensitivity of the BCR, as this could lead to pro-cyclicality and would be more likely to contribute to, rather than mitigate, systemic risk.
322	**People's Republic of China** China Association of Actuaries Non-member	In general we agree with the bucketing method in principle but sceptical about current GSIIs assessment methodology (see question 15). And we do not believe that introducing gamma and scale factor is the best way constructing HLA formula (see question 16 and 22). So far it is difficult for us to assess the impacts on the insurance groups due to uncertainties relating to this consultation document such as NTNI definition, GSIIs assessment methodology etc. We suggest an extension of the consultation period until those issues being clarified.

323	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	We strongly urge the IAIS to adopt the recommendations in our comments. Adopting these suggestions will help produce a HLA formula that is simple, risk-sensitive, and responsible to market volatility.
324	**Switzerland** Swiss Re Non-member	See our responses to questions 15 and16 above.
325	**United States** Metlife Non-member	Our response to Question 2 applies here. However, specifically on the question as to the trade-off between risk sensitivity, complexity and volatility, adding buckets and gamma > 0 will both, by definition, increase volatility and complexity. We would suggest that this is another argument in favor of a single/zero bucket and gamma at zero because to choose another combination is not to improve but aggravate the situation. We would add that there is no demonstrated correlation between the relative GSII assessment rankings or the NTNI measures and an objective, absolute measure of systemic risk. Therefore, we cannot improve risk sensitivity by implementing a bucket system and an HLA driven by volume of NTNI.
26. Should the IAIS consider using other approaches to manage the tension between risk sensitivity, complexity and volatility when calibrating the HLA required capital? Please provide a rationale for your response and suggest how this may be done if you consider it should be done.		
326	**China** China Insurance Regulatory Commission IAIS Member	Due to the close relationship between the systemic risk and the overall operating environment of market, we suggest that IAIS should refine HLA based on the risk conditions of market which G-SII is in.
327	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA believes that the solutions provided in the previous responses would be sufficient to strike a good compromise between the stated objectives, enabling the delivery of a credible and technically sound HLA framework.
328	**USA** National Association of Insurance Commissioners	While continuing the refine the BCR itself, the IAIS should continue to refine its definitions of NT and align the definitions in the G-SII assessment to the data collected for NT in the BCR.

	IAIS Member	At the point where it is determined that the more granular and risk sensitive ICS should replace the BCR as the base for HLA, it would seem appropriate to look to NTNI to carry more of the weight in determining HLA for each G-SII. [Same answer as Q28]
329	**Australia** KPMG International Non-member	See earlier comments regarding greater consideration of the factors that led to G-SII classification and weaknesses in the BCR treatment that underlies the whole construct of the HLA. Arguably, 9 G-SIIs represents a small enough population that a single factor or capital add-on can be applied to all G-SIIs and we are concerned that further segregation could lead to spurious accuracy. Our view is that the HLA capital add-on needs quantitative backing to derive the relevant factor, rather than broad qualitative comparisons with the banking sector. To prevent capital arbitrage opportunities between banks and insurers a clear targeted probability of solvency needs to be established and clearly articulated. This target probability of solvency can then inform the level of additional capital or factor required by comparing it with the assumed loss distribution of G-SIIs (distribution fitted based on historical data). While this approach increases complexity of the HLA approach, this calibration exercise will only be undertaken once by the IAIS to ultimately set a single factor that can apply to all G-SIIs.
330	**Canada** Canadian Institute of Actuaries Non-member	We suggest that the HLA required capital be calculated as a moving average over several reporting periods, to stabilize it. This could be useful given that the underlying ICS is expected to evolve over time. Alternatively, a moving-average approach could be used as a transitional measure until the ICS methodology has stabilized.
331	**Canada** CLHIA Non-member	- We suggest that the HLA required capital be calculated as a moving average over several reporting periods, to stabilize it, at least during the transitional period.
332	**International** Joint response from Allianz, Aviva, Generali and Prudential plc Non-member	Although we appreciate that the IAIS has made a commitment to the FSB for design of higher loss absorbency, please note our earlier comments that the process would have benefited from the settling of certain key foundational elements such as the exact nature of NTI and also provide greater clarity on the design methodology. However, in the absence of such clarity we believe the proposed framework could be improved in the areas mentioned in questions 21-25 above. As a matter of principle we believe that given the lack of significant research in the area that the IAIS should address the issue of systemic risk in the insurance industry through focusing on specific activities, wherever they might be found

		amongst insurance companies. We believe that the current status whereby certain activities are supervised under the GSII framework for nine global firms but not throughout the rest of the industry (wherever they appear) is potentially dangerous. In our view this contradiction does not serve in the best interests of policyholders and the stability of the broader economy. Finally, we believe that it is not harmful to overall financial stability to have a GSII framework with certain firms that due to their change of activities over time, either have no HLA charge (and only fulfil the other policy measures) or indeed cease to be designated a GSII at all. The process would be greatly enhanced through greater transparency and a means of demonstrating that a GSII can cease to be so designated.
333	**Japan** General Insurance Association of Japan Non-member	While currently we do not oppose the use of approaches based on risk factors, it is important to reflect the results of ongoing field-testing and comments on consultations in the calibration of the factors such as the scale factor and the level of gamma. When the calibration is determined, the IAIS should publicize the rationale for it and obtain stakeholders´ input through a consultation.
334	**Japan** The Life Insurance Association of Japan Non-member	[Measures mitigating the impact of moving up to the higher bucket] ·Taking into account the significant impact of the HLA on each insurer's management strategy and capital policy, we would like the IAIS to consider measures that would contribute to mitigating the impact on G-SIIs when a G-SII moves up to the higher bucket. ·Considering that it is necessary to raise sufficient core capital as HLA required capital, G-SIIs' moving up to the higher bucket would have significant impact on each financial institution's management strategy and capital policy. ·We would like the IAIS to consider measures that would contribute to mitigating the impact on G-SIIs when a G-SII moves up to the higher bucket, for example, placing a grace period for G-SII to satisfy its HLA requirement, or requiring it to be allocated to a higher bucket in a step-by-step manner as a general rule. [Improving the foreseeability with regard to reallocation of a G-SII to another bucket] ·Taking into account the significant impact of the HLA on each insurer's management strategy and capital policy, we would like the IAIS to consider how to improve foreseeability with regard to reallocation of a G-SII to another bucket. ·As the Assessment Methodology for identifying G-SIIs includes relative evaluation, the foreseeability with regard to reallocation of a G-SII to another bucket is restricted. Considering that it is necessary to raise sufficient core capital as

