IAIS

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

2015 Quantitative Field Testing – FAQs

This document provides questions submitted by Volunteers during the 2015 Quantitative Field Testing process and answers provided by the IAIS. The sources of the questions have been anonymised.

This is an IAIS working document used for field testing purposes. It does not purport to represent or prejudge the final proposals of the IAIS on ICS or HLA.

The Technical Specifications, Template and Questionnaire must be read in conjunction with relevant Q&As and the Technical Explanation of 2015 Field Testing Yield Curves Derivation to provide an accurate and up-to-date understanding of the field testing exercise.

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1. Template and Technical Specifications	
1.1. General issues	
Q1.1.1. Field testing data template, BCR and ICS worksheets: There is no differentiation between the general account liabilities and separate account without guarantees liabilities on these tabs while the assets for these are separated. We suggest the IAIS treat assets and liabilities consistently and separate on both sides of the balance sheet for transparency.	While the reporting of separate account assets and liabilities within the BCR and ICS worksheets is not similarly done, it should not impact the BCR/ ICS capital calculations. We agree that these worksheets could be more optimally designed for better data analysis and to avoid confusion, and we will aim to do that for future field testing exercises.
1.2. Baseline and section 5 Baseline Regulatory Reporting	
Q1.2.1. Which calibration assumptions should we apply in aggregating regulatory capital requirements across different jurisdictions for the "current regulatory baseline" calculation?	Volunteer IAIGs are asked to report their existing group capital requirements and group capital resources, under the supervisory regime currently in force within their jurisdiction. Please refer to Annex 1 for calibration assumptions for PCR reporting across various jurisdictions. If a specific jurisdiction is not listed within the Annex, and you are uncertain as to what is expected, please consult with your Supervisory Authority.
1.3. BCR and Section 8 BCR Related Data	
Q1.3.1. What does "UPP" stand for?	UPP stands for unearned premium provisions, also referred to as pre-claims liabilities.
Q1.3.2. What are the definitions for Investment Grade assets – same as last year (i.e. no credit for NAIC ratings) or should we reference the chart used in the ICS on pg. 155 (which includes NAIC rating – just 1-2)?	Investment grade assets for the purposes of the BCR should be determined using the ICS Rating Categories in Table 18 which includes the NAIC designations. ICS Rating Categories 1 to 4 should be considered investment grade. More generally, the approach to the use of rating agencies defined in Section 13.4.3 Credit Risk should be applied. This includes the mapping of ratings from other rating agencies as set out in Table 19.
Q1.3.3. For cell D91 (reinsurance recoverable, of which investment grade assets), please confirm we	Yes. However, if there is collateral the rating of the collateral should be substituted to the extent that the collateral covers the reinsurance recoverable.

Question		Answer
	should use the credit rating of the reinsurer (i.e. the counter party) to determine the split between investment grade and non-investment grade.	
Q1.3.4.	It appears as though the premium data does not feed into any other sections of the data template. Why is it being collected?	The premium data is being requested for analysis purposes. This data will provide some structural and business profile information with respect to the life and non-life business.
Q1.3.5.	<BCR sheet> Could you please give a definition of the "Written premium"? Some GAAPs exclude investment components and others don't exclude. Are all the cash amounts from policyholders more favorable than GAAP-based amount?	For life insurance, the written premium data points were added to this year's field testing for analysis purposes. As noted, different GAAPs are not consistent in the treatment of investment components related to insurance contracts, with some requiring deposit accounting. Consequently, for better comparability, IAIGs are asked to include amounts received for investment components related to insurance contracts within their gross written premium data (gross premium received basis), ignoring any deposit accounting requirements that may exist within their local GAAP.
Q1.3.6.	On the 'BCR' tab, row 21 includes GAAP MOCE in the Core BCR capital calculation. Assuming GAAP MOCE only captures the equity impact of Insurance Liabilities/Reinsurance valuation differences, should the valuation differences for other items also be encompassed in this calculation. For example, the Balance Sheet equity section includes 'Asset Adjustment Offset,' 'Deferred Tax Adjustment Offset,' and 'Liabilities Adjustment Offset (Net of C-MOCE).' Assuming these lines are meant to capture valuation differences, similar to MOCE, should they also be included with MOCE in the Core BCR capital calculation?	No, valuation differences for other items are not included like/with MOCE in the Core BCR capital calculation. For example, DAC is effectively written off by eliminating the asset against equity through a contra-equity account, "Deferred Expenses (e.g. DAC, VOBA) Adjustment Offset". So the write-off of DAC reduces core BCR capital, as opposed to the reclassification of MOCE to equity which increases core capital.
Q1.3.7.	Since most of mortgage loans are no rating, we intend to use the following criteria to separate the investment grade and non-investment grade mortgage loans: After applying the impairment test of mortgage loans, if mortgage loans are	The proposed approach will not be consistent with the FAQ 1.3.2: investment grade assets for the purpose of the BCR should be determined using the ICS rating Categories in Table 18 (from the technical specifications). Mortgage loans with no rating should not be assumed to be of investment grade.

Question	Answer
neither past due nor impaired, we will regard them as investment grade mortgage loans. Is this reasonable?	
1.4. BCR.Balance sheet and Section 6 Market-Adjusted Valuation Approach	
Q1.4.1. Municipal bonds – Under US GAAP municipal bonds is limited to US municipal bonds. As a US GAAP filer, we assume this should be completed following US GAAP and only provide US municipal bonds and exclude non-federal bonds of both Non-US governments? Correct?	No. The definition to be used for municipal bonds should be the definition for public sector entities in paragraph 516.
Q1.4.2. Paragraph 84 - how much overhead administrative expense is taken into account in current estimates versus acquisition cost?	The IAIS is not going to specify the amount of overhead administrative expense to be taken into account in current estimates. A question is included in the Questionnaire to help the IAIS explore this issue further.
Q1.4.3. What should be reported in rows 86 through 89?	Under both valuation approaches, adjustments as described in the specifications are necessary to effectively eliminate DAC by including acquisition expenses in cash flows; to adjust the valuation of invested assets, e.g., to fair values; to adjust MOCE to a prescribed basis; and to make any corresponding deferred tax adjustments. Lines 86 to 89 reflect the other side of those accounting entries and will have the net effect of reporting those through equity; these separate lines in the equity section simply allow the IAIS to more easily track both sides of those adjustments.
Q1.4.4. How should the DTA be adjusted for the change to IAIS yield curves in the base scenario. Is it simply tax% x (increase in MAV retained earnings)? Or are temporary differences in the current DTA supposed to be reassessed by replacing the statutory basis with the MAV balance sheet?	The DTA/DTL should be adjusted on the basis of the second approach outlined in the question. After the re-valuation of the relevant assets and liabilities, the temporary differences in the current DTA/DTL are expected to be reassessed against the MAV balance sheet.
Q1.4.5. Expense Recognition: It is stated in the technical specifications that the cash flows for the calculation of the current estimate should	In line with the Technical Specifications, direct and indirect expenses should be included in the calculation of current estimate, including overhead expenses, which are incurred in servicing insurance or reinsurance obligations. Overhead

Question	Answer
incorporate direct and indirect expenses; does it mean that all the expenses for operating the whole insurance business should be included for deriving the current estimate? Or should only the expenses incurred in servicing the insurance obligations be considered?	expenses should be allocated in a realistic manner to the current estimates to which they relate.
Q1.4.6. Paragraph 75 says to discount all stochastic modelling at the IAIS curve. Paragraph 109 says investment returns are consistent with the IAIS specified yield curves. But for VAGLBs, both interest rates and equities are stochastically modelled. Doesn't the combination of those two paragraphs eliminate any modelling related to interest rate guarantees? Is that what is wanted?	The requirement is that stochastic modelling of discount rates be performed in an arbitrage free manner. This means that, although interest rates are allowed to vary stochastically within the modelling process, they need to be constrained to coincide with the IAIS prescribed curves (without adjustments) at t=0. The IAIS will further investigate the appropriateness of the proposed approach, namely regarding the consideration of the prescribed curves with or without adjustments, as the development of the ICS continues.
Q1.4.7. Hybrid securities – please provide definition and examples.	"Hybrid securities" is used to describe debt securities that combine characteristics of debt and equity. For instance, convertible bonds, preference shares, perpetual / subordinated debt securities should be classified as "hybrid securities". If an IAIG is uncertain about the expected classification of any security for field testing purposes, please submit a question to the IAIS or consult with your Supervisory Authority.
Q1.4.8. What is the definition of separate accounts? Is the intent to only report qualifying separate accounts in accordance with GAAP or is the intent to report all separate accounts, including those that are non-qualifying in accordance with GAAP?	Specifically, a separate account is maintained by an insurer to hold and invest funds that are received from contract holders of products where the contract holder retains any investment risks, and thus the funds are held in an account which is segregated (separate) from the general account/funds of the insurer. Changes in the product's value results from the investment performance of the investments designated by the contract holder. Because a single GAAP does not currently exist globally, the following criteria should be used to identify qualifying separate accounts under both valuation bases (market adjusted, and GAAP with adjustments) for the field testing exercise:

Question	Answer
	• The insurer must, as a result of contractual, statutory, or regulatory requirements, invest the contract holder's funds directed by the contract holder in designated investment alternatives or in accordance with specific investment objectives or policies. • All investment performance, net of contract fees and assessments, must, as a result of contractual, statutory, or regulatory requirements, be passed through to the individual contract holder. It is expected that this criteria will allow assets from unit-linked accounts, such those commonly offered in Europe, to be reported within the "assets held in separate accounts" row on the BCR balance sheet worksheet.
Q1.4.9. With respect to management actions – please clarify the difference in treatment between management actions that can be taken into account for determination of the current estimate for the purposes of market-adjusted valuation and those that can be taken into account in application of the stresses for the ICS.	Management actions are actions which can reasonably be expected to be implemented by the IAIG under certain circumstances. Examples include amending discretionary benefits or changing the investment mix for assets backing insurance liabilities. Discretionary future bonuses or other benefits are amounts which the IAIG expects to pay to policyholders (e.g. crediting rates) but these amounts are not guaranteed to the policyholder at the moment at which the valuation is being performed. Such amounts can be changed at the sole discretion of the IAIG or due to the occurrence of unexpected events such as the materialization of severe stresses (which will lead to the reduction of bonus amounts where these are automatically linked to the financial or underwriting results of the IAIG). This means that, in the context of this Field Testing exercise, "discretionary amounts" should include those non-guaranteed amounts, for which the IAIG does not have full discretion but which are dependent on future events, for instance those bonuses linked to a legal or contractual obligation to distribute x% of the financial / underwriting profits to policyholders. Section 13.3.4 of the Technical Specifications identifies the scope of Management Actions which are possible to be taken into account for the purpose of the calculation of Capital Requirements. The range of Management Actions is limited, compared to those which can be taken into consideration for the purpose of the calculation of the Current Estimate. This is because some Management Actions

Question	Answer
	may not be available during periods of stress or may have its effect limited by the nature of the MAV Valuation (e.g. the effect of premium increases would always be limited by the definition of Contract Boundaries).
Q1.4.10. Guidance should be provided to all volunteers on whether stress results should be provided on a pre- or post-tax basis. Based on discussions in the New York meetings, this was not fully clear.	For the purpose of 2015 Field Testing, a global approach based on the consolidated effective tax rate is proposed to derive a notional tax adjustment. Volunteers are asked to assess the tax effects on ICS Capital Requirements on a single top-level calculation, rather than performing a calculation on a risk-by-risk basis. This is mainly for reasons of simplicity and also to limit the potential for multiple counting of tax benefits across individual ICS capital charges. The calculation steps are as follows: - Determine the effective (average) consolidated tax rate - Use this percentage to compute a notional tax adjustment (tax rate x ICS post management actions) The Field Testing quantitative template has been updated in line with the proposed approach. In order to inform future discussions on the tax effects on ICS capital charges, further information is sought through the Questionnaire.
Q1.4.11. In terms of the application of the IAIS discount curves, should the grading be applied to spot rates instead of forward rates?	The IAIS developed a technical document on the construction of the IAIS discount curves. The document was developed with specific consideration of the various questions received from IAIGs on the IAIS discount curves, including this question. For any questions relating to the IAIS discount curves, please first consult the technical document. If it does not adequately address your question, please send your specific question to the IAIS or consult with your Supervisory Authority.
Q1.4.12. BCR.Balance sheet and BCR.Capital resources (treatment of tax effect) Transfer of the unrestricted reserve from Liabilities section (as in Japanese GAAP) to Equity section (as in	In the example provided, assuming the reclassification of Unrestricted Reserves would be 100 (reduction) with a tax rate of 30%, the following records should be introduced in the BCR.Balance sheet: 1) Other liabilities = - 100 2) Unrestricted reserves = + 100

Question	Answer
MAV balance sheet) In this case, the unrestricted reserve is recorded as before-tax amount in J-GAAP B/S and I understand we need to move the reserve to Equity section and recognize the tax effect. Suppose the reserve is 100 (before-tax) and tax rate is 30%, which means the net amount of the reserve is 70 (after-tax). Should we record 70 in the row [72] (Reserves-Unrestricted) in "BCR.Balance sheet"? Or should we record 100 in the row [72] and -30 in the row [81] (Deferred Tax Adjustment Offset) or somewhere else? Also, given the formula in cell C18 of "BCR.Capital resources" refers to row [72] of B/S and only 70 (after-tax) should be counted towards capital resources (not 100 of before-tax amount), if we are to enter 100 in row [72] of B/S, we need to enter -30 in row 20 of "BCR.Capital resources" (Asset adjustment) to include only 70 as capital. Could you give us instructions regarding the above-mentioned situation?	3) Deferred Tax Liabilities = + 30 4) Deferred Tax Adjustment Offset = - 30 The overall impact on Capital Resources will be equal to an increase of 70.
Q1.4.13.BCR.Balance sheet and BCR.Capital resources (treatment of tax effect) Increase or decrease of financial instruments originally valued by GAAP as a result of MAV valuation In this case, due to the MAV valuation, the value of financial assets may be increased or decreased from GAAP value. Suppose the value of a financial asset item is increased by 100 from 1,000 to 1,100 and tax rate is 30%. We understand that the increased amount of 100 should be recorded in row [59] or [60] (AOCI on AFS equity/debt securities). The problem is which	In the example provided, assuming the adjustment to Assets would be 100 (increase) with a tax rate of 30%, the following records should be introduced in the BCR.Balance sheet: 1) Assets [Respective row] = + 100 2) Asset Adjustment Offset = + 100 3) Deferred Tax Liabilities = + 30 4) Deferred Tax Adjustment Offset = - 30 The overall impact on Capital Resources will be equal to an increase of 70.

Question	Answer
amount, 100 or 70, should be recorded in those rows. If 100 is recorded in row [59] or [60], then we need to record -30 somewhere. Also, given the formula in cell C17 of "BCR.Capital resources" refers to row [65] of B/S and only 70 (after-tax) should be counted towards capital resources, if we are to enter 100 in row [59] or [60] of B/S, we need to enter -30 in row 20 of "BCR.Capital resources" (Asset adjustment) to include only 70 as capital. Could you give us instructions regarding the above-mentioned situation?	
Q1.4.14.BCR.Balance sheet and BCR.Capital resources (treatment of tax effect) Increase or decrease of insurance liabilities as a result of MAV valuation. In this case, due to MAV valuation, the value of insurance liabilities may be increased or decreased from GAAP value. Suppose the value of an insurance liability item is decreased by 100 from 600 to 500 and tax rate is 30%. We understand that the decreased amount of 100 is automatically reflected in row [83] (GAAP-MOCE) as positive figures when GAAP value>MAV value (and negative figures when GAAP value Also, given the formula in cell C19 of "BCR.Capital resources" refers to row [83] of B/S and only 70 (after-tax) should be counted towards capital resources, we need to enter -30 in row 20 of "BCR.Capital resources" (Asset adjustment) to include only 70 as capital. Could you give us instructions regarding the above-	In the example provided, assuming the adjustment to Insurance Liabilities would be 100 (increase) with a tax rate of 30%, the following records should be introduced in the BCR.Balance sheet: 1) Insurance Liabilities [Respective row] = - 100 2) Margin over the Current Estimate (MOCE) = + 100 3) Deferred Tax Liabilities = + 30 4) Deferred Tax Adjustment Offset = - 30 The overall impact on Capital Resources will be equal to an increase of 70. Note that entry #2 above does not require a manual input, the worksheet template automatically makes the adjustment.

