4 Scope of Group: Perimeter of the ICS Calculation

Q7 Section 4 Are there any practical difficulties foreseen (such as the identification of the Head of the IAIG) in calculating the ICS capital ratio on the basis of the consolidated balance sheet of the Head of the IAIG that should be addressed in the design of the ICS? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
CLHIA	Canada	No	Yes	We encourage the GWS to particularly emphasize the “proportionality” principle during the monitoring period. As such, consolidation of entities should be limited to those with a meaningful impact on the ICS ratio.
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	
Insurance Europe	Europe	No	Yes	It is unclear what definition of materiality is to be used in order to exclude an entity (first bullet point paragraph 79). If entities are excluded, paragraph 80 states that the value of equity and debt should be excluded from the capital resources. This raises some additional questions: - On what valuation basis should the equity be deducted (GAAP or MAV)? - In para 80, debt is also to be deducted. This can only be done if that debt is actually part of the equity of the group. Otherwise there will be a mismatch because equity is already deducted.

				By requiring a deduction, the "costs" will outweigh the "benefits", IAIGs will have to manually change their consolidation systems in order to apply the deduction.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	
Global Federation of Insurance Associations	Global	No	Yes	This issue is more problematic for larger, complex and diverse enterprises. Not all insurers within a broad corporate group would necessarily be managed as a single insurance subgroup. There may be two or more insurance entities or subgroups that operate autonomously with their own line management, capital, governance, etc. The notion in ICP 23 to look high enough in the overall group to where a single entity controls all insurance operations can then result in also capturing many diverse non-insurance, non-financial businesses. Many of these pose little if any risk to insurers in the group, and supervisors would be remiss to rely upon them as potential sources of capital on a gone concern, much less a going concern, basis. GFIA supports the exclusion of companies that are immaterial to the group from the scope of the IAIG. The more complex and diverse a firm is, the more supervisory judgment and room for supervisory discretion is needed. In some cases, it may make more sense to say that a broader conglomerate is viewed as comprising 2 or 3 separate insurance groups, rather than to force an outcome of only one group, with the result being that the Head of the IAIG is the ultimate parent and many unrelated (non-insurance, non-financial) businesses are also included.
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	We find no difficulties to identify Head of Group since the structure of large-scale insurance companies in Japan is relatively simple. Measuring risk amount to identify immaterial entities could be a burden in practice while related entities deemed immaterial that they do not contribute to total group risk. To avoid unnecessary burden on IAIG, GWS should appropriately judge the immateriality by external criteria (such as the total amount of assets, premium received, etc.) and risk indicator which is internally used in IAIG.

General Insurance Association of Japan	Japan	No	No	
The Life Insurance Association of Japan	Japan	No	Yes	• Given that the structures of Japanese large scale insurers are relatively simple, there will be no difficulties foreseen in identifying the Head of Group. • This CD requires insurers to use the risk-based approach in identifying immaterial entities, but the LIAJ concerns that the practical burden imposed on insurers would be significant, if they are required to calculate the ICS risk arising from those immaterial entities for confirmation. Therefore, in identifying immaterial entities, the LIAJ would like the GWS to judge properly without excessive burden on IAIGs, by utilising the external criteria, such as asset size and premium income, and IAIG´s internal assessment which judges whether the entity is material or not from the view point of IAIG's risk management.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	Non-insurance financial entities that are not subject to other financial sector capital requirements and non-financial entities that are included in consolidation are not clear how to calculate capital requirements for those entities. ICS needs to clarify whether IAIG calculates capital requirements following ICS or not calculates capital requirements for them.
Aegon NV	The Netherlands	No	Yes	If the ICS is a supplementary standard (which we do not support), the consolidation scope should be aligned with scope of other frameworks (IFRS and SII in particular) in order to avoid unnecessary incremental costs.
Legal & General	UK	No	No	We do not foresee any practical difficulties.
National Association of Mutual Insurance Companies	United States	No	Yes	Yes, there are difficulties in requiring group capital calculation on a consolidated basis. NAMIC members were pleased to see the acceptance of an aggregated balance sheet for IAIGs that do not report on a consolidated basis. Without being a field-tester it is difficult to understand how this may be applied. Since the majority of mutual insurers in the U.S. do not file financial reports on a consolidated basis this is an important alternative that should be part of the specific language of the ICS,