		HLA required capital, reallocation of a G-SII to another bucket would have significant impact on each financial institution's management strategy and capital policy. We believe that how to improve the foreseeability is an important issue. ·In applying HLA to G-SIIs, we believe that insurers are likely to improve their foreseeability with regard to reallocation to another bucket to some extent, for example, by implementing measures such as: -setting caps on score of certain indicators. -setting quantitative threshold, and designate as a G-SII or move to upper bucket only after the insurer has exceeded such a threshold for a certain period of time. ·We would like the IAIS to consider the review of G-SII Assessment Methodology to improve foreseeability, considering the following issues resulting from relative evaluation of scores. -In spite of its reduction in NTNI activities, an insurer would remain in the higher bucket and would continue to be required to have a higher surcharge, when other insurers also reduce their NTNI activities. -Some insurers would continue to be designated as G-SIIs even when the systemic importance of the insurance sector as a whole decreases.
335	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	Please see our previous responses.
336	**Switzerland** Swiss Re Non-member	See our responses to questions 15 and16 above.
27. BCR and HLA capital resources Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
337	**EU** European Insurance and Occupational Pensions Authority	EIOPA supports a consistent definition of Capital Resources across the different projects currently being developed by the IAIS (BCR, HLA and ICS). Such consistency may not be possible during the development stage, as the different standards are being developed in parallel, but should in any case be ensured once all of them are completed.

	IAIS Member	Given the important role which HLA is expected to fulfil, it seems appropriate that HLA required capital is met by the highest quality capital (Core capital as defined in the BCR document, or Tier 1 capital as more recently defined in the ICS Consultation Document).
338	**USA** National Association of Insurance Commissioners IAIS Member	Agree. Section 3.5 indicates that refinements to the HLA methodology will be made in the context of replacement of the BCR base capital requirements with the ICS requirements. There should be similar language in this section to note that further refinements may also be needed to address changes in the definitions for capital resources when the ICS becomes the base for HLA.
339	**Australia** KPMG International Non-member	We agree that the HLA should be met by the highest quality capital to provide loss absorbing capacity in the event of distress (i.e. BCR core capital or ICS Tier 1 capital for which there is no limit). It is noted that the capital tiering approach between the BCR and the ICS are different. The ICS uses definitions of Tier 1 and 2 while the BCR uses core capital and additional capital. We would expect these two classifications to be highly aligned, but if there are differences between them, then some transitioning may be required once the HLA becomes based on the ICS.
340	**Canada** CLHIA Non-member	Paragraph 99 - We disagree that Core capital is required to absorb losses more easily. This is too restrictive on capital management flexibility, and it could introduce systemic risk.
341	**German** Allianz Non-member	Transition rules should be implemented for qualifying capital resources, which ensure that eligible local capital instruments initially and during a transition period qualify as BCR/HLA qualifying capital.
342	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	In order to ensure a smooth implementation and to prevent sudden revaluations of capital resources, we strongly advise on the introduction of a transitional measure in this section. It must be avoided that qualified tier 1 capital items under local requirements are not eligible to meet the HLA requirements. A transitional should ensure that all high quality own funds qualify as core capital in the beginning and that the envisaged qualification requirements for core capital are phased in incrementally.
343	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries	As noted above, the consultation document states that the HLA requirement must be met by the "highest quality capital," later restated as core capital, whereas the uplifted BCR may be met by a combination of core capital and additional capital. Both core and additional capital should be considered the "highest quality capital" for purposes of the HLA. At

	Non-member	the very least, the HLA should be met by a combination of core capital and additional capital, similar to the BCR.
344	**United States** Metlife Non-member	Section 3.5 acknowledges that the HLA will need to be reviewed at the time and in the context of the replacement of the BCR by the ICS as base. We strongly support the IAIS continued review and refinement of the HLA prior to replacement of its base, and would suggest the definition of capital resources be an integral part of this on-going review. GSIIs should not be required to retire or raise new capital to meet new definitions and existing capital resources should be grandfathered as long as they are determined to be available in a severe market downturn. New capital resources could meet new capital requirements. MetLife has capital instruments that it believes should qualify as Tier 1 and Tier 2 capital. While these instruments do not fully meet the criteria defined by the IAIS in the Technical Specifications, they do fulfil the stated purpose of each capital tier. MetLife suggests that the IAIS establish a capital standard transitional timeframe no shorter than seven years and the IAIS grandfather securities that meet the stated purpose of capital. A shorter transition period would result in pressuring IAIGs to raise capital within a condensed timeframe thereby providing investors the leverage to opportunistically increase the cost of newly issued capital. Additionally, grandfathering certain capital instruments takes into consideration that these instruments were issued to meet a different set of regulatory and rating agency standards. MetLife believes these suggestions align with the IAIS goals of enhancing the industry's stability and protecting policyholders. The IAIS definitions are currently applying an evolving capital regime to historical security issuance. The security terms required by regulators and investors have evolved significantly over the last 10 years. The IAIS standard needs to recognize this by defining reasonable transition and grandfathering rules.
28. HLA interaction with G-SII designation process Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
345	**EU** European Insurance and Occupational Pensions Authority IAIS Member	As stated in our previous responses, EIOPA supports the establishment of a strong link between the calculation of HLA required capital and the G-SII designation process methodology. In this regard, the use of the G-SII designation scores in the HLA calculation framework would ensure that, whatever refinements and improvements are introduced in the former, the second would still continue to work as envisaged (without the need for a review). In any case, EIOPA supports the intention to review the appropriateness of the HLA framework is maintained once the

