7.13 Non-Default Spread risk

Q110 Section 7.13 Is the definition of Non-Default Spread risk appropriate for ICS Version 2.0? If "no", please provide rationale and details.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Canadian Institute of Actuaries	Canada	No	No	The impact of changes in spreads that are not as a result of default materializes only in the event that the entity is required to sell assets in the stressed spread environment. Since changes in non-default spreads are temporary in nature, the NDRS is in fact a liquidity risk that should be assessed elsewhere in ComFrame and not in ICS.
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	As a general comment, Insurance Europe does not support the calibration of the capital requirements for bonds and loans based on measuring exposure to spreads. However, it does appreciate that, in the IAIS proposal, the capital charge for non-default spread risk recognises the changes in both the value of the assets and the value of the liabilities (due to increases in the adjustment to the risk-free rates used to discount the liabilities).
Allianz	Germany	No	No	The calibration of credit default, migration and spread risks should be considered together and consistently with the underlying valuation approach. There is a highly conservative calibration of credit default risk which is combined with a suitable application ratio for spread risk, leading

				to a reasonably conservative total requirement. However, given the lack of a consistent methodology there is a high risk of overlaps and double-counting of risks in combined credit risk charges.
German Insurance Association	Germany	No	Yes	We appreciate the dynamic spread adjustment for the liabilities.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	NDS risk is a risk caused by changes of spreads other than default possibilities, so expected cash flow of owned assets does not change when viewed on a going concern basis (buy and hold basis). Therefore, NDS risk is not a risk based on going concern, and it is unnecessary to be considered in ICS.
General Insurance Association of Japan	Japan	No	Yes	
The Life Insurance Association of Japan	Japan	No	No	• On a going concern basis, changes in spread risk do not lead to change in cash flows earned from holding assets. Therefore, the LIAJ believes that insurers need not consider Non-Default Spread risk in ICS calculation. • In the case of the MAV approach, Non-Default Spread risk will not be considered as material because changes in asset and liability will be largely offset. Based on the results of 2018 Field Testing, if it deemed immaterial, the LIAJ suggests that the implementation of the Non-Default Spread risk be cancelled in order to avoid complexity.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	

American Council of Life Insurers	Office of General Counsel	No	No	The NDSR has an unclear purpose. Credit and migration risk are already fully captured within the existing ICS credit risk methodology (since, in its design, it is based on a Basel credit risk formula that reflects migration risk through an explicit maturity adjustment) and attract significant amounts of regulatory capital.
Aegon NV	The Netherlands	No	No	As stated in the CD, credit risk appears to capture most non-default spread risk, so we do not see a need to introduce a separate risk charge for this. In addition, for long term business in a going concern situation, default risk is the most significant risk related to credits.
Legal & General	UK	No	Yes	We believe that this definition is appropriate
AIG	United States	No	No	As defined in the 2018 ICS Technical Specifications, non-default spread risk is intended to capture "unexpected changes in the level or volatility of spreads over the risk-free interest rate term structure, excluding the default component". We believe this may already be captured in the credit risk charge since credit risk factors are calibrated to address all dimensions of credit risk including default, recovery, and migration risk. As noted in the 2018 ICS Technical Specifications, ICS credit risk charges are derived from the Basel IRB model (page 240): “These stress factors were developed using the Basel single risk factor IRB model of default risk, combined with the model for credit deterioration risk presented in the 2002 paper “The Distribution of Loan Portfolio Value” by O. A. Vasicek.“). As such, the Basel IRB model includes a maturity adjustment which “can be interpreted as anticipations of additional capital requirements due to downgrades...Economically, maturity adjustments may also be explained as a consequence of mark-to-market (MtM) valuation of credits…The maturity effect would relate to potential down-grades and loss of market value of loans..” (source: https://www.bis.org/bcbs/irbriskweight.pdf) Additionally, volatility in credit spreads should not impact an insurer’s capital, if the insurer adheres to prudent ALM and liquidity management. In a volatile credit spread scenario, the movements in spread are “noise” that ultimately do not impact the insurer’s financial performance on a fundamental cash flow basis.
National Association of Mutual Insurance Companies	United States	No	No	