				not just included in footnote 10 with details only found in the field testing specifications. Regardless of the language, consistency demands that changes be made in other parts of Section 4 to reference footnote 10 or refer to the aggregation approach as follows: 1. Para 81: If this aggregation option is allowed for the full balance sheet under footnote 10 shouldn't footnote 10 be referenced in line 2 of paragraph 81 "consolidated or aggregated basis, after excluding investments. . . " 2. Para 82: a. Amend line 2-3 as follows: ". . . unless an exclusion from consolidation is allowed under paragraph 79 or footnote 10:" b. Amend Para 82(a), "all insurance entities. . . should be fully consolidated, or aggregated subject to footnote 10." 3. Para 165. Amend to ensure that companies creating an aggregated balance sheet are allowed to use the aggregated amounts of qualifying capital resources as well. NAMIC suggests a revision to that paragraph as follows: "Qualifying capital resources are determined on a consolidated or aggregated basis as set forth in footnote 10 for all financial activities . . ." NAMIC suggests that in a jurisdiction such as the U.S. that an aggregated approach is in fact the only consistent reporting methodology since that is the approach available from all insurers under a statutory accounting financial reporting mechanism. Since mutual property/casualty insurers account for more than 50% of the property/casualty premium in the U.S. it only makes sense to allow for a jurisdictional level aggregation alternative, so that the combination, either by consolidation or aggregation, is consistent. Without full understanding of how this approach is intended, it is challenging to be sure if this is an approach that could be successful, but it may be worth further discussion.

RAA	United States and many other jurisdicitons	No	No	We recognize that for complex and diverse IAIGs, a quantum of supervisory judgment will be required to determine the scope of the group for the ICS. The overarching guidance in this area is sufficient, given the unavoidability of the use of supervisory judgment in this area. This is one of many areas where the need for feedback and analysis during the monitoring period will be necessary.
Prudential Financial, Inc.	United States of America	No	No	
Liberty Mutual Insurance Group	USA	No	Yes	Calculating the ICS capital ratio will require IAIGs to develop entirely new balance sheets. This is not feasible without incurring significant costs.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	Yes. This issue is more problematic for larger, complex and diverse enterprises. Not all insurers within a broad corporate group would necessarily be managed as a single insurance subgroup. There may be two or more insurance entities or subgroups that operate autonomously with their own line management, capital, governance, etc. The notion in ICP 23 to look high enough in the overall group to where a single entity controls all insurance operations can then result in also capturing many diverse non-insurance, non-financial businesses. Many of those pose little if any risk to insurers in the group, and supervisors would be remiss to rely upon them as potential sources of capital on a gone concern, much less a going concern, basis. The more complex and diverse a firm is, the more supervisory judgment and room for supervisory discretion is needed. In some cases, it may make more sense to say that a broader conglomerate is viewed as comprising 2 or 3 separate insurance groups, rather than to force an outcome of only one group with the result being that the Head of the IAIG is the ultimate parent and many unrelated (non-insurance, non-financial) businesses are also included. The most significant concern is not that the ICS capital ratio cannot be calculated on the basis of the consolidated balance sheet of the Head of the IAIG, rather that the result could be irrelevant. Aside from some of the challenges with some groups as described in the preceding paragraphs, the ICS is premised on a flawed

				underlying implicit assumption: that all capital is fungible across the group. Experience has shown that is simply untrue, especially in times of stress, and especially across jurisdictions. In paragraph 203 of the CD, the IAIS notes that a "holistic approach to the fungibility of capital within the ICS" will be explored at some undefined later date. While that is an interesting new development, stakeholders will want to know before ICS V.2.0 is put up for adoption as to how such a holistic approach to fungibility would impact the ICS. In other words, we understand that much work remains, but we want to make sure we understand the direction of travel and the impact on the ICS results across firms.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	No	No.

Q8 Section 4 With reference to the types of entities described in paragraph 82b, is full consolidation an appropriate approach to capture insurance and financial risks for ICS Version 2.0?

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	

Global Federation of Insurance Associations	Global	No	Yes	Paragraph 82 requires that SPVs "over which the Head of the IAIG has a dominant or significant influence should be fully consolidated". If an IAIG is compliant with GAAP or IFRS as a robust accounting framework and subject to robust enforcement by supervisors (either insurance supervisors or securities regulators) in all respects for SPVs, it should be able to report an ICS balance sheet on the same basis in that respect.
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	We agree with the proposed approach in condition that paragraph 79 takes priority over paragraph 82b and immaterial entities are excluded.
General Insurance Association of Japan	Japan	No	No	With regard to special purpose vehicles, consolidation approach for accounting and ICS purposes should be aligned to eliminate excessive burden on insurers.
The Life Insurance Association of Japan	Japan	No	Yes	• The LIAJ will support this if the priority is given to the description in paragraph 79 and immaterial entities are excluded.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	For special-purpose vehicles (SPVs) over which the Head of the IAIG only has a significant influence, full consolidation might not be appropriate because the IAIG does not have enough information. Applying a look-through approach would make it possible to assess full risks of certain kinds of SPVs proportionally.
Legal & General	UK	No	Yes	We are supportive of the general principle of full consolidation, although care will need to be taken in setting the harmonised valuation basis that issues are not created around a level playing field between IAIGs and non-IAIGs.
National Association of Mutual Insurance Companies	United States	No	No	Answer : See response to Q7.
RAA	United States and many other jurisdicitons	No	Yes	