		review of the G-SII Assessment Methodology is complete.
346	**USA** National Association of Insurance Commissioners IAIS Member	While continuing the refine the BCR itself, the IAIS should continue to refine its definitions of NT and align the definitions in the G-SII assessment to the data collected for NT in the BCR. At the point where the more granular and risk sensitive ICS replaces the BCR as the base for HLA, the IAIS should reassess whether it is appropriate to place additional weight on NTNI in determining HLA for each G-SII. [Same answer as Q26]
347	**Australia** KPMG International Non-member	The G-SII Assessment Methodology sets out the criteria and methodology to determine the G-SII assessment score for insurers and subsequently the identification of G-SIIs. The HLA requirement represents a capital "add-on' applied to those groups that are classified as G-SIIs based on the above assessment. As such, we agree that the HLA capital requirements should be closely aligned with the G-SII assessment methodology both in terms of its application and calculation approach. Any changes made to the G-SII assessment methodology could result in a change in the number of G-SIIs (for example, through broadening its scope to reinsurers). Any such changes should be reviewed to assess their implications on HLA requirements.
348	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	The definition of the G-SII designation process has major impact on the HLA development, not only because the scores resulting from the process determine the magnitude of a G-SII's HLA requirement directly. In addition, because the chosen input factors driving the G-SII designation process will indirectly influence the HLA. Therefore, we do not consider it useful to discuss the HLA design before the G-SII designation methodology is final. Another stakeholder consultation after the final determination of the designation process is indispensable.
349	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	If, after incorporating our recommended changes, an entity demonstrates a low HLA requirement relative to other insurers, an insurer's designation as a G-SII may need to be re-examined. We would urge the IAIS to provide the results of the HLA calculations to those reviewing the G-SII Assessment Methodology.
350	**Switzerland** Swiss Re Non-member	Paragraph 101 should ideally also include a reference to the upcoming review of the G-SII designation methodology.

351	**United States** Metlife Non-member	Please refer to response to Question 1.
352	**United States of America** American Insurance Association Non-member	AIA believes that the IAIS does need to revisit and refine its G-SII Assessment Methodology, in order to apply a more appropriate approach to the consideration and calculation of HLA as a G-SII policy measure. We have consistently expressed our concern that the G-SII Assessment Methodology is flawed because of its consideration of systemic risk and importance in the specific context of insurance (rather than viewing systemic risk as an "external" concept that spans different financial sectors). As discussed in our general response (and in our responses to several individual questions), consideration of systemic risk specifically in the insurance sector has led to an artificial construct that depends on segregating "traditional" from "non-traditional" insurance activities and then further separating "insurance" and "non-insurance" activities. While AIA will respond to any future public consultation on the NTNIA definition, this may lead regulators to conclude that certain activities are simply "non-traditional" or "non-insurance" without further consideration as to whether those activities actually pose a threat to global financial stability.
353	**USA** Property Casualty Insurers Association of America (PCI) Non-member	As we mentioned in our response to the Executive Summary, the IAIS should not adopt any version of HLA until its revisions to the G-SII designation formula are complete and their implications can be considered by stakeholders in their comments.
29. Field Testing 2015 Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
354	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA is fully supportive of the use of Field Testing 2015 results to inform the development of HLA. The consideration of one additional data point will contribute to greatly increase the robustness and resilience of the conclusions reached by the IAIS in the final HLA proposal. EIOPA is well aware of the magnitude of the ongoing Field Testing exercise and stands ready to contribute to the process, to ensure that relevant and meaningful conclusions can be obtained in time to influence the outcome of the HLA development. It is also important to stress the fact that it is proposed that HLA will continue to be subject to a continued process of confidential reporting and review, which may lead to the introduction of any refinements deemed necessary and appropriate, in advance of its final implementation from 2019 onwards.

355	**USA** National Association of Insurance Commissioners IAIS Member	Agree.
356	**Australia** KPMG International Non-member	Agree
357	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	Shaping the design of the HLA not only on the grounds of theoretical ideas is a sensible approach. The only way to a useful and applicable standard is by taking into account the results of practical testing. Consideration of the 2015 field-testing results should be carried out in a thoughtful and reasonable manner. The 2014 field-testing results testified an unexpectedly low amount of systemically risky activities, which is what the HLA is meant to be aiming at. The inclusion of not systemically important business in the HLA formulas is not a reasonable conclusion from these testing results. Therefore, we want to stress the importance of a careful consideration of the information gained from the 2015 field-testing and consultation feedback.
358	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	Using both the 2014 and 2015 field testing results may enhance the selection of factors.
359	**United States** Metlife Non-member	We will be in a better position to provide feedback on Section 7.2 following final evaluation of our 2015 Field Test for the Phase 2 Questionnaire due September 4. That said, we would point out that paragraph 105 highlights the fact that the present HLA proposal rests on one (2014) data point.
30. HLA reporting process Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
360	**EU** European Insurance and Occupational Pensions Authority	EIOPA supports the proposed approach.

	IAIS Member	
361	**USA** National Association of Insurance Commissioners IAIS Member	Agree.
362	**Australia** KPMG International Non-member	Agree
363	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	The proposed same confidential reporting process as used for the BCR is reasonable.
364	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	The reporting process should be confidential. Given the simple design of the BCR, the results could mislead users concerning the relative strength of the G-SIIs.
31. BCR and HLA review process Please provide your views on the assessments made and conclusions arrived at in this sub-section. If you agree, then please indicate this. If you disagree then please explain the rationale for your disagreement. If you consider there are additional issue that should be considered, then please outline them and how they may impact the conclusions reached.		
365	**EU** European Insurance and Occupational Pensions Authority IAIS Member	EIOPA supports the proposed approach.

366	**USA** National Association of Insurance Commissioners IAIS Member	Agree, but see responses to Q26 and Q28.
367	**Australia** KPMG International Non-member	Agree
368	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	The current review of the G-SII designation process is strongly required in order to establish a robust methodology. In the review process, it must be acknowledged that transparency is essential. The grounds on which the established designation process has been decided on as well as the resulting outcomes must be made available to all G-SIIs. Without this information, neither a G-SII's designation nor its scoring can be comprehended or put in perspective. In order to assess the G-SII bucketing and its limits, information on the distribution of scores needs to be given. Likewise, the HLA and BCR review is strongly supported. With both of these standards only in their infancy of testing, it must be expected that current or future test results will demand their review. For all (HLA, BCR and G-SII designation methodology) reviews, a transparent process and an intense stakeholder involvement is crucial.
369	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	The HLA factors do not need to be reviewed annually once the ICS is implemented. Prior to that, however, the factors would benefit from being reviewed annually, as the BCR is a very simplified measurement of required capital.
370	**United States** Metlife Non-member	Without prejudice to our comments regarding the current HLA development timeline, we would fully agree that the BCR and HLA outcomes should be monitored and adjustments made beyond 2018 if necessary, even if these may require FSB approval. Standards should be consistently and appropriately updated to reflect market and product development and updating should not be hampered by procedural obstacles.
32. Are there any further comments you would like to make regarding this Consultation which have not been included in your responses under specific sections above?		
371	**EU** European Insurance and Occupational Pensions	EIOPA agrees with the assessment made by IAIS in section 5.8, concerning the limitations of existing PCRs as the reference point for the calibration of global standards under development. However, PCRs still constitute a very relevant