American Academy of Actuaries	United States of America	No	No	A change in spreads over the risk-free yield curve does not affect solvency (i.e., is not a solvency risk), unless a liquidity deficiency requires the sale of a spread-affected asset before its maturity (i.e., Liquidity risk). Hence any measurement of Spread risk beyond default risk (which is already captured in Credit Risk) that does not reflect liquidity demands is a measure of accounting noise and not solvency risk. In our response to Q118, we outline our rationale for excluding Liquidity risk from the Non-Default Spread risk. Assuming the Non-Default Spread risk excludes default risk and Liquidity risk, it is not apparent to us exactly what this risk charge is supposed to capture beyond the accounting noise in ICS' valuation construct. The IAIS should consider if there is a specific risk scenario involving spreads that could jeopardize solvency that is not tied to liquidity issues or risks captured in other components of the ICS (e.g., Credit risk, Interest Rate risk). Barring any such risk scenario, it would not make sense to include an explicit risk charge for Non-Default Spread risk. Note that if a liquidity deficiency does arise, then an insurer is more likely to sell those assets that are held for liquidity purposes (e.g., government securities) than those assets that are expected to be held till maturity. Therefore the risk that a liquidity deficiency will require sale of a spread-affected asset may be remote for some IAIGs.
Prudential Financial, Inc.	United States of America	No	Yes	We believe that IAIS defines non-default Spread Risk (NDSR) as "the risk of adverse change in the value of capital resources due to unexpected changes in the level or volatility of spreads over risk-free yield curve, excluding the default component". However, we believe NDSR, as defined above, is represents "valuation noise" resulting from the market-based valuation of assets and liabilities within the MAV framework and does not pose a meaningful risk to an insurer as further explained in our response to question 111.
MetLife, Inc	USA	No	No	Please see our response to Q 121 below.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to

				do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	No	The NDSR is inappropriate. It purports to address certain risk elements which appear to be either outside the frame of reference such as liquidity risk, or already addressed elsewhere. Liquidity risk has specifically been excluded from the ICS (see our response to question 118). Other components of NDSR appear to be already included in credit risk and interest rate risk. NDSR proponents believe that there will be non-default spread risk if assets and liabilities are perfectly matched; however, preliminary computations may show that this is not so and thus not support the underlying reasoning of the NDSR.

Q111 Section 7.13 Is the current approach selected to capture Non-Default Spread risk appropriate (the third option, as defined above) for ICS Version 2.0? If "no", please provide details supporting another option.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	No	No	OSFI supports the first option, on the basis that all non-economic risks should be outside the scope of the solvency regime. Lacking a rational economic basis, it is difficult to measure and model non-economic risks at a prescribed confidence level. Additionally, charging capital for non-economic losses assumes implicitly that an insurer will be subject to immediate liquidation, which is not appropriate. One particular non-economic risk, liquidity risk, is specifically excluded from the scope of the ICS.
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	Insurance Europe believes the risks associated with investing in spread sensitive assets are sufficiently captured in the credit risk module and does not require a non-default spread risk module which goes against the long-term, going concern life insurance model where assets are generally held to maturity. As noted above, Insurance Europe welcomes the inclusion of a dynamic spread adjustment to the liabilities. The NDSR submodule must permit the use of internal ratings as external ratings may not be available for large portions of assets in certain jurisdictions (see Q 121).
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	
Global Federation of Insurance Associations	Global	No	Yes	
Dai-ichi Life Holdings, Inc.	Japan	No	No	NDS risk is a risk caused by changes of spreads other than default possibilities, so expected cash flow of owned assets does not change when viewed on a going concern basis (buy and hold basis). Therefore, NDS risk is not a risk based on going concern, and it is unnecessary to be considered in ICS.
General Insurance Association of Japan	Japan	No	Yes	
The Life Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	The first option is more appropriate than the third option. It is hard to distinguish non-default spread from liquidity spread.