Question	Answer
mentioned situation?	
Q1.4.15. De-recognition of DAC Assuming my DAC balance is 100, is the following entry method correct? 1. Deferred Acquisition Cost (DAC) = - 100 2. Deferred Expenses Adjustment Offset [79] = - 100	Yes.
Q1.4.16. On 'BCR Balance Sheet' tab and the "ICS Balance Sheet" tab, GAAP-MOCE is not a component of Total Equity. However, the other valuation adjustments like Asset Adjustment Offset are. Does that imply that the liability adjustment should be included in Retained Earnings?	No, the liability adjustment to reclassify MOCE to equity is not handled directly in the ICS balance sheet. It is picked up in the ICS. Capital Resources tab in the calculation of Tier 1 and Tier 2 ICS capital.
Q1.4.17. The instructions ask for the CoC calculation to use projected ICS required capital, using the run-off pattern of outgoing cash flows (benefits and expenses). This is not practical, as all of our data is collected using net liability cash flows. Can we project the run-off using the discounted net liability cash flows at each duration? Projecting the run-off using the discounted net liability cash flows at each duration is more intuitive for projecting CoC as it would be similar to modeling the reserve.	In principle, only the cash outflows should be projected, in order to avoid potentially material distortions when the net cash flows are very small (or even negative) at the beginning of the projections; this can happen for instance with whole life policies, or in general with multi-annual or lifelong policies that involve levelled premiums. However, a further simplification, considering the net cash flows instead of the cash outflows, could be accepted, provided that the Volunteer using this further simplification has checked that this altered method leads to sensible results. Nonetheless all considered cash flows should be within the contract boundaries, and the run-off pattern should not be based on discounted cash flows.
Q1.4.18. Capital Resources (Share Premiums) In paragraph 174 of the technical specifications, "Share premium resulting from the issuance of instruments included in Tier1" has been added and "Surplus funds" was deleted compared to last year's technical specifications . On the other hand, row 77 of "BCR.Balance sheet" spreadsheet in the template says "Surplus Funds". Is this row 77 intended to be used for	The BCR requirements were developed and finalized prior to the proposed ICS requirements. Since the BCR was approved by the G20 in November 2014, the BCR requirements are not open for revision during the field testing exercise. However, revisions and updates have been made to capital resources for ICS purposes. Among those changes was the removal of the label "surplus funds" because it was found that surplus funds were defined differently among jurisdictions. As such, we more clearly defined capital elements other than financial instruments so that volunteers could include surplus funds appropriately

Question	Answer
"Share Premiums"?	according to their definition in each jurisdiction. For example, some may be akin to retained earnings, while others may be akin to contributed surplus. It is the substance of the capital element that matters, not the form.
Q1.4.19. Capital Resources (Share Premiums) It seems that the figures in row 77 are not reflected in capital in "BCR.Capital resources" (it is only referenced by "ICS.Capital resources"). Is "Share premiums" not included in capital for BCR purpose? I thought it was included in capital for BCR as well.	Yes, share premium is included in the BCR. It was not explicitly stated, but would be included with contributed surplus.
Q1.4.20. Where should treasury stock be reported on the BCR Balance Sheet Template? We intend to report it in "other" (line 90), but that line is not picked up in line 64 "Total shareholders' equity attributable to shareholders of the holding company". We think line 90 makes is more transparent than reducing "ordinary shares" (line 75), especially in our case where the amount we report in treasury shares is greater than the ordinary shares, but want to make sure we are reporting in the same manner as all of the other participants.	Treasury stock (i.e. issued stock repurchased by the IAIG) amounts should be entering capital resources as a negative amount. However, they should not be netted against common/ordinary shares and report a negative amount in line 75. Rather, they should be reported as either a reduction to unrestricted reserves (line 80) or a reduction to retained earnings (line 83) – Volunteers should note within the Questionnaire where they have reported the treasury stock. Treasury stock should not be reported in "Other" (line 90), as it will then not be picked up for inclusion in BCR capital resources (i.e. capital resources would be over-reported)
Q1.4.21. In section 6.3.4 of the technical specifications, it is stated that the premiums beyond "the future date where the Volunteer IAIG has a unilateral right to amend the premiums or the benefits payable under the contract in such a way that the premiums fully reflect the risks" should not be considered in insurance liabilities. In this context, are "the risks" confined to insurance and underwriting risks only, or do they cover all risks including expense risk and persistency risk? For example, if the future premiums cannot be revised to reflect an increase	In the definition of contract boundaries, the criterion of full reflection of risks should only be considered to be fulfilled in a situation where, at the moment when the IAIG has the ability to change the premiums, it can be done in an unconstrained manner. The IAIG should have the ability to change the premiums to a level that ensures that under all circumstances the amount of future premiums exceeds the value of the future benefits and expenses payable under the contract. If the ability to change the premiums is restricted, for example, to only a few of the risks stemming from the contract, then the conditions to define the contract boundaries should not be considered to be fulfilled.

Question	Answer
in expense level then all future premiums (and associated expenses and claims) must be considered in insurance liabilities?	In the example provided, future premiums (and associated expenses and claims) should be included in the valuation of insurance liabilities.
Q1.4.22. If one insurance policy consists of a basic component which has a contract boundary of 20 years and a rider component which has a contract boundary of 1 year. Should that insurance policy be treated as one contract with a contract boundary of 20 years (on the ground that the rider cannot form a stand-alone contract without the basic), or as two different contracts with two different contract boundaries?	In the case where the IAIG assesses that two or more parts of the contract are clearly identifiable, for which it is possible to define different sets of obligations and premiums attributable to each part, then the contract can be split in those two parts with two different contract boundaries.
Q1.4.23. I have questions about the Questionnaire, specifically regarding Q28 to Q37. Could you kindly advise me of the definition of "Top Bucket Approach" and "Top Bucket"? Given there is a "Top Bucket", are there any second, third or bottom bucket(s)? If there are, could you also kindly advise me of the definitions?	The top bucket is a new concept which the IAIS is considering as part of its possible refinements to the methodology for the calculation of its prescribed interest rate curves (more specifically, to the adjustments to the risk free interest rate curves). It has not been incorporated into the 2015 Field Testing data template, but the IAIS is seeking feedback from Volunteers on the topic through the Questionnaire. The concept is defined by the introductory text just before Q.28. The distinctive feature of the top bucket is that it would “introduce a link between the asset and liability sides of the IAIG’s balance sheet, allowing for the valuation of insurance liabilities using an adjustment based on the returns of the assets which are assigned to back those liabilities”. An illustrative set of criteria for eligibility for the application of the top bucket is presented before Q.30.
1.5. BCR.Capital resources and Section 7 Qualifying Capital Resources	
Q1.5.1. Surplus Notes – Where do we include surplus notes on the balance sheets, and is it the same regardless of the valuation basis (GAAP+, STAT,	The classification on the BCR balance sheet should be consistent with GAAP/STAT and either included within liabilities as borrowings or in equity as “other”, as appropriate for stock companies and mutuals, respectively. Then, in

Question	Answer
MAV) used?	the capital resources section, the company should report the surplus note and assess against the criteria to determine if it is qualifying capital and, if so, in what tier.
Q1.5.2. Could you please provide an explanation for "Asset Adjustments" in the row 20 of the BCR Capital resources worksheet?	Asset adjustments are equal to the sum of the following items from the tab BCR. Balance sheet: Asset Adjustment Offset, Deferred Expenses Adjustment Offset, Liabilities Adjustment Offset and Deferred Tax Adjustment Offset.
Q1.5.3. (Minority Interest) Paragraph 154 of the technical specifications says "The volunteer IAIG's share of the Par Value of the non-controlling interest should be reported in Column AD", but it does not say "Any share premium associated with the instrument should be indicated in Column AE." as in paragraph 153 for financial instruments issued by IAIG itself. Does that mean any share premium associated with the non-controlling interest should be reported in neither column AD nor AE? (Only face value portion, or "ordinary share" portion in a subsidiary not 100% owned by IAIG is counted towards capital resources?)	Volunteer IAIG's should report their share of any share premium associated with the non-controlling interest in Column AE.
Q1.5.4. Field testing data template, "BCR.Capital Resources": The last rows (row 66 to 69) refer to secured or encumbered assets. What assets should be included in and excluded from these rows?	Any assets that are pledged or secured, and therefore not available to pay policyholder claims, are subject to this deduction. This may include assets pledged in support of derivative contracts, real estate, etc. However, the amount to be deducted may be reduced by the sum of the: ○ insurer's reported on-balance sheet value of the supported liability ○ value of the insurer's supervisory capital requirements for the supported liability ○ value of the insurer's supervisory capital requirements for the pledged assets. An exception is made for encumbered assets relating to off-balance sheet securities financing transactions (i.e. securities lending and borrowing, repos and reverse repos) that do not give rise to any liability on the balance sheet. The reporting of secured or encumbered assets should be done in total.

Question	Answer
Q1.5.5. Cells C50, C58, C61, and C63 of the "BCR.Capital Resources" tab are asking companies to net the corresponding DTL numbers for a number of capital adjustment categories. These numbers are already being included in cell C52, so we need to make sure we do not double count the DTL in different places.	DTLs are permitted to be netted against DTAs provided that it excludes amounts that have already been netted against the other items (i.e. goodwill, intangibles, DB pension asset). This is to prevent double counting. Paragraph 181 of the Technical Specifications states that Items listed under a) to c) should be net of any associated DTL that would be extinguished if the item becomes impaired or derecognized under the valuation approach. DTLs are permitted to be netted against DTAs provided that it excludes amounts that have been netted against items a) to c). Paragraph 179 contains the list of items for exclusion; however, two items are missing from the list. The list should be as follows: a) Goodwill b) Intangible assets, including computer software intangibles c) Each net defined benefit pension fund that is an asset on the IAIG's balance sheet and that cannot be easily and promptly accessed for the own use and on-going operations of the volunteer IAIG. The list then continues as published in the Technical Specifications, starting with DTAs.
Q1.5.6. Field testing data template, "BCR.Capital resources", Line 52 DTAs, net of associated DTLs (carrying amount): The formula should be adjusted or changed to an input field to reflect the change in deferred tax balance per GAAP reported balances related to DTLs/DTAs that were netted against adjustments made to Capital (i.e. Goodwill, Intangible Asset, Pension, AOCI items) OR the line description should be changed to 'Adjusted DTAs, net of associated DTLs'.	DTLs are permitted to be netted against DTAs provided that it excludes amounts that have already been netted against the other items (i.e. goodwill, intangibles, defined benefit pension asset). This is to prevent double counting.
Q1.5.7. Field testing data template, "BCR.Capital resources", Line 52 through 54: We are assuming that if the "adjusted" net deferred tax balance is a DTL, a zero balance should be reported in rows 52-	That is correct. The DTA, net of DTLs, should be floored at zero. If the balance is a DTL, then it is not permitted to increase capital resources.

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Question	Answer
54. Please confirm this is correct.	
Q1.5.8. Field testing data template, “BCR.Capital resources”: Where should the participants report Non-Controlling Interest/Minority Interest so that it is recognized in capital?	Non-controlling interests are reported in the tab FT16.Financial Instruments. Use Column G to appropriately identify an entry as a non-controlling interest. Additional information on non-controlling interests should be provided in columns AX to BG. On the same tab, cells G10 and K10 are the sum of those instruments identified as non-controlling interests (for core and additional capital, respectively). Cells G8 and K8 are the sum of financial instruments issued to third parties, including non-controlling interests (for core and additional capital, respectively) and these amounts are carried over to the tab BCR.Capital resources in cells C7 and C8.
Q1.5.9. Regarding Q47 in the document ‘Questionnaire 2015 Field Testing Quantitative Exercise’, it is unclear what we you expect to be filled in the rightmost column entitled ‘Level of Volatility in the element (how often and how much)’. We could not find any relevant information about this within the technical specifications and current FAQ. Could you please provide guidance, example or additional explanation for it?	The question (Q47) is aimed at understanding how much the balance of the listed items fluctuates period to period. This could be evaluated in terms of internal management analysis that forecasts balances under baseline conditions and stress or in terms of historical analysis of actual results. Possible responses could include a range within which the balance has moved over a quarter, year or other relevant timeframe and accompanying narrative explanation for significant volatility observed in the balance over time.
Q1.5.10. According to the FAQ Q1.4.20, the answer says Treasury stock (i.e issued stock repurchased by the IAIG) should not be reported in "Other"(line 90) and rather be deducted from retained earnings or unrestricted reserves, as it would not be excluded from BCR capital resources in the first case. However, there is a particular cell to input the amount of direct investments in own Core capital instruments, which is C41 in BCR. Capital resources sheet and it is included to the Exclusions from Core Capital. Are the "Direct investments in own Core capital instruments" different from Treasury stock? In case those are the same, it	If retained earnings or unrestricted reserves have been reduced to account for treasury stock on the sheet BCR.Balance Sheet, then do not report that amount in “Direct investments in own Core capital instruments”.

Question	Answer
would be over-deducted if it is not reported in 'Other" in Balance sheet.	
Q1.5.11. Criterion described in cell AG23 ("Has either the IAIG or a related party purchased or funded purchase of instrument?") The criterion is referenced to determine whether any instrument is Tier 1 capital or not. Should the criteria be "Y" if we have any Treasury stock? If this is the case, the entire instrument seems to become unqualified as Tier 1 even if we have very small amount of Treasury stock.	Select 'N' if only a portion of the instrument is held as treasury stock. The amount of treasury stock will not qualify as Core or Additional Capital, and will either be reported as a reduction to retained earnings or unrestricted reserves or will be deducted from Core Capital under the deduction "Direct investments in own Core capital instruments".
Q1.5.12. Criterion described in cell G23,AD23 (Is this a non-controlling interest?) Section 7.1 154 paragraph of the Technical Specifications describes that "the volunteer IAIS's share of the Par Value of the non-controlling interest should be reported in Column AD" if the instrument is held by third parties. It is not clear what "the volunteer IAIG's share of the Par Value of the non-controlling interest" should be because none of our share is included in the non-controlling interest. Does this paragraph mean to report the amount equal to the face value of subsidiary's financial instrument after deducting the volunteer IAIS's share?	This column is meant to capture the proportion of the instrument issued to and held by third parties.
Q1.5.13. Insufficient descriptions about net DB pension plan surplus asset (Defined Benefit pension fund) which is referred in paragraph 175 and 179 of Tech_spec document. It is not clear whether the DB pension plan indicates funds for our employees' benefit or DB pension assets/liabilities in separate account. If it means the net DB pension fund assets and liabilities for own employees' retirement benefits	This is a deduction of surplus assets of the IAIG's employees' DB pension fund that cannot be easily and promptly accessed for the own use and ongoing operations of the IAIG. If the net DB pension fund is in a surplus position (i.e. it is an asset) that is not reported on the balance sheet and the asset is not included, either directly or indirectly, in capital resources, then this deduction may be ignored. However, if the net DB pension fund is either:

Question	Answer
and we have problem to calculate the net amount. Our local jurisdictional accounting standards does not require to report DB pension plan asset whereas US Accounting standards requires to report the DB pension plans assets and liability on the balance sheet. In this case, can we ignore the criterion and leave it as zero?	(a) In a surplus position and is recognized (either directly or indirectly) in a way that increases capital resources; or (b) In a deficit position but is not recognized as a liability on the balance sheet then please use best efforts to determine the appropriate amount of the deduction
Q1.5.14. During the Field Testing exercise, we understand that sub-debt is to be valued at fair value (FV) according to the technical specification. However, this treatment combined with the asset / liability / tax adjustment offsets appears to penalise for the change in FV of the debt after allowing for taxes. Please confirm whether our interpretation of the tech spec is correct here? What should be done about the negative impact on capital resources? For example, should sub debt be valued at cost?	Financial instruments issued by a Volunteer IAIG should be valued on the same basis for both the MAV and the GAAP valuations. That is, for MAV, there is no need to apply the adjustments to the value of these financial instruments issued by the Volunteer IAIG whereas such adjustments are required to the valuation of financial instruments held for investment by the Volunteer IAIG.
1.6. FT15.Financial Instruments and Section 7.1 Capital Instruments issued by Volunteer IAIGs	
Q1.6.1. Could you please provide an explanation or an example for "Is there a guarantee or feature associated with the instrument that renders it encumbered?"	This refers to criterion (viii) for ICS Tier 1 Capital that states: “The instrument is neither undermined nor rendered ineffective by encumbrances. In particular, priority of claims should not be compromised by guarantees or security arrangements given by either the Volunteer IAIG or another related entity over which the Volunteer IAIG exercises control or significant influence, for the benefit of investors.” For example, if a guarantee associated with an instrument enhances the position of investors, that instrument would be considered encumbered.
Q1.6.2. “FT15.Financial Instruments” related questions. Criterion formulas in columns BK and BL (“Issued capital first to absorb losses” and “Most subordinated instrument”, respectively) The criterion formulas embedded in column BK and BL refer to column D (“Type of Capital Instrument”) and “Y”	The criteria for “Tier 1 unlimited” financial instruments are designed to identify only the highest quality capital instruments, i.e. those which are, among other things, paid-up, are the first to absorb losses, represent the most subordinated claim in a winding-up, perpetual and for which the paid-in amount is recognised as equity capital. To our knowledge, the only financial instrument that would satisfy all criteria is common/ordinary shares – as referenced in paragraph 83 in the ICS

Question	Answer
is returned as an answer to those columns by the formulas only when the type entered in column D is "Shares – Com/Ord", which means only common/ordinary shares can be classified as "Tier 1 unlimited". In other words, if the value entered in column D is other instruments than common/ordinary shares, they cannot be classified as "Tier 1 unlimited" regardless of whether all other criteria (columns BM, BN, BO, BP, BQ, BR and BS) are met. I would suggest the criteria in columns BK and BL be relaxed to allow for other types of instruments.	consultation document. Please provide additional information on any financial instruments other than common/ordinary shares that satisfy all "Tier 1 unlimited" criteria. Question 40 within the field testing questionnaire is intended to address any feedback volunteers wish to provide regarding the automatic classification of capital instruments as Tier 1 or Tier 2 capital resources.
Q1.6.3. Criterion formula in column BO ("Are distributions obligatory?") The criterion formula embedded in column BO refers to both column R ("Distributions – Cumulative?") and column S ("Distributions – Cancellation?") and the formula returns the answer of "Y" only when column R ="N" and column S="Y". However, the criterion described in cell BO25 is "Are distributions obligatory?". I would suggest either the criterion formula embedded in column BO be changed to refer only to column S ("Distributions – Cancellation?") or the description for the criterion in cell BO25 be changed to "Are distributions cancellable and non-cumulative?" or something like that.	We consider that the information in both columns R and S are relevant when determining whether or not distributions on financial instruments are obligatory.
Q1.6.4. Criterion formula in column BP ("Distributions are paid out of distributable items") The criterion formula embedded in column BP is "=IF($C26="","","Y")", which means the answer returned by this formula is always "Y" unless column C (Name of Issuer) is blank. I think other criteria to return either "Y"	To our knowledge distributions on all financial instruments should only be paid out of distributable items. So this criterion will register as "Y" for each financial instrument entered on the 'Financial Instruments' worksheet. The formula in column BP is as intended.

Question	Answer
or "N" are missing from this formula.	
Q1.6.5. Criterion formula in column BS ("Paid-in amount is recognized as equity capital") This criterion formula returns "Y" only when the answer entered for column J ("Location on Balance Sheet (Equity / Liability)" is "Equity". However, I think there would be some financial instruments other than common/ordinary shares that can be classified as "Tier 1 limited" even if the answer to be entered for column J is "Liability". Specifically, some type of perpetual hybrid securities or CoCo bonds that meet all other criteria for "Tier 1 limited" qualification should be classified as "Tier 1 limited". Is my interpretation of paragraphs 162 (x) and 163 (xii) incorrect?	The criteria in the technical specifications clearly recognise financial instruments as Tier 1 capital (either unlimited or limited) where the paid-in amount is recognised as equity capital where a determination that liabilities exceed assets constitutes a test of insolvency. Therefore, any instruments for which the paid-in amount is recognised as a liability on the balance sheet will not be eligible for classification as Tier 1 capital. Please let us know if you have financial instruments that you believe are not appropriately classified within the 'Financial Instruments' worksheet. Question 40 within the field testing Questionnaire is intended to address any feedback volunteers wish to provide regarding the automatic classification of capital instruments as Tier 1 or Tier 2 capital resources.
Q1.6.6. Criterion formula in column BU ("Instrument only redeemable at option of issuer minimum 5 years from issue with supervisory approval") This formula is used as a determining factor for "Core", "Tier 1 limited" and "Tier 2 Paid-up". This formula uses maturity (calculated by columns M ("date of first call") and K ("date of issue")) and column AA ("Subject to review/approval by supervisor prior to redemption (Y/N)") and it returns "Y" as an answer only when the maturity is calculated to be greater than 5 (years) (or column M is blank) and the value entered in column AA is "Y". However, in the case of "Shares – Pfds NC" (Preferred Shares, non-cumulative), I think the answer to column AA is blank (or N/A if allowed to answer so) because this question in column AA is irrelevant to preferred shares and all those combined will render	The formula in column BU was intended to assess whether instruments have a first call date within 5 years of issuance and whether redemption is subject to prior supervisory approval. In the case of a perpetual capital instrument with no "first call date" (i.e. the issuer has no ability to redeem the instrument), please leave Column M blank and indicate 'Y' in Column AA. This should allow for the correct classification of the instrument.

Question	Answer
"Non-qualifying" to columns AO and AR (BCR Classification and ICS Classification, respectively). I would suggest the formula be changed to allow for "Perpetual" for column BU and blank (or N/A) for column AA, so that such instruments as preferred shares (perpetual) are classified as Core and Tier 1 limited.	
Q1.6.7. Criterion described in cell AH23 ("Is repurchase of the instrument required to be funded out of proceeds of new issuance if repurchase occurs less than 5 years after issuance? (Y/N)") This column AH is referenced by column BV ("Repurchase subject to prior supervisory approval and funded out of proceeds of new issuance (if less than 5 years after issuance)"), so the criteria in AH and BV should be identical. It seems the description for BV is more appropriate than that for AH in that BV clearly states that "subject to prior supervisory approval", which is not mentioned in AH. I would suggest the description in cell AH23 be changed to the same one as cell BV23.	When providing input for column AH, Volunteers should enter 'Y' when Criterion v of ICS Tier 1 for which there is a limit is met. The relevant criterion is "The instrument may be repurchased by the issuer at any time with prior supervisory review or approval provided that at least in the first five years after issuance such repurchase is funded out of the proceeds of a new issue of an instrument of the same or better quality.
Q1.6.8. Criterion formula in column CG ("Does the instrument have any fixed servicing costs?") Only the answer to column S ("Distributions – cancellation(Y/N)") is used as a determining factor for this formula in column CG, but is the answer to column R ("Distributions – cumulative(Y/N)") not necessary to be added as an additional determining factor for this formula? The criterion formula in column BW uses both columns R and S as determining factor and the BCR document (Oct. 23, 2014) says "with distributions that	Column S is the relevant column for the determination of this classification criterion. If distributions are cancellable, then an instrument should not be considered to have any fixed servicing costs.

Question	Answer
are cancellable are non-cumulative" in paragraph 6 of Annex D.	
Q1.6.9. Technical Specifications (ICS): 7.1_148: Equity appears to be viewed as a financial instrument to be entered in the template FT.15 the template is designed to analyze the characteristics of subordinated debt, hybrids and preference shares. It does not make much sense to also enter ordinary shares into this template – the criteria simply do not match well.	The template is meant to provide an overview of the capital resources and capital requirements for volunteers. Omitting data on capital resources such as ordinary shares will not provide an accurate depiction of a volunteer's capital resources and overall financial position.
Q1.6.10. In 7.1.2.2 Questionnaire-Qualitative comment: the maximum step-up allowable for T2 is not defined – which is consistent in so far as the IAIS views any step-up as an effective maturity date, and as long as the effective maturity is 5 years or more post issuance, the instrument qualifies as T2; however, it would still be sensible to introduce a maximum step-up – or some alternative rule for the maximum coupon in case of an maturity extensions via the lock-up mechanism.	No maximum step-up for T2 has been defined for the field testing exercise. The aim is to collect information on financial instruments (including the presence of step-ups in Tier 2 instruments) to inform future policy making decisions.
Q1.6.11. General: Questionnaire-Qualitative comment: Transitional rules (Grandfathering) are important for own funds items. The silence on grandfathering in the Technical Specifications will negatively impact the quality of feedback from respondents, as some issuers will shy away from pointing to problems that they may have with a conservative interpretation of the rules. In line with Solvency II, grandfathering rules are required for own funds items. However, unlike Solvency II, grandfathering rules should be designed to motivate issuers to adhere to the new	The purpose of the field testing is to collect data to inform future policy decisions regarding qualifying capital instruments under ICS. This includes any transitional provisions ("grandfathering") which may be introduced as part of the ICS requirements in future.

Question	Answer
rules rather than act as a strong disincentive to do so.	
Q1.6.12. Technical Specification (BCR): Annex D 5(iii): Questionnaire-Qualitative comment: It is odd that Core and Additional instrument only need to be subordinated to policyholders. This requirement is fulfilled by "senior debt" in many jurisdictions; the RT1 and T2 criteria for ICS therefore require subordination to "non-subordinated" claims, and (for Tier 1) subordination to Tier 2 claims.	The BCR requirements were developed and finalized prior to the proposed ICS requirements. Since the BCR was approved by the G20 in November 2014, the BCR requirements are not open for revision during the field testing exercise.
Q1.6.13. (Excel template) As an example: Indirectly issued are issued by SPV and then on-lent on broadly identical terms to the HeadCo). Columns AK/AL appear to require an assessment of whether the on-loan meets all criteria of T1 or T2 (columns H- AJ) – something that a rather long formula does for directly issued transactions in column CU. This approach in column F (self- assessment) thus appears rather simplistic. However, in the example case, the on-loans are broadly identical to the externally issued bonds. This allows to simply set "Y" for all relevant entries in column AL (assuming that T1 criteria are not met) – the entries in columns H to AJ assess the bond issued by SPV, and the decision of whether or not the instrument qualifies therefore is based on the entries in columns H.AJ, not based on column AK/AL.	Columns AK and AL are relevant where a financial instrument is issued out of an SPV. Where this is the case, volunteers should assess whether those instruments meet the relevant Tier 1 or Tier 2 criteria set in the Technical Specifications. This information is then used in the worksheet to determine the classification of the financial instrument.
Q1.6.14. (Excel template) Column H – Subordination criteria Insufficient selection criteria – senior debt issued by re-	For a financial instrument to qualify as ICS and/or BCR capital, it must be at least subordinated to policyholders. Volunteers should indicate the appropriate level of subordination for financial instruments in column H of the 'Financial Instruments'

Question	Answer
insurers is not necessarily subordinated to "policyholders". Subordinated debt issued by bank subsidiary is not subordinated to policyholders Leaving column H blank results in many "ERROR" messages in the back part (in particular column CI to CU)	tab. If it does not meet this subordination criterion, then it will produce an error and will not qualify for capital resources.
Q1.6.15.(Excel template) Column J / column BS: misleading header Column J is used in the formula in column BS, which in turn is testing for RT1 criterion (xi) and UT1 criterion (x) – i.e. the treatment of the instrument for purposes of the asset-liability test (see cells BS22 and BS23, assuming that the numbering is correct here) "Location on Balance Sheet" suggests IFRS or Local GAAP accounting treatment – which differs from the asset liability test treatment. The header is thus misleading Consider using "Treatment for asset-liability test (insolvency law)" and add "not relevant as an option for jurisdictions where no such tests is performed in local insolvency law.	The suggestion is noted. In column J volunteers should describe the location of the financial instrument on the balance sheet, i.e. equity or liability. This information is relevant when determining whether the criterion in column BS is satisfied for classification purposes.
Q1.6.16.(Excel template) Column K (and G) – rows 6-15: is the aggregation of face values wanted? We note that e.g. in cell K7 (and G7) the sheet uses the face values entered in column AD to sum up the amounts qualifying as "BCR – Additional Capital". Is this deliberately aggregating face value rather than the "market" values (or values in the various relevant balance sheets)?	Yes, the intent is to capture the face value of financial instruments.
Q1.6.17.(Excel template) Column N: Effective maturity date – header does not match what the formula actually does	Effective maturity has been defined in the technical specifications (paragraph 164iii). Column N in the 'Financial Instruments' worksheet has been updated.

Question	Answer
The formula does not produce the effective maturity date, but the „original life to (legal) maturity" – please either change the header or the formula I believe the output should be either (i) the Date of Earliest Incentive to redeem (column Q) or – in case there is no incentive to redeem – the (ii) Maturity date (column L) – is this column N redundant?	
Q1.6.18.(Excel template) Column O in combination with column BN & CQ: erroneous formula? – Questionnaire Step-ups are generally considered as "incentives to redeem". However, as long as they are moderate, they typically are compatible with qualification as "Tier 2 style" instruments (and compatible with rating agency requirements). ICS/T2 style instruments do allow step-ups, too (they are viewed as an effective maturity though); the BCR rules are quiet (and thus do not prohibit) incentives to redeem. Selecting "Y" in column O is the correct choice for standard step-up instruments, but this would automatically disqualify the instrument form ICS Tier 2 via columns BN and CQ – an incorrect outcome Since none of our instruments (incl. step-up and non-.step instruments) contain incentives to redeem that warrant disqualification from Tier 2, we were forced to enter an "N" in column O (Incentives to redeem – Y or N?) even for our step-up instruments.	The formula in column CU does not take into account the fact that step-ups are permissible in ICS Tier 2 and BCR Additional Capital (provided they occur at least 5 years after issuance). In order to include these instruments in Tier 2, volunteers should set the flag in column O to "No". Volunteers should still provide any relevant information on incentives to redeem in columns P & Q. Volunteers should make note of any instruments with incentives to redeem in Question 40 of the Questionnaire. Note that any step-up, combined with a call option, is considered an incentive to redeem.
Q1.6.19.(Excel template) Column BP – erroneous formula?	To our knowledge distributions on all financial instruments should only be paid out of distributable items. So this criterion will register as "Y" for each financial

Question	Answer
BP says "Y" for "distributable items" test as long as an issuer name has been entered in column C – this appears to be an error.	instrument entered on the 'Financial Instruments' worksheet. The formula in column BP is as intended.
Q1.6.20.(Excel template) Column CD: simplistic formula may lead to wrong results. The formula only tests whether there is e.g. amortization – it does not capture cases where the amortization is shorter than the required 5 years.	For a financial instrument to qualify as either BCR or ICS capital then any amortization period must be at least 5 years.
Q1.6.21.(Excel template) Column CM – Test for qualification as Additional Capital (BCR) Criterion "Minimum term 5 years". The formula in column CM tests whether BU = Y; the information in BU is used in the context of the ICS to test whether the instruments first ordinary call date is 5 years or more from issuance – since Additional Capital tests for minimum 5 years maturity, the formula may reference column CC instead.	As per the instructions, volunteers are requested to only include information on paid-up financial instruments in the 'FT15.Financial Instruments' worksheet. Information on non-paid-up financial instruments should be included in worksheet 'FT15.Non-Paid-Up Cap Resources'.
Q1.6.22.(Excel template) Column CM – Test for qualification as Additional Capital (BCR) Criterion "Replacement requirement for repurchases in first 5 years". The formula in column CM tests whether BV = Y; this test is relevant in the context of the ICS only, the BCR requirements for Additional capital are silent on repurchases in the first 5 years, the Core requirements (not tested in Column CM!) prohibit repurchases in the first 5 years entirely – consider deleting this test from the formula.	The replacement requirement for repurchase in the first 5 years is relevant in the context of the ICS only and not the BCR. The posted errata sheet and patching tool will highlight the correction for this within the data template.
Q1.6.23.(Excel template) Row 20/21 – BCR Core and Additional criteria are wrongly numbered.	The naming convention for BCR Core and Additional criteria is as follows:

Question	Answer
The differentiation between core criteria (“C”) and additional criteria (“A”) is insufficient since there are criteria that apply to both types of BCR capital – e.g. p. 35/38 No. 5 of the Technical Specifications of the BCR (published on 23 October 2014). Hence suggestion to use the “No. 6(i) in cell BM20 to indicate that the first bullet of the requirements only applying to Core (not Additional) capital is “perpetuity”. The numbering appears all outdated.	The four initial criteria listed on page 35 of the final BCR document are common to both Core and Additional capital. Hence these points are numbered Ci, Cii, Ciii, Civ and Ai, Aii, Aiii, Aiv. Subsequent criteria that are specific to only Core or Additional capital are numbered sequentially.
Q1.6.24. (Excel template) Row 24 – ICS Tier 2 criteria are wrongly numbered. E.g. cell BN24 should read “vi.”, not “vii.” Please check all numberings – we haven’t tested them all.	ICS Tier 2 criteria are correctly numbered. E.g. column BN correctly corresponds to ICS Tier 2 criterion vii as stated in paragraph 164 of the technical specifications.
Q1.6.25. Paragraph 150 of the technical specifications clarifies that senior debt issued by a holding company should be included in the Excel template – this type of debt is typically not legally (but structurally) subordinated to policyholders; column H in FT.15 does not allow for a “correct” specification of such instruments. The same is true for senior debt issued by re-insurers which typically are not legally subordinated to re-insurance policyholders.	The minimum requirement with respect to subordination is that an instrument must be legally subordinated to policyholders. By including information on these instruments in the template, it will allow for analysis of the impact of this requirement. The posted errata sheet and patching tool highlight that an additional option can be added to the list in Column H of FT15.FinancialInstruments so that instruments that are not legally subordinated will not generate an error message.
Q1.6.26. Column BO: From cell BO22 (and assuming a correct numbering in row 22 for this criterion) we conclude that column BO tests whether or not non-payment of coupons can lead to an event of default. However, the formula assumes obligatory distributions, implying that non-payment of distributions can lead to an event of default. This is incorrect in our view – an event of default is can be	For the purposes of field testing, distributions that are not obligatory must be cancellable and non-cumulative.

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Question	Answer
prevented by deferring the due date of the payment for as long as is necessary to avoid a default. In other words, events of default can be avoided if by deferral of coupons on a cumulative basis – the formula wrongly requires non-cumulative coupons. Column BW actually may already fully capture the substance of what column BO intends to test – almost identical formula (just Y/N exchanged) – one of the two formulas appears to be redundant.	
Q1.6.27. Column CM – Test for qualification as Additional Capital (BCR) Criterion “Paid-in capital”: BCR rules require Core Capital to be fully paid-in (No. 6(v)). No such requirement exists for Additional Capital. However, the formula in CM will only assign “Additional capital” status if the instrument is fully paid in (via BJ = Y)	As per the instructions, volunteers are requested to only include information on paid-up financial instruments in the ‘FT15.Financial Instruments’ worksheet. Information on non-paid-up financial instruments should be included in worksheet ‘FT15.Non-Paid-Up Cap Resources’.”
Q1.6.28. Treatment of hybrid bonds Column AH of 'FT15.Financial Instruments' worksheet is asking "Are distributions linked to credit standing or financial condition of the IAIG? (Y / N)". (This is related to item viii of paragraph 164 of the technical specifications.) When a hybrid (subordinated) bond is issued with a condition that the interest payment must be deferred in the case that the regulatory solvency margin ratio falls down to 200% or lower, should we answer "Y" to the question? If that is the case, such a hybrid bond with such a condition cannot be classified as Additional or Tier 2 capital resources, but I think this condition contributes to greater loss absorbing capacity and it can be deemed Additional or Tier 2 capital resource.	Paragraph 164 viii) states “The instrument does not have distributions that are tied or linked to the credit standing or financial condition of the Volunteer IAIG or another related entity, such that those distributions may accelerate winding-up.” In this case, distributions are deferred and do not accelerate winding-up. Thus, the response should be “N” for this requirement.

Question	Answer
Q1.6.29. Treatment of hybrid securities: Column O of 'FT15.Financial Instruments' worksheet is asking "Incentives to Redeem? (Y / N)". (This is related to item vii of paragraph 164 of the technical specifications). When a hybrid security is issued with a condition that it can be redeemed when regulatory solvency rules are changed and thus becomes non-qualifying instrument. This kind of condition is necessary and I think it is fair to have one in order to maintain required capital amount by utilizing such kind of securities (the old ones need to be redeemed and new qualifying instruments need to be issued). Since it will not be redeemed unless regulatory solvency rules are changed and thus becomes non-qualifying instrument, is it fair to answer "N" to this question in column O?	A change in the recognition of an instrument for regulatory capital resources purposes would not be considered an incentive to redeem.
Q1.6.30. In addition to a change in the recognition of an instrument for regulatory capital which is described in Q1.6.29, would either of the following changes be considered as an incentive to redeem? • A change in tax deductibility: a change in, or amendment to, the laws or regulations of the jurisdiction where the IAIG is headquartered whereby interest payable on the financial instrument becomes non-deductible; • A change in rating agency's methodology: a change in the equity credit criteria, guidelines or methodology of rating agency that results in a lower equity credit for the financial instrument than the equity credit assigned by such rating agency on the original issuance date of the financial instrument	Neither of these examples would be considered an incentive to redeem.

Question	Answer
Q1.6.31. The answer to Q1.6.2 states "To our knowledge, the only financial instrument that would satisfy all criteria is common/ordinary shares – as referenced in paragraph 83 in the ICS consultation document.", Would minority interests bear the characteristics that satisfy all of the criteria for Tier 1 unlimited?	Volunteers should enter all of the relevant characteristics of the financial instrument in the template and appropriately identify it as a minority interest. The template will classify it according to its characteristics. Any comments regarding the automatic classification of capital instruments as Tier 1 or Tier 2 capital resources should be specified in Question 40 within the field testing Questionnaire.
Q1.6.32. With respect to paragraph 164 (iv) of the ICS technical specifications, we interpret this as saying that for qualifying as Tier 2, the instrument should have a lock-in clause relating to ICS levels. If there is no lock-in criteria, the qualifying amount should be amortised over the last 5 years. However, the way the template is set up – the bonds are disqualified if a lock-in or amortization is not chosen. Since the amortisation will be a capital calculation and not a feature of the bond, we believe the treatment in the template should be rectified. We also note that a query relating to this issue was addressed in the Q&A (Q1.6.20) and the IAIS response is: For a financial instrument to qualify as either BCR or ICS capital then any amortization period must be at least 5 years. We believe that it is important to distinguish between the features of the instrument and the amount that gets recognised as capital. The technical specifications clearly say that the qualifying amount (as a % of face value) needs to be amortized, whereas the template implies that amortization should be a feature of the bond itself.	This is the correct interpretation of the intent behind paragraph 164(iv) of the technical specifications for classification of Tier 2 paid-up capital. For a financial instrument to qualify as Tier 2 paid-up capital, it must satisfy this criterion, which can be done in one of two ways: the terms of the instrument contain a lock-in clause, or absent such a clause, the regulatory regime of the jurisdiction in which the volunteer operates requires amortization of the qualifying amount of the instrument in the final five years to maturity, as set out in Technical Specifications paragraph 164(iv). The template does not imply that amortization should be a feature of a financial instrument. Volunteers should provide information on any special conditions near maturity (i.e. amortization or lock-in) in columns AB and AC for each financial instrument included in the 'FT15.Financial Instruments' worksheet.
Q1.6.33. Field testing data template, "FT15.Financial Instruments": We have several capital instruments that we believe meet the spirit of the requirements for inclusion as "additional capital" and "paid-up tier	Please provide the information in response to question Q40 in the Questionnaire.

Question	Answer
2" however, certain required criteria requested in the data template does not apply to these instruments and "N/A" is not an option to choose for these fields. Please advise on how we should proceed with reporting these instruments.	
1.7. FT15.Non-Paid-Up Cap Resources and Section 7.2 Non-paid-up capital instruments	
[no questions on this section]	
1.8. ICS and general issues related to ICS calculations	
Q1.8.1. Stress Test - Investments. Please provide examples of management actions related to investments. If the company is party to a derivative, would the management action be the exercise of that derivative as a result of an interest rate shift?	Please refer to paragraph 314 of the technical specifications. As a clarification, management actions refer to actions that would be taken by an insurer in direct response to stresses which would not otherwise be taken in the current estimate. For example, actions such as the rebalancing of assets to the ranges specified in the firm's strategic or tactical asset allocations that can be reflected in the current estimate would not be considered as management actions. In particular, exercising a derivative would not be seen as a management action; however, the change of value of the derivative following the stress (risk mitigating effect) will be considered when determining the capital charge. In practice, there is no management action related to investment that can be taken into account for the calculation of the capital requirement.
Q1.8.2. Our geographical specific segment effective tax rates are different from our consolidated effective tax rate. Should the tax effect of geographical segments be calculated using the consolidated effective tax rate or the segment tax rate?	Volunteer IAIGs should use the effective tax rates that they think are appropriate. The IAIS needs to explore this issue further for future field testing exercises and has included a question within the Questionnaire.
Q1.8.3. The technical specification document appears to be lacking a clear identification of the time period over which the shocks are to be applied. We believe that the consensus is that they should apply throughout the projection period. Could the IAIS	The shocks prescribed for the purpose of the calculation of ICS Capital Requirements should be generally interpreted as instantaneous shocks. This means that the impact of the shock should be assessed on the basis of existing assets and liabilities at the valuation date and without the possibility that the IAIG triggers any management actions before the full impact of the stress materializes

Question	Answer
please confirm that assumption?	(e.g. sale of the affected assets, purchase of new risk mitigation instruments). We assume for the following that the term "projection period" in the question refers to the period for which cash flows are projected for calculating the current estimate under a shock. Then, as an example on insurance shocks, the longevity shock as specified in the technical specifications is an instantaneous decrease in mortality rates that is assumed to persist throughout the projection period, i.e. there is no reversion of longevity rates to unstressed levels over the projection period. As another example on asset shocks, for the equity shock, an instant decrease in equity prices is assumed, which constitutes a new starting point for the equity price development in the projection period.
Q1.8.4. Structured Settlements - In several jurisdictions, insurers purchase an annuity on behalf of a claimant to settle a claim and may or may not receive a legal release of liability from the claimant. If a legal release is not received, the insurer is contingently liable. Currently, there are differences in the reporting of these types of claims with some jurisdictions reporting the transaction as a reinsurance recoverable that exactly offsets a claim liability, while others (including regimes that are market value based) report the transaction as a paid claim with only a contingent liability remaining. In the specifications (paragraph 87), it appears that when an insurer purchases a structured settlement and does not receive a legal release the contract should not be derecognized since there is still a contingent liability and the insurer could not assert that all future cash flows are certainly nil. The issue that reporting both the claims liability and the asset for the annuity creates is that the non-life insurer	Paragraph 87 of the technical specifications for the market-adjusted valuation (MAV) highlights that "a contract should be derecognised when all possible claims linked to this contract have been completely settled, and all future cash flows are certainly nil." For many IAIGs, this standard may be more onerous for derecognition of their insurance contracts than what is in place under their applicable accounting regimes. For the 2015 field testing, IAIGs are asked to follow this approach on a 'best efforts' basis when considering their structured settlements obligations, and highlight within the Questionnaire any particular difficulties, and the estimated impacts, of recognising any structured settlements with the MAV valuations that may have been previously derecognised under their accounting regime. The IAIS plans to look further into this particular matter in subsequent exercises. Where structured settlements do not meet the MAV criteria for derecognition, it would generally not be appropriate to net the annuity asset against the insurance liability as the parties are different. At a minimum, the insurer has a credit exposure to the annuity provider for which it should hold the full credit risk capital requirement.

Question	Answer
that made such settlements does not administer or monitor the resulting annuity activity, and receives information about their status with the annual data reporting from the annuity company. Hence the insurer cannot adjust the values for current interest rates and has no payment pattern or cash flow information. As an additional complication, some portion of the default risk will be covered by guaranty funds in certain jurisdictions. Hence the net amount at risk is even lower than the stated values. If a non-life insurer has to treat these situations as being a claim liability with an offsetting reinsurance recoverable, the insurer will be unable to: a. Adjust values to the current rate, hence unable to perform the interest rate risk calculation or the MAV valuation. b. Provide the future cash flows (required by the interest rate risk calculation). c. State the current discount rate (as it is embedded in the values reported by the annuity company and may not be specifically identified). d. Provide a reliable split by line of business, as the information is maintained in total by annuity company and not be individual annuity. These values can be very material for a large non-life insurer. An additional issue is that applying the same risk charges as other insurance liabilities that have not been settled via a structured settlement and a risk charge to the reinsurance recoverable is not risk focused, as the	

Question	Answer
true risk is the contingent risk that is based on the strength of the annuity provider. This would overstate the risk of insurers that utilize structured settlements to settle long tail claims. In order to minimize the issues with the differences in accounting for structured settlements (inability to create MVA) as well as reflect the appropriate risk charge for the risk, we recommend a net reporting of structured settlements and treat the risk as a contingent liability only.	
Q1.8.5. The current formula in the Template for Qualifying ICS Capital Resources for CoC-MOCE includes GAAP-MOCE and reduces it for CoC-MOCE. Is this the intent? See cells E11 of the 'ICS' sheet. Cell E11 = E16 minus CC-MOCE. Cell E16 is the QCR before CC-MOCE and includes GAAP-MOCE. Should the formula for E11 be: E16 minus GAAP-MOCE plus CC-MOCE? This would replace GAAP-MOCE with CC-MOCE in the ICS QCR. A similar revision to cell E12 may be necessary.	In the absence of a CC-MOCE, the qualifying capital resources as tested in this Field Testing exercise would include the GAAP-MOCE in a similar way as the qualifying capital resources for BCR. In the presence of a CC-MOCE – either a CoC-MOCE or a Prudence-MOCE - the insurance liabilities would be increased by the value of this CC-MOCE, thus decreasing the qualifying capital resources by the same amount. This is the logic implemented by the formula in cells E11 and E12 of the ICS sheet.
1.9. ICS.Non-Life type risk and Section 13.4.1.7 Premium risk & Claim Reserve/Revision risk	
Q1.9.1. Is it fair to understand that the "Net current estimate" referred to in paragraph 393 is only for claim liabilities?	Current estimates for the reserve risk in the template should only include outstanding claims liabilities (including incurred but not reported). Current estimates related to claims that have not yet occurred should not be included.
Q1.9.2. The BCR and ICS risk factors are applied to discounted loss reserves for P&C insurance	The risk charge will vary with the discount rate as will the present value of the related liability (current estimate). This implicitly discounts the risk charge