Prudential Financial, Inc.	United States of America	No	Yes	
Liberty Mutual Insurance Group	USA	No	No	The aggregation approaches being developed by the NAIC and the U.S. Federal Reserve Board are better approaches than the ICS's consolidation approach. They are simpler to develop and considerably less expensive to administer than the form of ICS the IAIS is developing. Furthermore, they will provide sufficient information for supervisors to reasonably evaluate the sufficiency of a group's capital, without the one-size-fits-all approach reflected in the ICS.
Property Casualty Insurers Association of America (PCI)	USA	No	No	No. Paragraph 82 would require that SPVs "over which the Head of the IAIG has a dominant or significant influence should be fully consolidated." Given the amount of work devoted to this topic by the U.S. Financial Accounting Standards Board as well as the Securities and Exchange Commission in recent years to avoid abuses through off-balance sheet SPVs, we don't see how a simple "consolidate all" outcome is a better answer than what is now provided in U.S. GAAP. In other words, U.S. filers are already subject to robust accounting rules and subject to stringent enforcement measures. if an IAIG is compliant with U.S. GAAP (or IFRS) as a robust accounting framework and subject to robust enforcement by supervisors (either insurance supervisors or securities regulators) in all respects for SPVs, it should have a safe harbor and be able to report an ICS balance sheet on the same basis in that respect.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes.

Q9 Section 4 With reference to the types of entities described in paragraph 82c, is a line-by-line proportional consolidation an appropriate approach to capture insurance and financial risks for ICS Version 2.0?

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	
Insurance Europe	Europe	No	No	The approach should be more consistent with the manner in which consolidation is built: - For those entities where the ultimate parent has a capital interest of more than 20% but less than 50% and no control is exercised, a proportional approach is not appropriate for the balance sheet. There are other shareholders who have control and would include these entities on their balance sheet. - For those entities where the ultimate parent has a capital interest of more than 50% and control is exercised a full consolidation with the recognition of a minority interest is appropriate.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	
Global Federation of Insurance Associations	Global	No	No	GFIA has concerns about the notion expressed in Paragraph 79c that would require proportional consolidation of non-majority owned insurance and financial entities. It is not clear that a "look-through" approach to individual risks on the balance sheets of such investees provides a better or more relevant outcome for the ICS, and seems to invite more complexity while implying a degree of precision that does not exist.

Dai-ichi Life Holdings, Inc.	Japan	No	Yes	We expect that gaining all necessary data from the entities described in 83c for calculating ICS ratio would be difficult because parent company have little control over related insurance and financial entity that is not excluded by the set paragraph 79. Regarding “line-by-line proportional method”, which is alternatively proposed, the amount on balance sheet would fail to reflect risks (especially insurance risk and interest rate risk). Therefore, related companies could only be recognized as equity risk.
General Insurance Association of Japan	Japan	No	No	While proportional consolidation is a way to capture risks, consolidation approach for accounting and ICS purposes should be aligned to eliminate excessive burden on insurers.
The Life Insurance Association of Japan	Japan	No	Yes	• As for the treatment of related insurance and financial entities deemed material and that are not excluded by paragraph 79, it will be likely difficult to collect all the data needed for calculating ICS ratios as IAIGs have limited control power over them. Although the line-by-line proportional approach is proposed as the alternative method, account balances do not appear to reflect the amount of risks, particularly for insurance risks and Interest Rate risk. Therefore, there will be no other way than recognising the associated companies’ risk as equity risk.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	With regard to paragraph 81, the ICS component from other financial entities is calculated according to the sectoral requirement. Similarly, the ICS component for insurance entities over which the IAIG only has a significant influence can also be captured by adopting methods described in paragraph 81. Proportional consolidation approach would not be appropriate or practical in accounting standards.
Legal & General	UK	No	No	We believe that proportional consolidation on a line by line basis would be overly burdensome.
National Association of Mutual Insurance Companies	United States	No	No	NAMIC is a trade association and not a field tester for the ICS. Without more information on how this approach compares for the field testing volunteers it is difficult to support this approach.

RAA	United States and many other jurisdicitons	No	No	We do not believe that proportional consolidation of non-majority owned insurance and financial entities is a practical approach. It is not clear that it provides a better or more relevant outcome and will involve significant complexity while at the same time, implying a degree of precision that does not exist.
Prudential Financial, Inc.	United States of America	No	Yes	While a line-by-line approach would be preferred, the timing and availability of granular data needed to accomplish this could prove challenging as financial data from such entities may not be readily available to the group or could be costly and burdensome to obtain (e.g., may be managed and processed by third parties).
Liberty Mutual Insurance Group	USA	No	No	This will be time consuming and expensive to do and so it is not reasonable to expect IAIGs will do it voluntarily.
Property Casualty Insurers Association of America (PCI)	USA	No	No	No. We have concerns about the notion expressed in paragraph 79c that would require proportional consolidation of non-majority owned insurance and financial entities. It is not apparent to us that a “look-through” approach to individual risks on the balance sheets of such investees provides a better or more relevant outcome for the ICS. Moreover, it seems to invite more complexity while implying a degree of precision that simply does not exist.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	Yes.

End of Section 4