American Council of Life Insurers	Office of General Counsel	No	No	As we noted in our answer to Question 110, credit and migration risk are already fully captured within the existing ICS credit risk methodology (since, in its design, it is based on a Basel credit risk formula that reflects migration risk through an explicit maturity adjustment) and attract significant amounts of regulatory capital. ACLI believes standards within ComFrame (e.g., those addressing ALM, risk management, etc.) already, and perhaps better and more directly, address concerns with the risk of losses due to forced asset sales, which is what we believe the NDSR shock is targeting.. For a liability portfolio backed by robust ALM, the potential volatility in credit spreads (beyond fundamental credit risks which are already well addressed elsewhere in the ICS) should be viewed as temporary “noise” rather than as a potential loss for which an additional capital buffer should be required. Analysis performed by our members shows that even if an IAIG’s liability is perfectly cash-flow matched the NDSR shock results in an inappropriately high charge for the following reasons: First, to be spread-matched in the ICS, a group must hold the reference portfolio. However, no IAIG can do that, because the reference portfolio is a blend across property-casualty and life companies. Since no group is an industry-matching blend of the two, no group uses the prescribed industry weighting. Second, to be financially stronger, firms seek to find assets with better risk-adjusted returns, and NDSR is designed to be a penalty for doing this. Finally, even if (1) above is corrected, e.g., by creating separate property-casualty and life insurance benchmarks, the NDSR will still be especially designed to penalize life insurers with long-tail liabilities and fixed-income markets with more positively sloped spread curves, because the NDSR penalty is a function of the risk-adjusted spreads, which is higher for long duration assets and in economies with more positively sloped spread curves (facing better growth prospects). (Note that economies with declining populations, such as Japan and Western/Southern Europe tend to reflect very different economic growth prospects than North American and developing markets.)

Legal & General	UK	No	No	On balance, we would prefer the second option from the list (re-introduce Spread risk in full as part of Market risks in the ICS, modifying the specification of Credit risk to avoid any overlap) to retain consistency with the construction of the Solvency II required capital and to reduce the possibility of a double count of risk capital.
Association of British Insurers	United Kingdom	No	No	The approach should allow the use of internal ratings subject to appropriate governance, since external ratings may not be available for a significant portion of assets issued in certain jurisdictions (such as in Asia). This would also result in the reduction of reliance on external rating agencies (which reduces the potential for systemic risk), supports the development of robust internal risk management processes and promotes investment in emerging economies and in certain sectors (e.g. infrastructure projects) where ECAI ratings are not always available.
National Association of Mutual Insurance Companies	United States	No	No	
American Academy of Actuaries	United States of America	No	No	As mentioned in the response to Q110, absent a liquidity deficiency the Non-Default Spread risk is an accounting risk that is unlikely to be relevant to a solvency evaluation. It should either include a liquidity deficiency risk component or be removed from the list of risks.
Prudential Financial, Inc.	United States of America	No	No	We believe that IAIS should disregard the "omitted part" of spread risk from the ICS (the first option) since spread stresses do not represent a relevant risk for a typical life insurer. + Spread stresses tend to be short-lived and do not have a material impact on typical life insurance products supported by assets with a long investment horizon. + For the narrow set of products where significant spread widening could potentially trigger policyholder lapses that result in asset sales at a loss, NDSR could be relevant. However, unless the NDSR charge can be tailored to reflect spread risk embedded in these specific products only we believe it should be removed from the ICS. + With respect to the impact of the NDSR on liability valuation, the stress is applied to the spread adjustment used to discount liability cash flows to treat assets and liabilities consistently and therefore, the impact on capital resources from changes in market spreads is

				mitigated. However, while the stress is applied to both sides of the balance sheet it still gives rise to non-economic volatility in an insurer's capital resources. This non-economic volatility results from basis differences (e.g., actual asset portfolio versus the reference portfolios used in ICS liability discounting) and ALM duration mismatches (e.g., assets shorter than related liabilities). This non-economic volatility is "valuation noise" resulting purely from the MAV framework rather than being indicative of a relevant risk to an insurer. While it is reasonable to reflect the impact of spread changes, as they occur, in the insurer's ICS balance sheet it is excessive to include the impact of potential spread changes as an ICS risk charge. + Further, we note that to the extent spread narrowing is the constraining scenario, this exposure is already captured in the interest rate down shock and further assessing it through the NDSR results in a double counting of the exposure.
MetLife, Inc	USA	No	No	Please see our response to Q 121 below.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