Question	Answer
liabilities. In reviewing the template there does not appear to be any consideration given to adjusting the risk factors due to changes in discount rates. Without adjusting the risk factors the changes in interest rates will result in changes in required capital even though the expected cash flows (P&C liabilities are generally not interest sensitive), and the risk, have not changed. For example, a 2% increase in interest rates could reduce the market adjusted value by several billion USD for large insurers which in turn would reduce the capital charge by hundreds of millions USD. We recommend that the IAIS apply the risk charges to the nominal (undiscounted) reserves.	necessary to cover the future payment the same way as the underlying expected cash flow. For instance if a future payment of $100 is currently discounted to $90, the risk charge will be calculated on $90, recognising that the assets held to cover the risk charge will earn the discounting factor to match the risk charge corresponding to $100 at the future date. As a result, we see no need to change the approach.
Q1.9.3. Surety assignment to Non-Traditional in the template The field test template automatically treats the U.S. Surety line as Non-Traditional – Credit. This is inaccurate as much of the Surety business is less than one year, and the Technical Specifications defines the “Non-Traditional” Surety category as only covering contracts greater than 1 year in length. There needs to be a way in the Template to split Surety into the relevant components. The IAIS should provide for some way of splitting Surety into the over one year vs. other component, or allow for the less than one year coverage to be reported in the Traditional-Other category.	For the 2015 field testing, Volunteers are asked to report their business in accordance with the segmentation outlined within the technical specifications. Volunteers are encouraged to provide the IAIS with detailed feedback, within the field testing Questionnaire, on areas where they believe the technical specifications are inappropriate, with reasons and an indication of impacts where possible. The IAIS plans to look further into this particular matter in subsequent exercises.
1.10. ICS.Catastrophe and Section 13.4.1.8	

Question	Answer
Q1.10.1. The A28 cell of "ICS.Catastrophe" sheet says "Max loss". Is the expectation that we report the greatest number (top 1) derived from models in this row?	Yes, “Max Loss”, is the maximum loss as simulated by the catastrophe model used.
Q1.10.2. Paragraphs 416 to 418 of the technical specifications describe a shock scenario of a bomb attack, but do not specify how to quantify the loss of due to additional life insurance benefits being payable. We would like IAIS to clarify the scenario in more detail.	To apply the terrorist attack scenario, Volunteer IAIGs should select the location for the scenario considering both life and non-life. For the purpose of the selection of the location, approximations could be used but the manner in which this is done should be disclosed in the qualitative questionnaire. For instance, considering group policies could help by identifying where insured have their main offices. Attention should also be paid to concentration of different insured within the same (or neighbouring) building. Volunteer IAIGs should quantify the loss for life insurance as the increase in claim payments by applying the percentage (ie 10% or 1% for fatalities, and 15% or 5% for disabilities) to the underlying amount at risk i.e. coverage amount less reserves. The disability claims should reflect the impact from accidents e.g. loss of limbs arising from dismemberments. The impact on other areas such as expenses arising from servicing the additional claim payments should also be reflected, based on the volunteers own estimates. The amount at risk should be determined: - for death policies, by considering the amount payable in case of accidental death; - for disability policies, by considering the benefits paid in case of permanent disability of the most adverse type (meaning the type of disability that would trigger the highest annuity payment by the insurer). The determination of the relevant net amount at risk should reflect the proximity of the exposures within the circular zones specified in the scenario.
Q1.10.3. Does the terrorism stress include the impact to own use property?	Yes.
Q1.10.4. Please confirm that the Catastophe scenario for a terrorist attack only includes real estate exposure where the company provides P&C insurance	Real estate investments and own use properties are to be included within scope for the terrorist attack scenario.

Question	Answer
coverage; real estate investments and own use are not to be included in the scope (as they are typically insured anyway).	
Q1.10.5.ICS.Catastrophe / Surety worksheet Is it fair to understand that the "gross loss ratio" referred to in paragraph 440 of the technical specifications means the ratio of the amount of losses to the gross exposure (which in general means maximum amount payable on given insurance contracts), not the ratio of the amount of losses to the amount of premiums (which is Loss Ratio in its ordinary meaning in non-life insurance business)?	Yes, the interpretation is correct.
Q1.10.6.The calibration currently used for this item appears to be problematic due to the inclusion of certain lines of business For example, a charge based on the factors in table 9 (paragraph 422) would be about 3 times the 1–in-1000 (occurrence-basis) hurricane return period for some insurers. Part of the problem is the premium basis for the charge includes products that generally are not susceptible to a major paradigm shift, as any such shifts would be prospective only. For example, US Workers Compensation is not susceptible to major paradigm shifts, as any such shifts are prospective only, require state-by-state legislative approval and produce an accompanying rate change. Additionally, events that impact Workers Compensation are highly unlikely to also impact Medical Professional Liability. The impetus for this may be worries over another	Please provide feedback as part of the Questionnaire, including impact by lines of business and if possible standard contractual clauses and conditions. This will be considered as part of the data analysis, and for future refinement of the scenario.

Question	Answer
asbestos-type mass tort. But asbestos liabilities are large only because the claims impact multiple policy years for multiple defendants. The multiple policy year component requires a hazard to be unknown for multiple years (generally decades); this is highly unlikely given the age of the internet and a highly active plaintiffs' bar. The multiple defendants component requires a hazard that permeates much of industry, which also makes it much less likely that it will be unknown as a hazard for multiple years in today's information age. The risk is also greatly reduced from the past due to the use of new policy forms and conditions, such as aggregate limits that cover all loss types (e.g., operations and "failure to warn" allegations), claims-made policy forms for the riskier exposures, and additional contractual restrictions on combining policy limits across years. We recommend that the IAIS remove from the CAT risk charge exposure base any segments that would not be exposed to risk retrospectively. Also, greatly reduce the factor being applied to the remaining premium base. Consider eliminating this risk component entirely, as it is likely already covered in the Premium Risk category.	
Q1.10.7. The scenario described in the Technical Specifications needs clarification with regard to the phrase "15% disability rate" and "5% disability rate" for P&C insurers, particularly those in the U.S. writing Workers Compensation. Unless this is clarified there is the risk that responses to the field test will be completed using inconsistent	In the U.S. workers compensation context, the rate of 15% and 5% disability should be presumed to result in full disability of the persons affected.

Question	Answer
interpretations of this language, resulting in unusable results for this part of the field test. One difficulty is that U.S. Workers Compensation laws provide for benefits in the case of partial disability, which differ materially from those related to total disability. There are also medical benefits that exist in such events that can be material, even if the injured worker fully recovers with no long term disability. We suggest you clarify the intent of this language in the U.S. Workers Compensation context. One approach is to state that 15% of the workers are presumed to be injured such that they are totally disabled. Note that the scenario should also make some assumption regarding the degree of medical benefits resulting from the scenario, in addition to the percentage of workers in the blast zone that become permanently disabled.	
Q1.10.8.We have the following questions concerning the Catastrophe scenario. Credit and surety: Paragraph 435 of the Technical specifications refers to 'net earned premiums', which for us is net of treaty reinsurance. However, in the same paragraph, IAIS states that 'factors will be applied to the net earned premium without further adjustment for reinsurance protection'. Is the latter referring to Facultative Reinsurance or also to treaty reinsurance? In the template tab ICS.Catastrophe, rows 52 to 82, is referred to 'Loss amount gross from external protection' and 'Loss amount net from qualifying external protection'. Should we base the 'Loss amount gross	The catastrophe trade credit scenario described in paragraph 434 to 436 of the Technical Specifications consists in the application of factors to the net earned premium. By doing so the impact of reinsurance protection will be captured only through its impact on the net earned premium. The drafting of paragraph 435: "the factors will be applied to the net premium earned without further adjustment for reinsurance protection (e.g. non-proportional reinsurance)." implicitly acknowledges that applying factors on net earned premium will imperfectly capture the impact of non-proportional reinsurance (either facultative or treaty). However this approach allows for a relatively simple design of the scenario. The "other Catastrophes" table from the ICS.Catastrophe tab is designed for all scenarios other than natural catastrophes. Regarding the trade credit component,

Question	Answer
from external protection' on a NEP before the reinsurance treaty, and then apply the reinsurance treaty to arrive at the 'Loss amount net from qualifying external protection'?	volunteers should calculate the "Loss amount net from qualifying external protection" as described in the paragraph 435 of the Technical Specifications. If the gross earned premium is easily available, volunteers should calculate the "Loss amount gross from qualifying external protection" by applying the factors provided in the table 11 of the Technical Specifications to the gross earned premium.
1.11. ICS.Life type risk and sections 13.4.1.1 to 13.2.1.6	
Q1.11.1.What is meant by "decrease of the recovery rate" in the morbidity/disability shocks?	The decrease of recovery rate is a shock that is meant to capture the risk that fewer invalid people than expected recover/ get better: in other terms, it is the risk that the insurer has to pay disability/ morbidity coverages longer than projected.
Q1.11.2. In the mass lapse shock, what are the definitions of retail and non-retail policies? Are retail policies group policies while non-retail are individual policies? Please provide additional clarification in this regard.	Group policies are non-retail policies.
Q1.11.3. What is the definition of "Medical expenses indemnities" and "Lump sum"?	Medical expense indemnities refer to the benefits from a healthcare insurance contract such as doctor/ hospital fees, and purchase of medicine. However, this section should only include such healthcare expenses where the technical provisions are calculated according to life actuarial methodologies. Lump sum refers to contracts where the guarantee offered is a single payment as opposed to an annuity.
Q1.11.4. What is the difference between "Annual products", "Multiannual products", and "Lifelong products"?	Annual / multiannual / lifelong relate to the number of accident years contractually covered by the guarantee, irrespective of the length of the payment period once the risk has materialised. For instance, a guarantee providing a lump sum in case of disability incurring within the next 5 years should be classified as "multiannual". But a guarantee providing a lifelong annuity in case of disability incurring within the forthcoming year should be classified as "annual".
Q1.11.5. What is the definition of "Life annuity"? Is it a perpetual annuity?	Yes, it is perpetual annuity.

Question	Answer
Q1.11.6. What is the definition of "Valid insured people" and "Annuity beneficiaries"?	Valid insured people refers to insured people who have a disability/ morbidity contract but don't receive any annuity because no risk event has occurred whereas annuity beneficiaries refers to people who receive an annuity linked to their disability/ morbidity coverage.
Q1.11.7. Although "Nursing Care Ins." is included in row 104 of "ICS.Non-Life type risk", we think it is more appropriate to classify those products as "Morbidity Risk" for "Medical expense indemnities" (row 147 of "ICS.Life type risk") and measure the insurance risk by stress approach.	As noted in the technical specifications, the classification should reflect the nature of the underlying risk of contracts. Insurance obligations that are legally or contractually considered as non-life activities should be classified into life segments if and only if the calculations of the corresponding technical provisions are based on biometrical variables. Examples have been provided in the technical specifications for additional guidance. If the lines of business in question satisfy these requirements, they can be classified into the appropriate life segments and subject to the appropriate morbidity charge.
Q1.11.8. Under the morbidity risk sections, why is it split by so many categories, such as medical expense indemnities, lump-sum, annuity? The other risks, such as lapse and longevity, are not split into categories, just the geographical areas.	The disability-morbidity risk concerns a wide variety of different health products, with different types of benefits. The scenario referred to as "disability-morbidity" should be applied across all those different products, as soon as they are underwritten and managed on technical bases similar to Life. For analysis purposes, we would like to identify which kinds of products are most sensitive to the stress scenario as designed, and whether there are compensations between different products – hence the split by category of products. It should be noted also that a breakdown of the capital charge by type of product is also required in other areas, such as Lapse risk.
Q1.11.9. Why are annuity categories listed under the morbidity risk sections? These types of products are generally investment in nature, and not affected by items such as hospitalization or other morbidity drivers. Thus, we have hard time to understand the purpose of breaking morbidity risk into annuity type categories.	In some jurisdictions there are products providing an annuity in case of disability / critical illness. Such annuity products are sensitive to a change in inception / recovery rates. Therefore it makes sense to include them here. Of course annuity products that would not depend on the policyholder disability status should not be subject to the disability-morbidity stress.
Q1.11.10. Please confirm that the lapse shocks should be applied to the dynamic lapse functions of Variable Annuities (VAs). Please provide an example of how the calculation would work (ie apply dynamic	Yes, mass lapse shock should also apply to VAs. Further lapse shocks need not be applied to the dynamic lapse functions of VAs. However, if the dynamic lapse function is not used, the +/-40% lapse shock should be applied to the base rates.

Question	Answer
formula, then shock base rate)? Should just the -40% shock be applied to the base rates? Should the mass lapse shock also apply to VAs?	
Q1.11.11. Lapse risk As the effect of dynamic lapse is considered in Market Risk (e.g. interest rate risk), we understand that the lapse risk to be considered in “Lapse Risk” section of “ICS.Life type risk” is “risks caused by unexpected changes in exertion rate of options”, which we think specifically means “surrender of policies caused by the fact that other companies released more attractive (more profit yielding) products” for example. Is our understanding described above correct?	Surrenders caused by the introduction of more attractive products arising from unexpected increases in future interest rates should be reflected under market risk.
Q1.11.12. Should we understand that the "value of assets less insurance liabilities" in the definition of "ΔNAV" in paragraphs 328 and 341 is the value of assets backing insurance liabilities less insurance liabilities, or the value of the IAIG's all assets less insurance liabilities? If it is intended to mean the value of the IAIG's all assets less insurance liabilities, Please clarify why non-insurance liabilities are not excluded from the value?	When calculating ΔNAV, all assets should be included in the calculation; this does not cause any distortion to the result, as the value of those assets that are not sensitive to the prescribed shock is naturally eliminated when calculating the difference between the NAV before and after shock. With regard to liabilities, all liabilities sensitive to the prescribed shocks should be taken into account.
Q1.11.13. Morbidity risk Is the definition of "Base Value" as in cell C60 (and some other cells) in the context of Morbidity risk the same as the definition of "Base Value" in the context of other life type sub-risks?	Yes, the base NAV used in the context of the disability/morbidity risk refers to the same concept as the one used for other Life sub-risks.
Q1.11.14. We would like to clarify the definition of "surrender strain of a policy". We think that is the difference between the amount currently payable and the best estimate liability of a policy. Is our	The surrender strain is defined as the difference between the amount payable on surrender and the current estimate.

Question	Answer
understanding is correct?	
Q1.11.15. What amount is expected to report as "Net earned premiums"? Is it the net earned premium of the most previous year?	Yes, it is the net earned premiums of the previous year.
Q1.11.16. We think there are two possible methods to calculate the "Liability duration", that is, the method including cash-out flow only and the method including both cash-out flow and cash-in flow. Which method is expected to report?	We are expecting a duration based on the cash-out flows only.
Q1.11.17. Under the "ICS Life Type Risk tab in the updated Template, the word "indemnities" has been removed from all applicable column descriptions within the morbidity/disability section. Why is the word "indemnities" removed? Does the definition of what was referred to as "medical expenses indemnities" in the FAQs and now labelled "medical expenses" in the template relate to the same types of products?	In order to avoid any ambiguity, the labelling in the template (*ICS.Life type risk* cell A63) was changed, replacing "Medical expense indemnities" with "medical expenses". There is no modification to the technical specifications and with the type of products this category covers - the definition outlined within the FAQ (Q1.11.3) continues to be correct.
Q1.11.18. Under the "ICS Life Type Risk" tab, particularly, the morbidity/disability stress section, it requests that Column 1, "Base NAV" be categorized by benefit type. Our assumption for field testing is that our assets will not be impacted by the morbidity shock so the change in the NAV is the change in the current estimate or market adjusted liabilities (post shock current estimate less base current estimate). Is there a need to have the beginning point (Column 1) be the NAV as opposed to the base or starting point being our current estimate or market adjusted liabilities? If so, how should this be accomplished when assets are not segmented by benefit payment type (i.e. medical expenses,	In terms of calculating the capital charge, it is correct to report in column C figures based only on the assets and liabilities that are sensitive to the specified shock scenarios; those should include at least the life insurance liabilities which are sensitive to the specified scenario, and corresponding reinsurance assets (other sensitive assets / liabilities, if any, should be included as well). All volunteers should apply the same methodology, namely calculating the "Base NAV" amount as the difference between relevant sensitive assets and liabilities. In cases where there would be no sensitive assets, the Base NAV would then be equal to "– sensitive liabilities". Where this methodology has not been followed by a Volunteer, due to practical difficulties or other reasons, the Volunteer should provide an explanation of the methodology used within the Questionnaire.