	Authority IAIS Member	reference point against which stakeholders will compare the newly developed standards to assess the potential capital shortfalls of individual G-SIIs. For that reason, the information which is conveyed by this indicator should not be overly minimized or neglected, but it should be complemented with the use of other (potentially more stable) indicators. Transparency around the calibration indicators used will allow stakeholders, G-SIIs and supervisors to take informed decisions regarding the definition and application of the new standards under development by the IAIS.
372	**USA** National Association of Insurance Commissioners IAIS Member	The responses to the prior questions were given within the framework of the HLA process. We are dedicated to working within this framework to produce an effective HLA requirement. Companies that are designated as G-SIIs should absorb at least some of the negative externalities associated with such designations as a way to disincentivize firms from engaging in systemically risky behaviour. However, our broader view is that more capital should not be the sole or primary way of addressing firms that are designated as G-SIIs. Curtailment of risky activities, structural separation of these activities and enhanced monitoring of how those risks are managed and mitigated can be equally or even more effective as additional capital requirements. This should be an important consideration is setting the level of HLA to be applied to G-SIIs.
373	**Australia** KPMG International Non-member	No Further Comments
374	**Canada** Canadian Institute of Actuaries Non-member	We understand that the designation of G-SIIs and NT/NI is subject to further changes by the IAIS. However, the HLA consultation will be completed before the completion of the revised designation of NT/NI. This process introduces uncertainties regarding the results.
375	**Canada** CLHIA Non-member	- We appreciate IAIS's efforts to engage the industry in the development of various solvency measures through consultative processes.
376	**EU** Insurance Europe Non-member	Insurance Europe's key messages on the IAIS's HLA consultation Insurance Europe welcomes the possibility to comment on the IAIS's consultation document on higher loss absorbency (HLA) for global systemically important insurers (G-SIIs). Insurance Europe believes that a number of improvements and clarifications are needed as part of the HLA development.

		- The focus of the HLA should be on activities that give rise to systemic risk. -- This would be in line with the Financial Stability Board (FSB) mandate: "The policy measures that will apply to G-SIIs are consistent with the policy framework published by the FSB in November 2011. They include for each G-SII: […] iii) Higher loss absorbency requirements (HLA) for non-traditional and noninsurance activities."* It is also supported by the IAIS's own conclusion in the report "Insurance and Financial Stability"**, which states that there is little evidence of traditional insurance generating or amplifying systemic risk within the financial system. -- The widened scope of the HLA, beyond NTNI activities, is of particular concern. The current consultation document refers to the possibility of traditional insurance business causing the distress or failure of a G-SII. This suggests that the IAIS is trying to differentiate between a G-SII's distress or failure and the transmission of systemic risk. However, where possible distress and failure are already addressed by the group PCR, the HLA should focus on the transmission of systemic risk. -- A sensible HLA should both reward a decrease in and disincentivise growth in systemically risky activities. This aim would not be achieved if the scope of the HLA were extended to traditional insurance business. The comparison between G-SIIs and G-SIBs (as illustrated in Annex F paragraphs 4 and 5) appears as a way to circumvent the fundamental challenge of a calibration of the HLA requirement. While Insurance Europe understands that the issue of designation is a separate workstream that will be discussed later this year, it would strongly argue that an activity-oriented approach would be far more sensible than an approach aimed at designating a few organisations that would apply specific prudential measures. - The proposed calibration target for the HLA requirement is too high and fails to adequately acknowledge the differences between G-SIBs and G-SIIs. -- The calibration target should be relative to the level of systemically risky activities undertaken. -- Given the nature of their core business model, G-SIBs pose a far greater risk to global financial stability than G-SIIs. In fact, the use of bucketing for G-SIBs acknowledges that the charges need to be proportionate to the level of systemic risk posed by institutions. -- The amount of NTNI business of a G-SII must be taken into account appropriately, depending on the calibration target for the HLA. For G-SIBs in the lowest banking bucket, the HLA increases the capital requirement by 12.5% (as explained in Annex F, paragraph 4 of the consultation). However as determined in the 2014 field test, on average the value of a G-SII's BCR NTNI, which measures the level of systemic risky activities, amounts only to about 20% of the full BCR. Thus, only 20% of the lowest G-SIB HLA charge should apply in the case of a G-SII, ie a calibration target of 20% x 12.5% = 2.5% for the lowest bucket. -- Therefore, any potential HLA for G-SIIs should be calibrated at a materially lower level than the smallest capital requirement increase applied to G-SIBs.

		- The BCR+HLA framework should not give rise to an unlevel playing field with other regulated sectors. -- For other regulated sectors, the insurance HLA should not apply unless those activities would separately qualify for HLA under the respective sector's systemic regulation. -- For example, applying HLA to asset management businesses owned by G-SIIs will create a competitive distortion between them and other asset managers who are not owned by G-SIIs. This would also be an ineffective measure, as such activities would likely migrate to non-regulated entities. The debate concerning whether asset managers should be designated as G-SIFIs has yet to be resolved, with the current focus being devoted to activity-based measures rather than entity-based measures. Any potential HLA charge for asset managers should be determined following the conclusion of the FSB/IOSCO work and the outcome of this should not be prejudged by the IAIS's approach to G-SIIs. -- Regulated banking activities conducted by a G-SII should be charged according to Basel III including bank-specific HLA rules. No HLA should be charged unless the banking activity itself is deemed a G-SIB. - An assessment of the impact of the HLA framework is difficult given the related policy areas that are still subject to change or clarification. The fundamental design of the HLA should be reviewed once the other policy aspects on designation methodology and NTNI are completed. -- Factors relevant to the design of HLA are being reviewed, in particular the designation methodology for G-SIIs and the identification of NTNI activities. -- There is a need to address the perceived transmission mechanisms for systemic risk in insurance and the role of capital in this regard. -- Insurance Europe would have preferred the possibility of commenting on the design of the HLA after the reviews were completed. It is difficult to fully assess the potential impact of the proposed measures at this time. -- Insurance Europe acknowledges that the IAIS intends to fine tune the HLA over the confidential reporting period. Insurance Europe, however, proposes that the IAIS agrees to review the fundamental design of the HLA once the other policy aspects on designation methodology and NTNI are completed. -- Insurance Europe also has strong reservations over the rationale for an approach that designates entities rather than activities as having the potential to create systemic risk in insurance. - Insurance Europe is concerned by the inappropriate link between size and level of HLA penalty. -- As the current scoring methodology is implicitly based on size, different buckets would only represent different sizes of G-SIIs and would impose higher HLA requirements on larger groups, rather than penalising those with more systemically risky business. Insurance Europe notes that, in its analysis, the IAIS should give appropriate consideration to the fact that size may often be beneficial, as it gives rise to more diversification benefits. -- The designation methodology is also based on positions relative to other insurers and this can potentially create inappropriate incentives. For example, if all insurers reduced their systemically risky activities proportionately, there would not be any impact on the insurers' scores and the buckets to which they are allocated.