Q112 Section 7.13 From a conceptual perspective, which design is more appropriate, an asset only spread upward shock or a bi-directional shock applied on assets and liabilities? Please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments

China Banking and Insurance Regulatory Commission (CBIRC)	China	No	A bi-directional shock applied on assets and liabilities	NDSR assesses the potential movement of market spreads, as the valuation of liabilities in ICS is linked to movements in spreads, it should be assessed and allowed for.
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Others	As set out in the consultation document the non-default spread risk charge has been developed rather late in the process and different options have been considered. Therefore, we believe it would be best to first analyse the FT18 results in order to make targeted recommendations for potential refinements. NDSR is an inherent and indispensable part of the ICS to capture the entirety of the spread risk.
Insurance Europe	Europe	No	A bi-directional shock applied on assets and liabilities	The capital requirement for the NDSR risk is calculated by assessing the impact of an instantaneous stress on the balance sheet of the insurer, calibrated over a one year time horizon. To create a consistent and economically correct calibration of the NDSR, the ICS must consider the impact on both the assets and liabilities. Ignoring the impact on the liabilities artificially inflates the impact that spread widening would have on the insurer's capital resources and creates a capital requirement for a risk that would not materialise in practice.
German Insurance Association	Germany	No	A bi-directional shock applied on assets and liabilities	To create a consistent and economically correct calibration of the NDSR, the ICS must consider the impact on both the assets and liabilities. Taking the impact of spread changes on liability values into account makes the spread risk a bi-directional risk and justifies the application of a bi-directional shock.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Others	As set out in the consultation document the non-default spread risk charge has been developed rather late in the process and different options have been considered. Therefore, we believe it would be best to first analyse the FT18 results in order to make targeted recommendations for potential refinements. NDSR is an inherent and indispensable part of the ICS to capture the entirety of the spread risk.

Dai-ichi Life Holdings, Inc.	Japan	No	A bi-directional shock applied on assets and liabilities	
General Insurance Association of Japan	Japan	No	Others	In order to be consistent with insurance liability discounting, shock applied on spread before adjustment (credit risk + liquidity premium) should be both on assets (shock should be applied to the spread before adjustment) and on liabilities (shock should be applied to adjusted spread). If shock is applied only on the credit risk part of the spread, then the shock should only be applied on assets.
The Life Insurance Association of Japan	Japan	No	A bi-directional shock applied on assets and liabilities	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	A bi-directional shock applied on assets and liabilities	
Legal & General	UK	No	A bi-directional shock applied on assets and liabilities	This choice gives the most complete view on the impact of a spread shock on the business of the IAIG, because under the liability discounting basis for ICS a spread movement would automatically lead to a change in liability discount rate through the Three Bucket methodology. It also makes sense to have a bi-directional shock because spreads can go up or down and either direction can lead to losses for an IAIG depending on the nature of their exposures.

Association of British Insurers	United Kingdom	No	A bi-directional shock applied on assets and liabilities	The stress is looking to capture the mismatch between assets and liabilities in a spread up/down scenario and therefore a bi-directional stress is appropriate. Ignoring the impact on the liabilities artificially inflates the impact that spread widening would have on the insurer's capital resources, and creates a capital requirement for a risk that would not materialise in practice.
National Association of Mutual Insurance Companies	United States	No	Others	The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable. Non-default spread risk and all other risks and their factors should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges.
Prudential Financial, Inc.	United States of America	No	A bi-directional shock applied on assets and liabilities	We do not agree with the inclusion of this risk in the ICS for the reasons mentioned in our response to question 111. However, if NDSR were to be included, bi-directional shocks applied on assets and liabilities would better capture potential volatility in capital resources from spread stresses – which, again, reflect "valuation noise" rather than a relevant risk to a life insurer.
Property Casualty Insurers Association of America (PCI)	USA	No	Others	We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	A bi-directional shock applied on assets and liabilities	If it were to be shown that an NDSR is appropriate, then it would make sense to apply a stress to both assets and liabilities.