Question	Answer
lump sum and annuities)?	
Q1.11.19. How should downward lapse shock be applied? Should the lapse rate after shock be: a) CE lapse rate * (100% - 40%), or b) Maximum of 0% and CE lapse rate - 40% If the correct approach is a), under what circumstances would the floor at 0% (as mentioned in para 363 of the technical specs) be applied?	Approach a) should be used. The zero floor is implicitly accounted for in approach a).
Q1.11.20. In relation to lapse stresses on Variable Annuities, Q1.11.10 in the Q&A notes that "*mass lapse shock should also apply to VAs. Further lapse shocks need not be applied to the dynamic lapse functions of VA*". We want to confirm that for VAs with dynamic lapse functions, the 'level and trend component' of lapse risk post-shock NAV should equal the Base NAV? i.e. the change in NAV should be 0.	Yes, for VAs with dynamic lapse functions, the 'level and trend component' of lapse risk post-shock NAV equal the Base NAV (i.e. the change in NAV should be 0).
1.12. ICS.Market risk	
Q1.12.1. In the equity risk tabs, where should "Assets held in separate accounts" be included?	A 'look-though' approach should be applied to assets held in separate accounts, with the identified equities included within the applicable categories.
Q1.12.2. (p.133 Interest Risk Charge) In the formula for shocked interest rates, ri is the risk free rate. Does the formula apply to risk free forward rates? Or risk free discount rates (i.e. spot rates)?	The shocks describe within the technical specifications are applied to risk-free spot rates, not forward rates. The shocked rates produced by the formulas are spot rates.
1.13. ICS.Market.Interest rate and section 13.4.2.1 Interest rate risk	
Q1.13.1. Is the intent to impose a cash surrender value floor for the interest rate stress only? If so, at what level of granularity is the floor to be imposed?	The cash value limit is used in the scenario in order to capture the risk of disintermediation that may occur in a high-interest rate environment. The limit is not a cash value floor as scenario 1 may not necessarily produce a capital requirement for a policy if the assets supporting it are of short duration. Cash

Question	Answer
	values should ideally be considered on a policy-by-policy basis, but approximations may be used consistent with best efforts. If a policy's cash value is adjusted in response to market movements (e.g. market value adjustments), the adjusted cash value should be used in the interest scenarios rather than the current cash value. All cash values should be calculated net of surrender charges and other deductions that an insurer could reasonably expect to apply if the policy is surrendered. The IAIS values feedback on this approach, which volunteers should provide within the related Questionnaire.
Q1.13.2.Interest rate risk (for financial liabilities) It seems that financial liabilities are not included in "ICS.Market.Interest rate" spreadsheet. Is it okay to not include interest rate risk associated with financial liabilities such as corporate bonds issued by the IAIG?	Interest rate stresses apply to an IAIG's assets and liabilities that are related to insurance activities. Financial liabilities related to insurance activities should be included in the interest rate risk calculation if they do not qualify as a capital resource, and should not be included in the interest rate risk calculation if they do qualify as a capital resource. The revised worksheet includes an additional line in the interest rate risk tab to accommodate non-qualified financial liabilities.
Q1.13.3.Template: tab "ICS.Market.Interest rate" For the asset side, we need to fill out the following table: Columns 2-5 Discounted Cash Flows Can you confirm that we we put in the PV of asset CFs occurring in these time frames, regardless of the duration of the underlying asset? For example, in column 2, Year 0-5 under Bonds, we would would include the PV of CFs occurring in years 0 to 5 for all bonds, regardless of maturity.	Yes, each duration bucket includes the PVs of CFs occurring in that time frame regardless of maturities of underlying assets.
Q1.13.4.Template: tab "ICS.Market.Interest rate" Columns 2-5 Discounted Cash Flows:	The cash flows should be net of expected default and expense if such defaults and expenses are reflected in the market adjusted

IAIS

Question	Answer
Please confirm the asset cash flows used for this PV should be the expected cash flow net of expect default and expense. (This is similar to QIS6 definition, except under IAIS, it is on best estimate basis, hence we use unpadded default and expense assumptions).	
Q1.13.5.Template: tab "ICS.Market.Interest rate" Columns 2-5 Discounted Cash Flows Please confirm the PV should be done using IAIS discount rates, and if so, which tab of rates? (FT15.YC_DR or FT15.Aux)	If IAIS valuation principles require to revalue, the PV should be calculated using the same asset discount curves used for the market adjusted valuation or GAAP Plus valuation.
Q1.13.6.Template: tab "ICS.Market.Interest rate" Columns 2-5 Discounted Cash Flows Should the sum of columns [2] to [5] equal the MV of assets in [1]? Note that PVing at IAIS rates is different from the market implied discount rates that vary by rating, so I don't think the MV will equal the sum of PVs unless we force it too.	Ideally, the sum of columns [2] to [5] should equal to column [1]. Please note columns [1] to [5] should follow same valuation principles.
Q1.13.7.Fair values of financial instruments used for hedging Should this item be the net of off-balance sheet assets and liabilities?	This item should include the fair values of all instruments used to hedge interest rate risk (e.g. interest rate swaps) regardless of accounting treatment.
Q1.13.8.Pre-Stress Asset Value In the interest risk tabs, should the pre-stress asset value be simply the MV of assets or the PV of expected asset cash flow under IAIS base yield curve? If it's using the MV, then there will be some noise for the	The pre-stress asset values should follow IAIS valuation principles. If any assets need to be revalued, the pre-stress asset values should be the same as the market adjusted values or GAAP Plus values of the assets.

Question	Answer
difference vs the PV at IAIS base rates in the interest risk charge.	
Q1.13.9. The post stress value could be computed using company's own discount rates, with the shock applied to the risk free rates. Is this the same as using the stressed auxiliary discount rate tabs (ex. FT15.Aux.Dn) and adding company's own spread? If not, can you release the shocked IAIS risk free rates?	Post-stress asset values should be based on the specific discount rates used to calculate the market value of each asset, with the shocks applied to the risk-free component of these rates but not the asset spreads.
Q1.13.10. What actions does IAIS expect to be captured in the "Mgmt Actions"? The interest risk section says that liability cash flows should be recalculated to include change in Par dividends and UL credited rates. So if that is embedded in the liability pre Mgmt Action, what is left for the Mgmt Actions?	For the purpose of the calculation of stress-based ICS Capital Requirements, before and after management actions (relating to participating benefits, but excluding unit-linked benefits), the following approach should be followed: -For the calculation of the capital requirement before management actions, the amounts of future discretionary benefits should be kept unchanged, compared to those amounts which were considered in the calculation of the Current Estimate; -For the calculation of the capital requirement after management actions, the amounts of future discretionary benefits should be allowed to change following the materialization of the stress. In line with the definition of future discretionary benefits, provided in the response to Question 17, the scope of future discretionary benefits includes both those benefits which are at the full discretion of the IAIG as well as those which may be linked to a pre-defined rule but not guaranteed at the valuation date (the amounts are dependent on future events).
Q1.13.11. I have a question about the method of interest rate risk calculation, specifically for the treatment of "deposit floor", which is partly mentioned in Q1.13.1. We have the following situations. 1. Zero surrender value products (some of protection type life products) We have policies with zero surrender value (no	The specification in paragraph 454 does not require that the liability for a policy be increased to the surrender value under the stress scenarios. Rather, it only imposes the restriction that, if the current estimate liability for a policy is below the surrender value, then the liability may not be assumed to decrease further under the stress scenarios. Stated differently, for policies whose current estimate liability is below the surrender value, the floor that is applied under the stress scenarios is the unstressed current estimate liability, not the surrender value. Consistent with the response to question 1.13.1, commission chargebacks that an insurer could reasonably expect to collect if a policy is surrendered may be

Question	Answer
cancellation refund type products). We actually obtained negative Current Estimate of future cash flows for the product, as deposit floor does not apply to the calculation of CE. In this case, if we calculate the stressed CE, the CE will be increased from negative figure to zero (e.g. -100 of pre-stress CE to 0 of post stress CE taking into account the deposit floor of "zero". i.e. the impact of the stress is +100), while the negative CE of -100 would be increased to, for example, -95 (i.e. the impact of the stress is +5) due to the increased interest rate if the deposit floor of zero is ignored. I believe this assumption of deposit floor for interest rate up scenario is unreasonable for the following reasons. (1) Policyholder behaviors in this case would not be affected by the interest rate up scenario because they will get no refund by canceling these products. (2) Policyholders would not cancel those products in the interest rate up scenario because they did not purchase them for investment purpose. (3) Such kind of dynamic lapse risk or mass lapse risk is measured in Lapse Risk category. 2. Low surrender value products (some of protection type life products) We also have policies with very low surrender value (very low cancellation refund type products). The problem is similar to that illustrated in item 1 above. If we obtain -100 as pre-stress CE and the surrender value is 10, the impact of the interest rate up scenario will be +110, even if the post stress CE is -95.	counted as a deduction from the policy’s cash value.

Question	Answer
3. Non-life products whose pre-stress CE is lower than surrender value We also have non-life policies whose pre-stress CE is positive, but lower than surrender value. In this case if the surrender value is 100 and pre-stress CE is 90 and post-stress CE is 85, the impact of the stress is +10 instead of -5 due to the consideration of deposit floor. This situation will be amplified if agency commissions are to be included in the surrender value. Let's assume UPR is 90, commission ratio is 20% and premium refund is 100 at that point. We would pay out the 100 to the policyholder and collect 20 from the agent. If the surrender value is deemed 100, then the situation illustrated in the previous section applies. If the surrender value is deemed 80 (=100-20) taking into consideration of the payback of commission from the agent, the previous situation would not apply. 4. Double-jeopardy impact on the calculation of MOCE (cost of capital method) The amount of interest rate risk is included in the components of CC MOCE calculation. The impact of the interest rate up scenario, which appears unreasonable and very skewed to us, will be amplified by inclusion of the risk amount in MOCE (cost of capital method).	
Q1.13.12. Para 450 of the technical specifications states that where yield curves are not used but a single discount rate is used instead under GAAP+, the stress to apply to the single discount rate should	The average duration of liabilities should be computed on future outflows only.

Question	Answer
correspond to the average duration of the liabilities". Should the average duration be computed based on future net cash flows (i.e. outflows less inflows), or only future outflows?	
Q1.13.13. Should the pension plan be included in the market stresses for ICS? On the stress template tabs for equity risk and interest rate risk, the "before stress" values are pre-populated from the ICS balance sheet. In neither case is the deficit from the pension plan listed so it would appear that a stress is not being asked for. If the stress is required, where should it be input?	In principle, the effect of stresses on pension plans should be appropriately captured when calculating the ICS capital requirements. However, the IAIS acknowledges the potential high complexity introduced by such an inclusion, and therefore recommends at this stage not to include pension plans in the 2015 Field Testing calculations. In order to facilitate the future development of additional guidance / specifications with respect to pension plans, Volunteers are encouraged to provide comments within the 2015 Questionnaire on the merits, issues and additional complexities involved with including pension plans within the ICS stresses.
Q1.13.14. Paragraph 454 requires consideration of fixed cash surrender values. Is there are definition of fixed cash surrender values which should be applied? In particular, which products is this test intended to capture?	The cash surrender value for a policy is the amount that an insurer would be required to pay out to the policyholder in the event that the policyholder surrenders or lapses the policy. This amount is usually specified contractually, or else is equal to an account balance. The cash surrender value may be calculated net of any recoveries that the insurer could reasonably expect to collect in the event of lapse, such as surrender charges and commission chargebacks. The cash surrender value should be taken into account in the interest rate risk calculation for all products for which the policyholder is entitled to a cash payment in the event of lapse.
1.14. ICS.Market.Equity and section 13.4.2.2 Equity risk	
Q1.14.1. For PICC shares listed on the Hong Kong stock exchange but are really mainland China businesses, should it be treated as Developed market equity or Emerging market equity?	The market considered should be the one of the main stock exchange where the equity is listed (in terms of volume)**.** As a consequence, if PICC shares are mainly listed on the Hong Kong stock exchange, they should be treated as Developed market equities.
Q1.14.2. Could you please provide an example of the equity shock to volatility? For example, what is the new	As an example, if base implied volatility is 18%, then the implied volatility under an upward shock of 210% would be 55.8%. The volatility shocks should be applied

Question	Answer
volatility shocked upwards if base implied volatility is 18%? Can we apply the impact of the shock such that it grades off over a fairly short period (i.e. within one market cycle)?	to implied volatilities at all strike prices and durations, i.e. the shocks apply to the entire volatility surface. The revaluation of assets and liabilities under the equity scenarios should be performed using the shocked volatility surface, without assuming that any volatilities have reverted towards their base values.
Q1.14.3. Paragraph 463 of the technical specifications states "All subordinated debt and subordinated loans should be included in the segment "preference shares/hybrid debt". Consequently, they should not bear any credit risk charge". Does this include all securities that are not "senior subordination"? What subordinations would be included in this category?	For the 2015 Field Testing, all debts that are subordinated to more senior ones should be classified as "preference shares / hybrid debts". Volunteers are encouraged to provide comments on this approach within the Questionnaire. This approach may be reviewed in future exercises, if necessary.
Q1.14.4. In "ICS.Market.Equity" tab in the template, should E19 to E33 be filled based on results before or after management actions?	Cells E19 to E33 in the equity risk tab should be filled in before management actions.
1.15. ICS.Market.Real estate and section 13.4.2.3 Real estate risk	
[No questions on this section]	
1.16. ICS.Market.Currency and section 13.4.2.4 Currency risk	
Q1.16.1. Is the "net open position" inclusive of the present value of reverse dual currency exposures and net of FX forward and option hedging?	Per the second and third bullet points in paragraph 492 of the technical specifications, the net open position in a currency includes all FX forward positions, as well the delta equivalent amount of all FX option positions.
Q1.16.2. Can the changes per currency in each scenario reflect option hedging strategies?	Only positions that are on the balance sheet as of the reporting date may be taken into account – additional hedges that an insurer envisions putting in place after a currency movement should not be included. Reverse dual currency exposures should be included in the net open position at their delta equivalent amounts.
Q1.16.3. In paragraph 498, different stresses are applied to developed markets compared to all other foreign currencies. However, developed markets has not been defined in the tech spec. Should the	The technical specifications highlight that, for the purposes of currency risk, 'developed markets' refers to the list of IMF advanced economies.