		-- In light of the ongoing policy developments on designation and identification of NTNI, Insurance Europe notes that it is questionable whether a reasonable decision on the number of buckets can be made. If the IAIS proceeds under the current schedule, then the number of buckets should be reviewed once the scoring methodology is able to reflect the systemic riskiness of an insurance entity. - Due to its design and lack of risk-sensitivity, the BCR is a very volatile basis for the HLA. This makes the full framework BCR+HLA volatile and is very likely to provide inadequate and conflicting risk management incentives. In consequence, the BCR/HLA framework might cause systemic risk instead of reducing it. -- The proposed uplift to the BCR will amplify its inherent design weaknesses as it was designed as a risk-insensitive and factor-based measure that does not explicitly reflect diversification and asset liability management and was accordingly calibrated at a low level. -- The proposed uplift of BCR + HLA, as an additional measure to the PCR, will pose a significant challenge to businesses, as they would need to manage two different capital measures that are likely to react in different ways in different market conditions. The BCR+HLA should therefore not be binding and supervisors should be able to apply forbearance in appropriate circumstances. -- Moreover, the methods for valuation and determining capital resources for the HLA are the same as for the BCR, which implies that the HLA suffers from the same weaknesses as the BCR in terms of key elements of design and measurement, including valuation of the balance sheet, determination of required capital and definition of capital resources. - If a BCR uplift is introduced, then a transitional measure intended for the BCR uplift is supported and other transitional measures should also be considered. -- Additional transitionals should be considered, for example in the area of capital resources. It must be ensured that no item of high-quality capital resources, recognised as such under local requirements, suddenly becomes inadmissible for meeting capital requirements when the HLA is introduced. The envisaged qualification requirements for core capital should therefore be phased in. - The IAIS should assess the proposal for the BCR/HLA under a range of scenarios in order to test whether the proposal works under circumstances that are different from the current ones. -- For example, the 33% increase for the BCR uplift is calibrated based on a single point in time, ie 2014 data. This does not seem a reasonable approach for a calibration of that relevance. - It is very important that the HLA is designed and tested in a comparable manner across the globe.

		Footnotes: *) FSB, "Global systemically important insurers (G-SIIs) and the policy measures that will apply to them", 18 July 2013, paragraph 4, url: http://www.financialstabilityboard.org/wp-content/uploads/r_130718.pdf **) Published in November 2011, see eg paragraph 9 of the document, available under following url: http://iaisweb.org/index.cfm?event=getPage&nodeId=25255
377	**Germany** GDV - Gesamtverband der Deutschen Versicherungswirtschaft Non-member	The German Insurance Association acknowledges the work and efforts invested in this project by the IAIS. We also appreciate the opportunity to comment on this first HLA draft and happily make our contribution with a detailed response. This being said, we would like to draw attention to the difficulty of the task of giving constructive feedback to the HLA at this stage of development. With basic questions yet unanswered, such as the definition of the G-SII designation methodology, forming an opinion on details is a challenging task. Though we are eager to actively participate in the further development process, we understand that this is the only HLA consultation currently planned. We therefore want to emphasize the importance of stakeholder involvement in the future HLA elaboration.
378	**International** International Actuarial Association Non-member	The IAA is pleased to provide its comments on this consultation document based on our international actuarial expertise, which includes actuaries with significant regulatory backgrounds. We support the IAIS consultation with key stakeholders on HLA design issues. The design choices to be made include consideration of the tradeoffs among risk sensitivity, volatility and complexity. Balancing these objectives is important, as the choices made will influence G-SII (and those companies close to G-SII size) behavior. The IAA recognizes that the HLA/BCR combination is being designed on a high priority basis for a limited number of G-SIIs at the same time as banks are undergoing their G-SIB requirements. A need for comparability of similar risk exposures across the banking and insurance sectors with respect to overall design and timing is desirable to mitigate systemic risk and avoid cross-sectoral arbitrage. We also appreciate that the HLA/BCR requirements are intended to be broad in nature as more specific requirements are being designed as part of the ICS and that the implementation gap between the 2 sets of requirements may only be a year or two. Consequently, the IAA's views on the consultation document are summarized as follows: Risk sensitivity The IAA observes that the consultation appears to focus on some aspects of risk sensitivity but not others that we view as being at least as important. For example, the proposals seem to focus on capturing traditional versus NT risk from a broad (high level) relativistic perspective. We would prefer: 1. A greater focus on (and discussion of) the ability of the HLA (in combination with the BCR) to accurately value the

		insurer's risks, 2. Consideration of the merits of modern shock-based techniques, and 3. The HLA be determined on an absolute basis (not relativistic as described in the document), with (possibly) separate factors for traditional and NT business within a G-SII. Volatility The IAA observes that capital requirements such as the proposed HLA/BCR can be subject to several types of volatility such as: 1. Volatility of results for a G-SII over time due to changes in economic conditions and business mix that may or may not reflect the underlying business model and risk exposures. In general, while financial markets prefer to see stable financial results/strength from publicly traded companies, including G-SIIs, they also want to see the underlying extent of possible exposure to market risks. 2. Volatility of results between G-SIIs. Such volatility (or lack of comparability) would require enhanced disclosure of the reasons for such differences so that appropriate comparisons can be made. 3. False positive volatility of factor based methods when the factors do not reflect the actual risks due to a changed environment or business model. 4. Volatility due to an insurer/group moving in/out of G-SII status on several occasions over a period of years. 5. Volatility of risks over a long time horizon, which results in short- to medium-term liquidity needs. For example, market-based valuation requirements may result in significant volatility in valuation and capital requirements, even though the underlying liability risk cash flows are of a long term nature. This type of volatility may not reflect the underlying business risks and may send inappropriate pro-cyclical (and possibly systemic) messages unless addressed in the design of the standards. The IAA is uncertain which of these types of volatility are of greater concern to the IAIS. We observe that if the HLA/BCR favors broad based risk measures (which we believe is the direction being proposed), it will likely achieve lower reported volatility on both of the first two bullet points above. However, the IAA believes that the IAIS should focus primarily on issues of risk sensitivity versus complexity. While the volatilities that result from the choice of method need to be recognized and communicated, we believe that, in general, concern over volatility of insurer results should not drive the HLA design. We do note that the IAIS will need to consider G-SII status volatility and develop some transitional rules to avoid rapidly swinging capital requirements that result in G-SIIs bouncing in/out of G-SII status repeatedly. Complexity The IAA observes that increased complexity of capital requirements has value when it encourages improved risk management at a reasonable cost. In contrast, overly simplistic requirements can fail to be responsive to the G-SIIs risks