Q113 Section 7.13 Is the 2018 Field Testing design of the Non-Default Spread risk charge appropriate for ICS Version 2.0? If “no”, please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	No	No	The risk charge should not be included in ICS Version 2.0.
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	As mentioned in response to Q112 refinements should be considered based on the analysis of the FT results. In this context we believe a refinement should nevertheless be made concerning the relative limits that are not adapted to the (rare) case of negative spreads. Moreover, the relative limit ought to be calibrated having in mind low spread environments.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	As mentioned in response to Q112 refinements should be considered based on the analysis of the FT results. In this context we believe a refinement should nevertheless be made concerning the relative limits that are not adapted to the (rare) case of negative spreads. Moreover, the relative limit ought to be calibrated having in mind low spread environments.
Global Federation of Insurance Associations	Global	No	Yes	
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	
General Insurance Association of Japan	Japan	No	No	Please refer to our comments on Q112.

The Life Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
American Council of Life Insurers	Office of General Counsel	No	No	As we noted in our answer to Question 111, ACLI believes standards within ComFrame (e.g., those addressing ALM, risk management, etc.) already, and perhaps better and more directly, address concerns with the risk of losses due to forced asset sales, which is what we believe the NDSR shock is targeting.. For a liability portfolio backed by robust ALM, the potential volatility in credit spreads (beyond fundamental credit risks which are already well addressed elsewhere in the ICS) should be viewed as temporary “noise” rather than as a potential loss for which an additional capital buffer should be required. Analysis performed by our members shows that even if an IAIG’s liability is perfectly cash-flow matched the NDSR shock results in an inappropriately high charge for the following reasons: First, to be spread-matched in the ICS, a group must hold the reference portfolio. However, no IAIG can do that, because the reference portfolio is a blend across property-casualty and life companies. Since no group is an industry-matching blend of the two, no group uses the prescribed industry weighting. Second, to be financially stronger, firms seek to find assets with better risk-adjusted returns, and NDSR is designed to be a penalty for doing this. Finally, even if (1) above is corrected, e.g., by creating separate property-casualty and life insurance benchmarks, the NDSR will still be especially designed to penalize life insurers with long-tail liabilities and fixed-income markets with more positively sloped spread curves, because the NDSR penalty is a function of the risk-adjusted spreads, which is higher for long duration assets and in economies with more positively sloped spread curves (facing better growth prospects). (Note that economies with declining populations, such as Japan and

				Western/Southern Europe tend to reflect very different economic growth prospects than North American and developing markets.)
Legal & General	UK	No	No	Our key feedback is that we believe that internal ratings should be allowed for within the ICS framework. It is a critical issue for us that internal ratings are recognised by ICS and we see no reason why this should not be achievable provided an appropriate framework is put around the internal rating process. The overriding principles around our internal ratings framework (which we see as a good example of what would be required to be put in place for ratings to be used) is that it provides output that has the following features: • Ratings should be determined by appropriately qualified individuals independent of the processes and businesses that use them • Ratings should be, as far as possible, equivalent to those that would have been determined by an external rating agency. In particular there should be no systematic bias in rating • Ratings should be based on quantitative factors and evidence, and should be appropriately documented • Ratings should be reviewed, challenged and formally approved (including external review and/or audit where appropriate) • Ratings framework should be subject to regulatory review Ratings that are already used for Solvency II should satisfy all of the above criteria and, in our case, our framework has been subject to regulatory scrutiny. This should therefore be automatically suitable for use within ICS. The list below summarises the process used to assign internal ratings to different exposures as well as the oversight and governance around it: Category: Large exposures