Question	Answer
developed markets be assumed to be the sum of 'EEA and Switzerland', 'USA' and Canada', China, Japan and all 'Other developed' as per paragraph 311?	
Q1.16.4. In the currency risk calculation, how should management action be reflected in future discretionary benefits? Should the management action be derived based on total asset losses (including FX derivatives positions) due to depreciation of foreign currencies before or after the diversification by the 50% pairwise correlation?	The calculation of the effect of management actions should be based on losses arising from each currency movement before diversification. After management actions are taken into account, the loss in each currency will be a different amount. These post-management action loss amounts should be aggregated using a pairwise 50% correlation in order to calculate the ICS requirement after management action.
Q1.16.5. For an IAIG that has a reporting currency in one of the developed markets currencies, and has subsidiaries in developing markets, and the subsidiaries have investments in other developed markets, under Scenario 1 the net assets (assets less liabilities) of the subsidiaries will increase from the perspective of the subsidiaries (in terms of the subsidiaries' local operating currencies). This is because developing markets currencies will depreciate by 60% while developed markets currencies will depreciate only by 30%. Under such circumstance, should future discretionary benefits be increased by management actions due to increase in net assets (in a consistent manner with how future discretionary benefits are cut when net assets decrease)?	For the purposes of 2015 field testing the following answer is provided. Increased discretionary benefits that result from a relative increase in the value of a foreign currency relative to another foreign currency (even if both currencies decline relative to the reporting currency under a scenario) should be considered in calculating the effect of management actions for the scenario. This issue will be further considered as part of the data analysis process and for future field testing exercises. Volunteers are invited to provide further feedback on this and similar issues in the application of the currency risk stress scenarios.
Q1.16.6. Paragraph 498 addresses currency stress scenarios 1 and 2. Scenario 1 states that for each currency in which the volunteer IAIG has a net long position, the amount of the decrease relative to the reporting currency is either 30% or 60%. We will	The scenario shocks should be applied using multiplication rather than division, and therefore method 2 should be used to calculate the stressed values of open positions. For example, if the applicable shock is 30%, then the stressed value of a long position in Scenario 1 should be calculated by multiplying its unstressed value by 0.7 rather than dividing it by 1.3, and the stressed value of a short

Question	Answer
use 30% to illustrate the question. Does this mean that either: Method 1 - The volunteer should apply a spot rate to the foreign currency expressed as FC/RC increased by 30%? Method 2 - The volunteer should decrease the balance of the foreign currency expressed in reporting currency by 30%? which is correct?	position in Scenario 2 should be calculated by multiplying the unstressed value by 1.3 rather than dividing it by 0.7.
Q1.16.7. In the paragraph 495 of the Technical Specification isn't very clearly stated which kind of values should be provided as the "Local Capital Requirement" on the sheet "ICS.Market.Currency". In particular it is not clear: 1. For European firms, should the numbers be based on Solvency II for consistency with the baseline or should they really be current local capital requirements (i.e. Solvency I)? 2. Should the numbers here relate to currency risk capital only, or overall capital requirements across all risks?	The Local Capital Requirement reported in the tab ICS.Market.Currency should be consistent with the approach taken for the Baseline (i.e. Solvency II for European insurers). This amount should be the overall capital requirement across all risks not that just for currency risk.
Q1.16.8. We have a question in relation to how much loss absorbing capacity from management actions can be allowed for in the currency stress, and in particular if you can allow for LAC in relation to the stress on exposures not included in the "net open position". The ICS currency module requires applying increase/decrease of each foreign currency relative to	Insurers are permitted to recognize management actions that reduce the impact of a currency movement even if the recovery is made in a different currency and does not alter the stress-scenario open position. Therefore this interpretation is correct. For the purpose of aggregating results after management actions, it is the post-action losses in each currency that should be aggregated rather than the post-action changes in open positions (see also FAQ Q1.16.4).

Question	Answer
the reporting currency under two shock scenarios. The exposure to risk is represented by the net open position that is described in the technical specification in paragraph 492 as follows: “ The net open position for each currency is calculated by summing: - the net spot position, defined as all asset items less all liability items denominated in the currency under consideration, including accrued interest and accrued expenses - the net forward position, defined as all net amounts under forward foreign exchange transactions, including currency futures and the principal on currency swaps - the delta equivalent amounts of currency options, guarantees and similar instruments that are certain to be called and are likely to be irrevocable at the discretion of the volunteer - net future income and expenses not yet accrued but already fully hedged - any other item representing a profit or loss in the foreign currency” Given the Group reporting currency is EUR, the shock in foreign currency exchange rate would impact all assets and liabilities in currencies different from EUR. Let’s assume the following case: • MV assets covering insurance liabilities o 20 EUR o 80 USD • Insurance liabilities in EUR ☐ Net open position = 80 USD	

Question	Answer
In this case the LAC would result in a mitigation of the reduction in MVA (i.e. application of the stress (on the USD assets) would result in a management action that reduces the impact of that stress). Nevertheless, this would not be part of the net open position, given that liabilities are in EUR. From the technical specification it is not clear whether the calculation of such LAC is allowed or not. However, based on the guiding principles for applying management actions we assume that we should take credit for the LAC in this currency stress. Could you please confirm that our interpretation is correct?	
1.17. ICS.Market.Asset concentration and section 13.4.2.5 Asset Concentration risk	
Q1.17.1. Where two or more counterparties are owned by a sovereign wealth fund should these be considered related counterparties?	The approach to determining related counterparties should be consistent with the approach of the banking supervisor in the jurisdiction. Where deviations from the BCBS definition of related counterparties occur within a jurisdiction that fact should be recorded in the Questionnaire along with an estimate of the impact of that variation.
Q1.17.2. Should the placement of foreign municipals be in corporates? However, the field testing does not require the asset concentration risk charge to be applied to sovereign exposures?	The 2015 Field Testing does not require the asset concentration risk charge to be applied to sovereign exposures. Sovereigns are national governments. Sub-sovereign obligations (e.g. provincial/state or municipal bonds) are to be included within the worksheet, under the 'counterparty-related' row. The revised technical specifications include this clarification.
Q1.17.3. Please provide clarification if residential mortgage-backed securities (RMBS securities) issued by US government sponsored entities (GSEs) such as Federal National Mortgage Association (FNMA) should be counted towards asset concentration measure against the GSEs. In our view such assets should not be counted against GSEs when measuring asset concentration.	For 2015 field testing, only sovereign exposures (including those established through an explicit sovereign guarantee) are excluded from the scope of the asset concentration risk section. Also, paragraph 506 (c) of the technical specification requires that the 'look through' approach utilised for determining risk exposures within other modules of the ICS example standard method also be applied for the asset concentration risk section. For example, as credit risk factors are not applied to FNMA RMBS

Question	Answer
In reviewing the definitions in the technical specifications we note structured products such as RMBS should evaluated on look through basis for asset concentration risk. In our view look through in this context means evaluating the credit risk of the underlying diversified pool of homeowners and not aggregating the risk and attributing to the GSE. The GSE is not responsible for principal or interest payments on the RMBS. FNMA originates RMBS securities by collateralizing pools of conforming mortgages issued by multiple banks. The debt obligations under these securities are serviced by a diversified pool of homeowners. These homeowners have mortgages that conform to GSE underwriting standards and a single homeowner default has no correlation with GSE's credit quality. The overall credit quality of the RMBS security is not a function of the credit quality of the GSE. In our internal economic capital framework, RMBS exposures do not get aggregated to the GSEs and we are recommending a consistent approach for IAIS asset concentration risk evaluation.	securities on the basis of a 'look through' approach, exposures for purposes of the asset concentration risk changes should also not be based upon a 'look through' approach. The IAIS will consider the need for more specified criteria on the application of the 'look-through' approach, based upon feedback received from volunteers within the field testing Questionnaire, an analysis of the data, and a further consideration of the approach specified by the BCBS for the regulated banking sector. Consequently, where volunteers are concerned with the treatment of GSE issued securities within the 2015 ICS field testing, they should provide detailed information on their exposures to GSEs (especially where they are subject to an asset concentration risk charge), and highlight their points of concern within the 2015 field testing Questionnaire.
1.18. ICS.Credit risk and section 13.4.3 Credit risk	
Q1.18.1.ICS.Credit risk/ Reinsurance Exposures Is it safe to assume that the items for which we should take into account credit in ICS capital requirements due to the presence of reinsurance in accordance with paragraphs 536 and 537 are only catastrophe risk and life insurance risk as specifically mentioned in paragraph 535?	Considering the design of the standard method tested during this exercise, the only components for which explicit calculation of a credit risk charge is required for the reduction of the ICS capital requirement on account of reinsurance protection are catastrophe and life insurance risks.

Question	Answer
Q1.18.2. In paragraph 521 of the Technical Specifications the following sentence appears: “Insurers may recognize the agency and NAIC rating categories listed in the table below for the purpose of determining the ICS credit risk rating category of an externally rated issuer or obligation.” Does ‘NAIC rating’ mean ‘NAIC Designation’?	Yes, paragraph 521 should have included the term ‘NAIC Designation’ rather than ‘NAIC rating’.
Q1.18.3. Voluntary pools exist whereby amounts ceded to the pool are spread to the individual pool members for that exposure year. The proposed formula being tested would treat these cedes as going to an “unrated” reinsurer, even if many of the pool members are strongly rated. We suggest requiring coding of such voluntary pool cessions to an average rating of the pool members, with “A” as a default in the absence of more specific information. This reflects the fact that a rating of around A or higher is consistent with current industry ratings, and consistent with the rating(s) required to be a viable market participant for many segments of the insurance market.	Paragraph 530 of the technical specifications highlights that “no rating may be inferred for an unrated entity based on assets that the entity possesses”. Consequently, volunteers are asked not to infer a rating for a pool based on the ratings of the companies from which the pool has recoverables. In some cases, the allowable legal redress may support the use of ratings of the members of a voluntary pool, such as when the IAIG has direct recourse to the pool members; if there is joint and several liability from the pool members to the ceding company, it may be appropriate to use the highest rating of any of the pool members. If there is several liability from the pool members to the ceding company, it may be appropriate to use the average of the ratings. Also, note that an IAIG may be able to net its amounts recoverable from the pool against liabilities assumed from the pool if the arrangements meet the requirements for netting under paragraph 539 of the technical specifications.
Q1.18.4. In many jurisdictions, non-life insurers cede to mandatory pools (generally established to handle residual markets) which do not have credit risk, as they are backed by either a governmental entity or jointly by the voluntary market in that line/jurisdiction, yet the draft ICS formula would create a credit risk charge for such cedes. Assumptions from those pools also move up and down with the underwriting cycle, and should not trigger “growth” charges as proposed in the operational risk calculation.	Volunteers are requested not to include exposures to mandatory pools in the ‘ICS.Credit Risk’ template. Volunteers are requested to provide details and exposure amounts for mandatory insurance pools in which they participate in the questionnaire. The issue of the appropriate treatment of these mandatory insurance pools will be considered for future field testing exercises. All relevant information for that consideration is requested from volunteers.

Question	Answer
Ceded balances to a pool can result from mandatory cedes for all voluntary writers (e.g., a fund for large no-fault claims) and/or from servicing carrier arrangements for some pools (e.g., the National Workers Comp Reinsurance Pool in the U.S.), and these can be material. We suggest the ICS not apply a credit risk charge for such balances. This could be done by removing such balances and the underlying direct liabilities in the MAV and GAAP Plus balance sheets. Do not include such business in the assumed premium values for the growth charge.	
Q1.18.5. The proposed treatment of guarantees & collateral for ceded reinsurance balances follows the banking approach even though the rationale behind the banking approach is not applicable to the insurance situation. The approach used in the proposal is, where a receivable is backed by collateral or a guarantee, to determine the credit rating of the counterparty and the credit rating of the collateral or guarantee, and apply the highest credit rating of the two. This is the banking approach, which implicitly assumes that co-guarantors are most likely (or are only needed and hence created) when the credit standing of the original party is questionable, or that the default risk of the original counterparty and the collateral/guarantor are highly correlated. If instead the two items (i.e., the original counterparty's	This issue will be considered further as part of field testing analysis. All volunteers are encouraged to raise issues such as this in the questionnaire so that they can be further considered. Quantification of the effects of the issue will be important in the IAIS' consideration of the issue.

Question	Answer
default risk and the collateral/guarantor's value) are independent, then the theoretically correct answer would be to multiply the two default probabilities to obtain the combined default risk. In the insurance example, collateral is frequently obtained for the purpose of obtaining enforceability of legal judgments. The collateral generally has a default risk totally unrelated to the counterparty's default risk. This is also true for Catastrophe Bonds, where the collateral exists not because of the counterparty's default risk but due to the required structure of such transactions. The IAIS shouldreflect the fact that collateral reduces the default risk for reinsurance receivables to a negligible level.	
Q1.18.6. Please clarify what should be reported in the "ICS.Credit Risk" tab, row 113, "Central Derivatives Counterparties". Does it mean "exchange traded derivatives"?	A central counterparty (CCP) is a clearing house that interposes itself between counterparties to contracts traded in one or more financial markets, becoming the buyer to every seller and the seller to every buyer and thereby ensuring the future performance of open contracts. A CCP becomes counterparty to trades with market participants through novation, an open offer system, or another legally binding arrangement. Most derivatives exchanges meet the definition of a central counterparty.
Q1.18.7. Insurers have offsetting insurance assets and liabilities reported on the balance sheet due to the lack of the right of offset. For example, U.S non-life insurers have high deductible policies where the insurer is obligated to pays claims on behalf of the policyholder and then is reimbursed by the policyholder. The insurer also holds collateral in	Assets and liabilities for arrangements where the policyholder bears all of the risk (e.g. self-insured retentions) should not be netted in the credit risk calculation, as these arrangements do not meet the requirements for netting in paragraph 539 of the specifications. However, any collateral that the policyholder has provided may be recognized in calculating the credit risk requirements for the receivable from the policyholder, in accordance with the specifications for collateralized transactions.

Question	Answer
case the policyholder fails to reimburse the insurer. We think the IAIS should remove the asset and liability from the balance sheet prior to applying risk charges in order to reflect the lack of risk in the transaction.	This is for 2015 field testing purposes; the IAIS will review the specification guidance in light of the 2015 analysis results and consider any changes as may then be deemed appropriate for the 2016 field test exercise.
Q1.18.8. According to our understanding within the sheet ICS.Credit Risk only converted exposures are required and hence there is no allowance for management actions and related Loss Absorbing Capacity. Could you please confirm that our understanding is correct?	The effects of management actions on the credit risk requirement are not recognized because it was decided to use a factor-based approach to credit risk, which precludes such recognition. For future, the IAIS will reconsider whether the credit risk requirement should reflect the potential loss absorbing capacity of management actions.
1.19. ICS.Operational risk and section 13.4.4	
Q1.19.1. In the ICS.Operational risk worksheet, we note that the formula in cell C128 doesn't fully count all segments, i.e., it excludes the segments 16 to 20. Is this an error in the worksheet?	Yes, this is an error in the worksheet. The total economic capital for IAIG segmentation (C128) should sum all relevant (subject to a maximum of 20) segments. This error was corrected in the revised worksheet.
Q1.19.2. Is there a definition of premiums which are 'assumed' (as opposed to 'direct')?	"Assumed" premium (as opposed to "direct" premium) is defined in paragraph 581 of the technical specification. "Assumed" refers to premium written as part of a reinsurance contract with another insurance or reinsurance company not included within the group, while "direct" refers to premium written to a policyholder other than a regulated insurance company.
Q1.19.3. In "ICS.Operational risk" worksheet, gross and net earned premiums of life products are required as measures for operational risk. What is the definition of earned premiums for life products?	'Earned premiums' refers to the premiums relating to the risk covered (by insurance or reinsurance) during the 12 month period. This should cover all life risk products.
1.20. ICS.Supplementary Info.Lapse	
[No questions on this section]	
1.21. ICS.Supplementary Info.Expense	
[No questions on this section]	

Question	Answer
1.22. ICS.Balance sheet and Section 10 GAAP with Adjustments Valuation approach	
Q1.22.1. For the GAAP+ calculation, we are supposed to discount with a portfolio rate and the IAIS yield curve (in order to fill out the Reconciliation template). For interest-sensitive cash flows, should we be changing the cash flows to be consistent with the IAIS yield curve when we discount with the IAIS yield curve?	Yes.
Q1.22.2. Coupon and dividend accumulation (CADA) accounts are interest-bearing accounts into which policyholders can deposit periodic coupons payable on endowment contracts and dividends payable on participating contracts. Interest is credited to the account based on the performance of the supporting assets, possibly subject to a minimum guarantee. Policyholders may withdraw some or all of the account balance at any time without any surrender penalty. The required treatment of CADA in the ICS field testing is not clear to us. Should CADA accounts be included in the insurance liability calculation, projecting the future cash flows based on the company's best estimate assumptions and discounting using IAIS discounting yield (time value of options and guarantees also considered)? Or should we report the current CADA account balance under "other liabilities"?	For 2015 field testing purposes, amounts identified as insurance contract liabilities under the IAIG's local GAAP should be valued on a current estimate basis under the Market-Adjusted Valuation (MAV) approach. The IAIS recognises that local GAAPs may differ with respect to specific requirements for the use of deposit accounting for certain products with deposit-like features, and that the differences between a valuation based upon the application of deposit accounting versus a best estimate valuation may be significant in some cases. Consequently, the IAIS will explore the need for more specific MAV guidance in future exercises to ensure that similar products with deposit-like features across various jurisdictions are valued and treated similarly for ICS purposes. To assist the IAIS in this regard, Volunteers are encouraged to provide additional comments and information within the 2015 Questionnaire on their products with significant deposit-like features, including where possible the potential differences from applying deposit accounting versus current estimate valuation approaches.
1.23. ICS.Transfer-MOCE and Section 12.1 Cost of Capital MOCE	
Q1.23.1. According to the technical specifications, only the claims paid and associated expenses should be	For life insurance liabilities, all features impacting the cash out flows should be considered when determining the run-off pattern.