		and therefore may do little to incentivize improved risk management practices. Based on this, we offer the following observations, 1. As noted above, we believe the HLA/BCR requirements are very broad based and are likely too simplistic for G-SIIs. This may, however, be an appropriate stop-gap decision for the IAIS if these requirements are for relatively few companies and are to be in effect for a short period of time while more extensive risk sensitive requirements (ICS) are being developed. 2. We believe the proposal for a relativistic approach to the combination of traditional and NT business is overly complex. Itwill not incentivize proper risk management as well as the use of a simpler absolute calculation with (possibly) separate HLA percentages for these 2 businesses within a G-SII. 3. With respect to bucketing, the IAA's normal preference would be to advocate for more buckets or even a variable approach to increasing amounts of risk in order to avoid cliff effects as G-SII status is reached. Nevertheless, as there are a limited number of G-SIIs, comparability to the treatment G-SIBs is important (i.e., the largest G-SII is in the bottom bucket for G-SIBs) and since the BCR/HLA is a stop-gap measure, we can support the simpler IAIS proposal for a 2 bucket (one populated) approach for this purpose. We do recognize that the use of multiple buckets may create complexity, as the rules for defining the buckets can themselves be complex and result in complex administration. IAA support for the IAIS 2 bucket proposal is contingent on a subsequent review of the HLA design once the ICS for all IAIG's is developed. Location of HLA Capital Expectations as to where in the G-SII the HLA needs to be held are not addressed in the consultation document. Absent an explicit risk purpose for the HLA, it is difficult to make a specific recommendation. If the HLA is held at the highest corporate level, it may have the flexibility to be used anywhere in the organization. However, if its distribution is subject to local regulatory restrictions and approvals, then when a systemic crisis arises it may be unavailable for the specific sub-entity that needs the capital. If the HLA includes more risk specific details/requirements, then the capital could perhaps be held at the level of the enterprise creating the systemic risk exposure. The IAA hopes that these comments are of assistance to the IAIS in its design of HLA requirements. We are available for further consultation if needed and we look forward to being of assistance in the design of the ICS as our expertise will likely be of additional value.

379	**Japan** General Insurance Association of Japan Non-member	Major premises of the HLA, the G-SII Assessment Methodology and the definition of NTNI are under revision. We understand that the standard used to assess the systemic risks of insurers remains to be defined. Depending on the results of the above revision, our comments on this consultation may also change. Therefore, we believe another consultation should be conducted as soon as the G-SII Assessment Methodology and the definition of NTNI are revised. As pointed out in our comments on Q15, the current G-SII Assessment Methodology lacks transparency concerning G-SII designation, which makes it difficult to assess the appropriateness of G-SII designation. Also, it is a relative assessment system of total scores, which contains the structural problem of not properly giving credit to efforts to reduce systemic risk. We believe the current G-SII Assessment Methodology has room for improvement and should therefore be improved when revised.
380	**Japan** The Life Insurance Association of Japan Non-member	·In the case that the HLA is used as a criterion for mandatory interventions, we believe that an appropriate approach for HLA would be based on and consistent with each jurisdiction's regulatory requirements. ·We support an approach that considers HLA as a communication tool in supervising insurers and utilise the HLA in the communication between supervisors and insurers, or among supervisors, for the time being at least until the BCR is replaced with the ICS, rather than as a criterion for mandatory interventions (i.e. to automatically require capital add-on). ·If the HLA is used as a criterion for mandatory interventions, there may be inconsistency between HLA requirement and capital requirement in each jurisdiction. Namely, where the HLA will be applied, it may be very difficult for insurers to appropriately manage their capital. We believe that the HLA should be considered as a communication tool and not as a criterion for mandatory interventions in supervising insurers, until the consistency between the HLA capital requirements and capital requirements in each jurisdiction is ensured. ·If used as a criterion for the mandatory interventions, the HLA needs to have robustness, including credibility and verifiability. The stricter the mandatory intervention is, the more robust the criterion should be. We believe that ensuring consistency between the HLA requirement and capital requirements that exist in each jurisdiction would contribute to maintain such robustness to some extent.
381	**Solvency Committee, Risk Management and Financial Reporting Council** American Academy of Actuaries Non-member	Dear Secretary General Kawai, On behalf the American Academy of Actuaries' Solvency Committee, I appreciate the opportunity to provide comments on the International Association of Insurance Supervisors' (IAIS) Higher Loss Absorbency Capacity for Global Systemically Important Insurers (G-SIIs) public consultation document. While there are several elements of the higher loss absorbency (HLA) design we support, particularly those related to the weighting of non-traditional (NT) and non-

		insurance (NI) products and activities, we have concerns about the inclusion of an "uplift" above the basic capital requirement (BCR) prior to the application of HLA and the use of a "bucketing" approach. For Section 5.8, the coverage ratios shown are useful for interpreting the results. However, after experience is gathered and the formula is better understood and calibrated, only a few of these will be needed. Thank you for this opportunity to provide feedback to the IAIS on its HLA consultation document. If you have any questions or would like to discuss these issues in more detail, please contact Lauren Sarper, the Academy's senior policy analyst for risk management and financial reporting, at 1-202-223-8196 or sarper@actuary.org. Sincerely, Elizabeth K. Brill, MAAA, FSA Chairperson, Solvency Committee Risk Management and Financial Reporting Council American Academy of Actuaries
382	**Switzerland** Swiss Re Non-member	As stated in our response to question 1, Swiss Re appreciates the acknowledgement by the IAIS that traditional insurance business hardly adds to systemic risks - this case has been well articulated in several publications, e.g. IAIS "Insurance and Financial Stability" (2011) and "Reinsurance and Financial Stability" (2012). The collapse of an insurer does not normally lead to contagion, and externalities typical in the banking sector are very limited in insurance. Size of traditional insurance business is a prerequisite for diversification and therefore for effective loss absorption. Insurers add to systemic risks, if at all, by carrying out certain Systemically Risky Activities which are a subset of the NT and NI activities. Systemically Risky Activities can be carried out by insurers who are designated G-SII as well as those who are not. The IAIS should focus on identifying those NT and NI activities that pose systemic risk. Ideally, HLA must be determined based on the economic cost of Systemically Risky Activities, but irrespective of the size or designation of the insurer. Consistent with our view that HLA be based on the economic costs of Systemically Risky Activities, the HLA should also take into consideration the extent to which insurers have Resolution Plans in place that allow for orderly resolution. Orderly resolution ensures that the economic costs of Systemically Risky Activities are not passed on to the wider economy and this should be reflected in HLA as a result. In summary, in the nearer term we support the HLA formula with gamma equal to 1 and a fixed scaling factor. It should be based on the field testing and what is deemed a necessary surcharge for the field-tested level of Systemically Risky