				Process: Internal ratings are assigned by an independent separate team within our investment management division through a Portfolio Review process. Governance: The definition of large exposure is approved by the Group Credit Risk Committee (GCRC). The actual internal ratings and process to derive the ratings can be challenged by the GCRC and escalated to the Group Risk Committee (GRC), which has several independent Non-Executive Directors sitting on it. The process and outcomes are also subject to independent second-line review. Category: Complex Securitisations Process: Internal ratings are derived for capital calculations by notching down from the public ratings, depending on seniority of the tranche, and potentially the type of asset and region. Governance: The notching rules for this category and if the rules can be applied is monitored and approved by the GCRC. Category: Complex Direct Investments Process: Internal ratings are assigned by the asset management firm that originated the transaction (usually through a robust rating committee process that is subject to strict governance and challenge). Governance: The methodologies used by the asset managers need to be approved and overseen by the GCRC to ensure consistency across managers and subsidiaries. Category: Unrated traded securities Process: The internal ratings are assigned by asset management firm through a Portfolio Review or through a Committee depending on complexity. Governance: Oversight by GCRC Additional items of feedback are: • We do not believe that the formula for NDSR stresses will work well when base spreads are negative and suggest an amendment to address this. • A clearer articulation of the scope of the stress on the asset side would be welcome.

Association of British Insurers	United Kingdom	No	No	See the response to Q111 above.
AIG	United States	No	No	The current methodology and design of the non-default spread risk charge results in outsized risk charge even for a perfectly matched book of business due to an asymmetric stress applied to assets and liabilities. Specifically, the stress applied to assets is based on their asset rating while the stress applied to liabilities is based on the IAIS prescribed up and down stress curves. We do not believe the design of the spread risk charge should result in a material risk charge for a perfectly matched book of business.
National Association of Mutual Insurance Companies	United States	No	No	
American Academy of Actuaries	United States of America	No	No	As mentioned in the response to Q110, absent a liquidity deficiency the Non-Default Spread risk is an accounting risk that is unlikely to be relevant to a solvency evaluation. It should either include a liquidity deficiency risk component or be removed from the list of risks.
Prudential Financial, Inc.	United States of America	No	No	We do not agree with the inclusion of this risk in the ICS for the reasons mentioned in our response to question 111.
American Property Casualty Insurance Association (APCI)	USA	No	No	As with several other questions posed in the CD, it is difficult to answer this question without the experience of being a field testing participant.
MetLife, Inc	USA	No	No	Please see our response to Q 121 below.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

Q114 Section 7.13 Is the calibration of the Non-Default Spread risk charge appropriate for ICS Version 2.0? If “no”, please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	ICS now assumes an average shock for most currencies. We understand there are calibration difficulties, but as the spread differs signifincantly by currency, we still support the IAIS to further explore solving the calibration issues and set shocks by currency.
Insurance Europe	Europe	No	No	Insurance Europe highlights that the sum of the credit risk charge and non-default risk charge could be considered to be overly prudent already. Any further development of either risk category should avoid overlaps and should not lead to an increase in combined charges.
Allianz	Germany	No	No	The calibration of credit default, migration and spread risks should be considered together and consistently with the underlying valuation approach. There is a highly conservative calibration of credit default risk which is combined with a suitable application ratio for spread risk, leading to a reasonably conservative total requirement. However, given the lack of a consistent methodology there is a high risk of overlaps and double-counting of risks in combined credit risk charges. Internal ratings should be recognized.
German Insurance Association	Germany	No	Yes	Generally appropriate. However, the sum of credit risk charge and non-default risk charge seems at the high end already. Any further development of either risk category should avoid overlaps and should not lead to an increase in combined charges.
Global Federation of Insurance Associations	Global	No	Yes	
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	