Question	Answer
considered when we determine the run-off pattern. Are the surrender outgo and maturity outgo parts of the claims paid, and therefore can be regarded as components of deciding the run-off pattern?	For the 2015 field testing, as a simplification, the projected capital requirement is discounted using the risk free rate for the relevant consolidated currency. The IAIS would value IAIG feedback on this approach. Feedback can be provided within the related 2015 Questionnaire.
Q1.23.2.ICS.Transfer MOCE Allocation of ICS Capital Requirement (Non-Life) is done in cells D30:D32. This allocation is done using the ratio of short-tail risk charge, med-tail risk charge or long-tail risk charge to the total of short, medium and long risk charges. But this allocation among short, medium and long are greatly affected by whether Cat risk charge is included or not included. The current version of the formula does not include Cat risk charge in the above-mentioned ratio. We think Cat risk charge should be included in calculation of the ratio so that the allocation of ICS Capital Requirement into short, medium and long reflects the weight of Cat risk charge. We think Cat risk charge is mostly short-tail in nature so the allocation would be more leaned toward short-tail.	We agree that the approach for the 2015 filed testing is a simplified approach. Catastrophe might include short, medium and long tail events. For instance the liability cat might be long tail. The current (simplified approach) makes the implicit assumption that the split between short, medium and long tail of the non-life risks are representative of the split for catastrophe risks. This could be revised in the future in particular alter analysis of data from field testing.
Q1.23.3.ICS.Transfer MOCE The classification among Short-tail, Med-tail and Long-tail seem to be considered taking only the characteristics of Claim Reserve into account. While, for example, we have 36-year fire insurance policies but fire insurance is classified as Short-tail which appears very skewed. It may be conceivable to prepare more granular segmentation in addition to Short, Medium and Long.	The assumption underlying the standard method aims at striking an appropriate trade-off between risk sensitivity and simplicity. The particular point raised could be considered based in particular on input from the field testing Questionnaire.

Question	Answer
Q1.23.4. Does paragraph 281 mean four risks raised in the paragraph, which includes whole interest rate risk described in section 13.4.2.1, are assumed to be the all non-hedgeable risks (covered by the minimum ICS capital required) for the purpose of calculating the MOCE? We suppose the non-hedgeable risks would become higher than the economic reality of the insurer. Is our understanding is correct?	As described in the paragraph 281 of the technical specifications, a simplification assumption adopted for the 2015 field testing is to include the four risks listed as a proxy for the non-hedgeable risks to which a volunteer IAIG is exposed. Please note that the calculation is embedded within the template and does not require any data entry. The simplification assumption will be revisited based on data collected and input received within the associated questionnaire.
Q1.23.5. Should the Transfer MOCE and Prudence MOCE be tax-effected? Currently, these are not being tax-effected but it seems that they should be in order to consistent with the treatment of the ICS risk charges, which are tax-effected. That is, the MOCE based on the cost of capital approach is based on the pre-tax non-hedgeable risks with no offset for tax. Or is the 6% CoC factor an after-tax figure?	As part of the 2015 field testing, the IAIS is investigating two alternative approaches for a consistent and comparable MOCE (cc-MOCE) to be included in the valuation of insurance liabilities. The approaches currently tested do not pre-empt the future approach to be retained for the ICS. Without pre-empting the future tax treatment of a cc-MOCE, for the 2015 field testing the calculation of the cc-MOCE should not be tax affected. This could be seen as a simplification for this field testing purposes - in particular, it allows for a greater consistency between the ICS balance sheet and the BCR balance sheet. In order to inform the future discussions on the tax treatment of cc-MOCE, Volunteers are encouraged to provide feedback and suggestions through the Questionnaire - for instance, when answering Q72 and Q76.
Q1.23.6. The MOCE calculation reduces insurance liabilities by reinsurance recoverables, but ignores reinsurance payables. Should reinsurance payables also be included in the formula and if not, what is the rationale?	The following method of reporting should be used for 2015 field testing of the ICS for modified coinsurance assumed (where the assets and the liabilities remain on the ceding company's books, and the assuming company reports assets and liabilities on a gross basis as reinsurance receivables and payables). The receivable balance should be recorded in the appropriate reinsurance recoverable row [35] and the payable amount should be recorded under the appropriate detailed insurance liability row in the BCR balance sheet and adjusted as appropriate using the ICS Liabilities Reconciliation worksheet based on the type of underlying insurance contract assumed. Volunteers should not net the reinsurance payable against the reinsurance asset amount.

Question	Answer
1.24. ICS.Prudence-MOCE and Section 12.2 Prudence MOCE	
Q1.24.1. The formula in cell B13 is "=SUM('ICS.Balance sheet'!C138)", which is Gross UEP. And the formula in cell B15 is "=SUM('ICS.Balance sheet'!J130)", which is Net Current Estimate. Is the reference to "Gross" UEP in cell B13 correct while the reference to Current Estimate in cell B15 is to Net figure?	The cell for UEP in the ICS.Balance sheet should be filled with the net UEP. The corresponding label has been highlighted for correction with the recently posted errata sheet and patching tool.
Q1.24.2. The guidance in the "Technical Specifications" says to subtract DAC and CE from the UEP (Unearned Premium) to arrive at the MOCE. This won't recreate the expected profit from the policy unless CE is expanded to include underwriting expenses (excluding DAC-type expenses) in addition to expected losses. We recommend that CE be redefined for this calculation, or add an additional term, to include non-DAC (or DAC-able) underwriting expenses including overhead.	On paragraph 84 of the technical specifications, the cash flows included in current estimates should include direct and indirect expenses. Overhead is given as one example of these expenses. This implies that the current estimate for UEP should already include this non-DAC portion of underwriting expenses. As a result, there is no need to redefine CE. We recognize that the phrasing used for CE in the P-MOCE section may be a bit confusing ('CE of losses'), and so we will correct that in future. For the 2015 field testing, as expenses should already be included within CE, adding an additional term to the P-MOCE formula for these expenses would lead to double counting, and so should not be done.
1.25. ICS.Capital resources and sections 7.1.2, 7.2, 7.3.1, 7.4.1 and 7.4.2	
Q1.25.1. (Para 179) The deduction for encumbered assets appears unchanged from the BCR testing. We thought it was being revised based on the BCR feedback received? We understood that several components were to be excluded from the deduction: initial margin, real estate related, and regulatory requirements in foreign jurisdictions. It would be useful for future discussions if the IAIS collected this information in the template, or	A decision has not been made on excluding specific items from the deduction for encumbered assets. Information will be collected in the related questionnaire to aid the future assessment of the scope of this deduction.

Question	Answer
questionnaire.	
Q1.25.2. Per Q1.4.12, we made DTL adjustments on BCR Capital Resources in Row [47] and [81]. However, we are unable to make similar adjustments on MAV Capital Resources for ICS since the deferred tax numbers in ICS.Balance sheet directly refer to those in BCR.Balance sheet. Given that cc-MOCE is no longer considered to be capital resources, the associated DTL adjustment should also be reflected in the ICS capital resources.	As mentioned in FAQ 1.23.5, for the 2015 field testing the calculation of the cc-MOCE should not be tax affected. The IAIS encourages volunteers to provide suggestions and rational on how best to address the issues raised by this approach when answering Q72 and Q76 of the Questionnaire.
1.26. ICS.Liabilities reconciliation and section 11 Reconciliation from reported GAAP to GAAP Plus and to Market-Adjusted	
Q1.26.1. If no DAC is explicitly recognized in a jurisdictional GAAP what value do you assign to column 18?	The answer is zero.
Q1.26.2. For the ICS liabilities reconciliation, what should we do with multiple liabilities in multiple countries where that is aggregated according to the jurisdictional GAAP of the home jurisdiction?	For the "GAAP Reported" amounts in column 1, amounts should be reported as they are in the volunteer IAIG's general purpose audited GAAP balance sheet, which under IFRS, for example, could be an aggregation of amounts under different local jurisdictional GAAPs. In the GAAP with Adjustments columns 6 and 8, the reported amounts should be based on the jurisdictional examples as per the specifications, For volunteer IAIGs that report under other jurisdictional GAAPs the following procedures should be applied: • Review the GAAP Plus Guidelines – Section 10.1 of the Technical Specifications; • Determine whether any of the GAAP Plus examples provided could be adapted; • Consult with supervisor representing the jurisdiction on the IAIS on proposed adjustments For example, a volunteer IAIG that writes business in the United States, the

Question	Answer
	United Kingdom, Germany and France may in Column 1 report an amount that is an aggregation of four different jurisdictional GAAPs. However, using the examples provided in the specifications for US GAAP and European IFRS (EU GAAP), in columns 6 and 8 the amounts reported would be an aggregation of amounts determined under those two methodologies. Please disclose the composition of material aggregated GAAP liability balances – see Q53 in the Questionnaire.
Q1.26.3. Relating to GAAP+ in the context of a European volunteer: For the GAAP+ bases, please confirm whether when using Solvency II as a basis for GAAP+ it is acceptable to include subsidiaries domiciled in equivalent countries as single line items? (e.g. the US operations would not be fully consolidated into the GAAP+ balance sheet, but appear with the US regulatory value for own funds as a one-line item only). We understand that for ICS and BCR balance sheet the Technical Specifications require to fully consolidate subsidiaries (including those domiciled in countries which are equivalent under Solvency II) into the balance sheet.	As stated, for ICS and BCR balance sheet the Technical Specifications require to fully consolidate subsidiaries (including those domiciled in countries which are equivalent under Solvency II) into the balance sheet. If immaterial, the proposed approach may be acceptable. Note that paragraph 40 of the Technical Specifications allows for deviations from the basic Consolidation approach, subject to disclosure of the impacts where material – such matters should first be discussed with your Supervisory Authority.
Q1.26.4. With respect to the GAAP+ basis, Para 218 states that "Insurance assets and liabilities should be treated consistently such that non-economic volatility is minimised. This may require some alignment between valuation of certain liabilities and assets." For an IAIG that has liabilities valued using a single discount rate and assets valued on a fair value basis under GAAP, it may make sense to adopt the IAIS discount rates in GAAP+ so that when it comes to	The 2015 field testing exercise has been designed to evaluate GAAP+ using the curve or rate as specified under jurisdictional GAAP standards. One aim of field testing is to evaluate if this produces certain inconsistencies in risk charges or non-economic volatility and, if so, to address any changes to the GAAP+ valuation methodology in future field test exercises.

Question	Answer
interest rate shocks, both assets and liabilities can be subject to the entire curve of interest rate shocks. Otherwise, the assets will be subject to full curve movements while the liabilities will only be based on one single point in the curve selected using the average duration of the liabilities. Should the IAIG be given the choice in this field testing to decide whether the IAIG's base GAAP+ valuation should be GAAP+ with GAAP discount rate, or GAAP+ with IAIS discount rates?	
1.27. ICS.Non life.G+	
[No questions received]	
1.28. ICS.Mortality.G+	
[No questions received]	
1.29. ICS.Market.Interest rate.G+	
[No questions received]	
1.30. ICS.Market.Equity.G+	
[No questions received]	
1.31. FT15.Sovereign and Section 14 Supplementary Data Collection	
Q1.31.1.FT15.Sovereign, paragraph 617 of the technical specifications states that “the net insurance liability reported for each currency should consist of gross insurance liabilities net of any reinsurance assets, plus all deferred tax assets and liabilities associated with the insurance liabilities and reinsurance assets.”	The supplementary data is being requested for analysis purposes, it does not impact the calculation of the ICS. To reduce reporting burden, Volunteers are asked to report net insurance liabilities for each currency on the same basis as requested within the currency risk section. Sovereign exposure data should be provided without consideration of any tax effects. The analysis of this supplementary data will appropriately take into consideration the reporting bases.

Question	Answer
Could you let us know the rationale of the requirement regarding deferred taxes. In particular including deferred taxes in insurance liabilities while leaving out for sovereign exposures appears as creating potential inconsistencies. On a best effort basis, the deferred tax information is not available at group level within the timeframe.	
2. Yield Curves Spreadsheet	
Q2.1.1. IAIS uses the term yield curve loosely so we want to know in what form they have provided the curves (spot, forward, or yield) and whether they are annual, semi-annual or continuous compounding?	The IAIS developed a technical document on the construction of the IAIS discount curves . The document was developed with specific consideration of the various questions received from IAIGs on the IAIS discount curves, including this question. For any questions relating to the IAIS discount curves, please first consult the technical document. If it does not adequately address your question, please send your specific question to the IAIS or consult with your Supervisory Authority.
Q2.1.2. The adjustment on the IAIS yield curve: According to the 2015 Technical Specifications, the adjustment for small bond markets is 50 bps. However, when we use the file, "FT_2015_YieldCurves-_Pricing_Parameters", we found that the 50 bps is the spread10 and the adjustment follows adjustment for currency/jurisdiction identity*. As a result, the adjustment in the tenth year is 20 bps (= 50 bps X 40%). Could you explain about it? [*adjustment for currency/jurisdiction identity=min(r_t×Spread_10 ×40%/r_10 ,Spread_10)]	This understanding of the application of the 50bps adjustment for small bond markets is correct in the question – at the 10 year point 40% of the 50bps adjustment is included. Feedback on this approach should be provided in the questionnaire.
3. Annexes to the Technical Specifications	
Q3.1.1. In Annex 3 of the Technical Specifications, is the	Yes.

Question		Answer
	product segmentation the same as was specified in 2014 for the BCR?	

4. Annex 1: PCR calibration considerations across various jurisdictions

For Volunteer IAIGs: if a specific jurisdiction is not listed within this Annex, and you are uncertain as to what is expected, please consult with your Supervisory Authority.

Jurisdiction	Information provided
Australia	APRA's "Prudential Capital Requirement", as set out in prudential standards is the legal entity "MCR" under the ICPs. Groups also have to hold the "Prudential Capital Requirement" as set out in the prudential standards, again an MCR. The IAIS PCR is target capital as set by the insurer/group in accordance with APRA requirements. Effectively, this would be "Target capital under ICAAP". PCR is not a set multiple of MCR.
Bermuda	The Legal Entity PCR in Bermuda for medium and large commercial insurers is called "Enhanced Capital Requirement" (ECR) and is calibrated to TailVaR at 99% confidence level over a one year time horizon.
Europe	Provided within Technical Specifications.
Hong Kong	For Hong Kong, under the current rule-based capital regime, if applied similar to the concept of PCR of the IAIS field testing exercise, the regime's PCR would be 150% of MCR for life insurers and 200% of MCR for non-life insurers.
Japan	Japan's solvency margin ratio: - PCR: solvency margin ratio is 200%. - MCR is 100%, but based on practice, MCR is the same as PCR, i.e., 200%. The PCR and MCR above are applied to both standalone and consolidated basis. The target criteria for the calculation of required capital is mixed, and it ranges from VaR 95% to VaR 99.5%. The figure of 200% is set for required capital.
Singapore	Regarding Early Warning CAR (Equivalent of PCR) for Singapore under the current regime, the regime's PCR would be 120% of MCR for all registered insurers. In practice, insurers are expected to have capital management plans in place and hold a target CAR of more than 120%.
Taiwan	We do not impose a group PCR, and the capital requirement system for insurers (incl. Life, P&C, and Reinsurer) in Taiwan is named "Risk-based Capital (RBC) System". The PCR level is set at 200% of RBC ratio, where RBC ratio = capital resources / risk-based capital requirement (based on a factor-approach).
United States	Provided within Technical Specifications.