		Activities pursued by G-SII. This factor should not be changed unless the structure of the HLA formula is changed. It should apply to all insurers and reinsurers. In a next step, e.g. with basing the HLA on the ICS, the HLA must be based on a realistic risk assessment that determines the true economic cost of Systemically Risky Activities.
383	**U.S.A.** ACLI Non-member	The American Council of Life Insurers (ACLI) is a Washington, D.C.-based trade association with 284 member companies operating in the United States and abroad. ACLI advocates in federal, state, and international forums for public policy that supports the industry marketplace and the 75 million American families that rely on life insurers' products for financial and retirement security . ACLI members offer life insurance, annuities, retirement plans, long-term care and disability income insurance, and reinsurance, representing more than 90 percent of U.S. industry assets and premiums. We appreciate the IAIS' ongoing commitment to dialogue in the development of the HLA consultation. We offer the following comments on the IAIS June 25, 2015, Higher Loss Absorbency Consultation Document ("HLA Consultation") soliciting input on a potential HLA standard for Global Systemically Important Insurers ("G-SIIs") identified according to the IAIS Initial Assessment Methodology for G-SIIs (the "Assessment Methodology") and G-SII Policy Measures issued in 2013. We have threshold concerns that fundamental elements on which the HLA proposal rests are still under development. Both the Assessment Methodology and the underlying category of non-traditional Insurance and non-insurance ("NTNI") activities used in assessing systemic risk are subject to reconsideration in the near future. Clearly the HLA proposal could benefit much from the completion of the work on the definition of systemically risky activity and the Assessment Methodology. Both of these initiatives will have material impact on the capital requirement outcomes set by any of the proposed HLA constructs. Indeed, certain members feel so strongly against proceeding before this work is complete and exposed for comment that they call for a delay in seeking FSB and G20 approval of the HLA proposal. Such a delay would allow domestic regulators who are developing or on the verge of implementing solvency frameworks in their jurisdictions to move forward unhampered by a framework that could substantially change on the basis of the IAIS ongoing review of its Assessment Methodology and definition of NTNI. If a delay is not granted the IAIS, FSB and G20 must allow for significant flexibility in the HLA construct to allow revisions following its approval and endorsement in November 2015. This can be achieved by the IAIS clearly stating and reaching agreement with the FSB, G20 and stakeholders that at present they propose an HLA "skeleton" framework as opposed to a static/concrete HLA standard. This framework will evolve into a requirement once the results of the consultations on G-SII methodology and NTNI categories are finalized and incorporated into the HLA construct by 2019. The IAIS should also agree to further consultations with the public as they continue their work to finalize the HLA construct.

		Significant questions remain about what constitutes systemic activity; whether the current NTNI delineation is a good proxy for risk, let alone systemic risk; and whether requiring additional capital is the best measure for achieving the stated goal of reducing systemic risk. We believe it is in the interests of all concerned to better understand the potential systemic exposure from the insurance sector and whether the HLA is indeed the best risk management tool. Another concern with the current proposal is that the Basic Capital Requirement (BCR), the basis for the HLA, is extremely volatile, and the proposed uplift to the BCR will amplify the inherent weaknesses of a necessarily risk-insensitive, factor-based measure that was calibrated at a low level accordingly. This could lead to unintended effects and pro-cyclicality. Another concern is that the HLA Consultation suggests that HLA capital levels are based on a relative ranking of G-SIIs against their peers. This introduces the possibility that de-risking by a G-SII may not lead to a decrease of its HLA capital charge. This makes it difficult for a G-SII to forecast its capital needs. In the HLA Consultation, the proposed HLA calculation methodology would base a G-SII's HLA requirement, in significant part, on its NTNI activities. We understand that the IAIS will be considering revisions to both the Assessment Methodology and the categorization of NTNI activities used in the Assessment Methodology and G-SII Policy Measures, with proposed revisions expected to be proposed for comment in November of this year at the earliest. The Assessment Methodology and what will be considered NTNI activities will have a substantial impact on any ultimate HLA standard. We believe that a thorough analysis of what activities may result in systemic impact should occur prior to a final determination that HLA is the appropriate risk management tool. We also believe that the current NTNI category includes products or activities that create less risk when properly managed than some traditional insurance activities or products and the current categorizations in the Assessment Methodology unduly penalize U.S. products. We urge the IAIS to consider these HLA architecture issues carefully and deliberatively with the benefit of a thorough threshold analysis of what activities may result in systemic risk. We appreciate your consideration of our views and look forward to further discussion.
384	**United Kingdom** Institute and Faculty of Actuaries Non-member	The proposed methodology means that there is a critical dependence between the insurance business classified as traditional and the business classified as non-traditional. In view of this, there needs to be a very clear and unambiguous definition of non-traditional insurance business. In the interest of proportionality, an allowance should be made for the level of materiality of G-SII's NT and NI activities.
385	**US** Institute of International Finance / Geneva Association	Andres Portilla Anna Maria D´Hulster Managing Director, Regulatory Affairs Secretary General Institute of International Finance The Geneva Association

	Non-member	21 August 2015 Yoshihiro Kawai Secretary General International Association of Insurance Supervisors (IAIS) Re: IAIS Higher Loss Absorbency capacity for G-SIIs Consultation from 25 June 2015 Dear Mr. Kawai, The Institute of International Finance (IIF) and the Geneva Association (GA) welcome the opportunity to provide comments on the International Association of Insurance Supervisors (IAIS) consultation document dated June 25, 2015 on the Higher Loss Absorbency (HLA) capacity for Global Systemically Important Insurers (G-SIIs). The joint IIF/GA HLA Working Group, which is comprised of a wide range of insurance firms, appreciates the work the IAIS has put into this Consultation Document. This letter details a number of general comments of the joint IIF/GA HLA Working Group that we would like to share with the IAIS in regards to the HLA proposal. In summary, a number of members disagree with the proposed methodology, and believe it is too blunt a tool, built on still uncertain foundations and that the entire G-SII framework as currently proposed does not provide appropriate incentives for systemic risk mitigation. We would note in particular: - HLA should focus on systemic risks and activities that contribute to or amplify such risks; - the current HLA proposal is based on moving targets; - a necessary link between non-traditional and non-insurance (NTNI) activities and (systemic) risk still needs to be demonstrated; - HLA calibration is disproportionate and unlikely to contribute to financial stability; and, - the BCR + HLA is a blunt capital requirement and may provide ambivalent incentives to de-risk. We expand on these points in more detail below. We regret that it has not been possible to respond to the questions posed in the Consultation Document, as the variables in the proposal affect individual insurance firms in very different ways. - HLA should focus on systemic risks and activities that contribute to or amplify such risks In July 2013 the Financial Stability Board (FSB) and IAIS clarified the objectives of the G-SII policy framework, particularly regarding distress and failure. We believe that in order to achieve these objectives the G-SII policy

		framework should focus on activities that contribute to or amplify systemic risk to the global financial system. An activities-based approach was also the focus of recent FSB and International Organization of Securities Commissions (IOSCO) communications regarding Non-Bank Non-Insurers and we believe that such an approach would be relevant in insurance as well. Such an approach would also ensure a level playing field with asset management and regulated banking activities as the HLA would only apply to systemically risky insurance activities and all other activities are appropriately considered under the respective sector's systemic regulation. Importantly, a focus on activities would provide an incentive for the reduction of systemically risky activities. As proposed, the HLA capital add-on may be based on the entire insurance group balance sheet. By broadening the HLA's scope to all insurance activities, the "size' criterion in the G-SII methodology as applied to entities is given inappropriate weight. This does not align with the insurance business model, where increases in business portfolios are a common risk management strategy to diversify risk profile and/or prevent loss due to risk concentration. - The current HLA proposal is based on moving targets The Working Group unfortunately finds itself in the situation that it cannot fully assess the HLA proposal's impact on the insurance sector as two key components of the proposal, namely the G-SII assessment methodology and NTNI definition, are subject to future consultations. The process of G-SII recognition (and de-recognition) is currently unclear and under review by the IAIS; this lack of clarity will fundamentally influence the bucketing of individual firms. Similarly, the review of NTNI could affect the use of the gamma parameter to weight HLA to NTNI. This introduces significant variables that hold the potential to materially alter the capital requirement outcomes set by the proposed HLA. Indeed certain members feel strongly about the unaddressed critical elements and would want to seek a delay of the HLA proposal until this uncertainty is completely resolved. Furthermore, the timing for HLA development and finalization does not allow G-SIIs to conduct sensitivity analysis of the options in the HLA proposals. We understand the desire of the IAIS to present an HLA proposal at the G20 meeting in November 2015. However in this context we believe the HLA development process would benefit greatly from a firm commitment to fully re-examine the proposal once clarity is achieved on these underlying moving parts. The Working Group is concerned that endorsement by the G20 at the Antalya summit will give any "temporary' proposal undue regulatory weight. The most effective HLA framework will be one that is flexible enough to make any required changes as and when more information is available on these key theoretical foundations. - A necessary link between NTNI activities and (systemic) risk still needs to be demonstrated There is a presumption that activities on the current NTNI list would have a systemic impact on the global financial system and thereby automatically merit a capital add-on. However we believe that there is insufficient evidence to support the link between certain activities currently defined as NT or NI to systemic risk. It is imperative that any methodology distinguishes between non-insurance and non-traditional activities, and which of those activities increase (systemic) risk. Non-insurance activities (such as CDS underwriting) are likely to have quite different risk characteristics and should receive greater scrutiny or a higher risk weighting than non-traditional activities.

		The IAIS could consider the transmission mechanisms that could lead to a systemic risk to the global financial system from the distress or failure of an insurer undertaking such activities. Such analysis will also help insurers to manage their impact on the system. The magnitude of activities also needs to be considered in the context of the market for such activities, and the insurer's balance sheet as a whole. - HLA calibration is disproportionate and unlikely to contribute to financial stability Calibration targets for HLA need to be relative to the level of systemically risky activities undertaken. G-SIIs are generally far less systemic than Global Systemically Important Banks (G-SIBs) given the nature of their business model. The IAIS and the FSB recognize that traditional insurance business does not give rise to systemic risk and that insurance groups do not pose the same level of systemic risk as banks (for whom the full balance sheet may be systemically risky). The proposed calibration targets are therefore far too high and do not reflect the differences between banks and insurers. - The BCR + HLA is a blunt capital requirement and may provide ambivalent incentives to de-risk The Basic Capital Requirement (BCR), on which the HLA will be founded, is necessarily insensitive to risks due to its factor-based nature. The proposed uplift would amplify the BCR's inherent weaknesses (for example insensitivity to portfolio diversification and asset / liability management) and could lead to unintended effects and pro-cyclicality. It would also prove a significant challenge to manage business under metrics which will not act in the same way or in the same proportion under different market conditions and can lead to conflicting management incentives. In addition, the assessment of HLA capital levels based on a relative ranking of G-SIIs against their peers under the assessment methodology may have adverse effects on individual firms (which has also been raised by the industry during the development of the G-SII assessment approach). When a firm's HLA level is determined not only on its own activities, but by the ranking of those activities relative to those of other firms, de-risking of the individual firm may not lead to a decrease of its HLA capital add-on. When all firms de-risk at the same time, individual capital levels may remain the same. On the other hand, if one firm completely de-risks, other firms may be imposed a disproportionate capital add-on. As a result, the level of capital required could be volatile and inconsistent in application. The Working Group is strongly committed to continuing constructive dialogue and cooperation with the IAIS. Given the number of critical issues highlighted and given the wide range of views by our participants, the Working Group members believe that a direct dialogue with the industry is essential and appreciate the IAIS's willingness to continue those interactions. The IIF and GA stand ready to provide additional views or clarifications. Should you have any questions on the issues raised in this letter, please contact the undersigned. Andres Portilla Anna-Maria D'Hulster