General Insurance Association of Japan	Japan	No	Yes	
The Life Insurance Association of Japan	Japan	No	Yes	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	Stresses for Non-Default Spread risk need to be distinguished by currency.
Legal & General	UK	No	Yes	We are broadly comfortable with this.
Association of British Insurers	United Kingdom	No	No	See the response to Q111 above.
American Academy of Actuaries	United States of America	No	No	As mentioned in the response to Q110, absent reflection of a liquidity deficiency that would impact cash flows, the risk that is measured is an accounting risk with no impact on the ability to meet policyholder obligations.
Prudential Financial, Inc.	United States of America	No	No	We disagree with the addition of NDSR to the ICS for the reasons explained in responses to Question 111. We also believe that a liquidity component should be excluded when calibrating NDSR for the reasons provided in our responses to Question 118. As a general comment, we agree with the IAIS that it is challenging to develop extreme tail stresses (99.5th percentile) to an unobserved market variable with limited data history. Given the practical difficulty, it is very hard to design reliable and appropriate NDSR shocks. Should NDSR risk continue to be included in ICS 2.0 and liquidity component also remain part of the risk calibration, our main comments/concerns with NDSR placeholder shock in 2018 Field Test include the following items. + The methodology of calculating the NDSR stresses based on relative shocks and capped by absolute shocks is reasonable.

				+ The relative shocks are applied to IAIS prescribed risk corrected "net" spread. As such, issues with over-simplified global flat risk-correction assumptions (see our response to Question 27) leads to distortion in NDSR shocks. + We also commented in our response to Question 27 that when calculating the spread adjustment for liability discounting, risk correction should only reflect expected default risk. + IAIS risk corrected net spread = gross spread – risk correction (i.e., expected default spread) = unexpected default spread + liquidity risk premium + residual spread + Under this definition, if relative shocks are applied to spreads net of risk correction, NDSR will stresses not only include liquidity spreads but also unexpected default spreads. The latter is already captured in the ICS credit risk charge and therefore would be double counted in the ICS.
MetLife, Inc	USA	No	No	Please see our response to Q 121 below.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	No	The proposed NDSR stress has been shown in the field-testing so far to be a very substantial additional charge for many life companies. What we have seen is a charge for the life part of insurers' business varying from 5% to 30% with a median between 20 and 25%. The magnitude also appeared to vary significantly based on extraneous factors such as (1) whether each asset is stressed or the average is employed as allowed in the technical specifications; (2) taxation; (3) covariance; and (4) NAIC designations.

Q115 Section 7.13 Are there publicly available data sources which the IAIS could use to calibrate Non-Default Spread risk? If “yes”, please provide details.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	
Global Federation of Insurance Associations	Global	No	No	
General Insurance Association of Japan	Japan	No	No	
The Life Insurance Association of Japan	Japan	No	No	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
Legal & General	UK	No	Yes	Market data providers can supply a variety of spread data including individual names as well as calibrated indices and spread curves, although much of this is only available for purchase and is therefore not fully in the public domain. We believe that Merrill Lynch is the data source most commonly used by UK industry participants for calibration (this should not be taken to imply that only UK-specific data is available – data from several different economies can be

				obtained from this source). Alternative sources that are used by some industry participants include Moody's and iBoxx.
Prudential Financial, Inc.	United States of America	No	No	We have not seen comprehensive market-observed data on non-default spreads. Industry and academic research typically estimate non-default spread by subtracting credit spread from bond spread. Well known data sources for bond spread indices include Barclays and Merrill Lynch bond indices.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

Q116 Section 7.13 Is the design of the Non-Default Spread risk charge for GAAP Plus appropriate for ICS Version 2.0? If "no", please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	
Dai-ichi Life Holdings, Inc.	Japan	No	No	

Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Legal & General	UK	No	Yes	We are broadly comfortable with this.
National Association of Mutual Insurance Companies	United States	No	No	
American Academy of Actuaries	United States of America	No	No	Besides the flaws mentioned above with regard to the MAV approach to this risk, the GAAP Plus approach has the additional flaw of focusing on an accounting basis that is inconsistent with how supervisors, creditors, and investment analysts currently evaluate solvency risk. This is because a GAAP Plus approach applied to U.S. GAAP accounting for property/casualty insurers would use market value for assets but undiscounted values for liabilities. The former's value would change from the spread shock, while the latter would be unchanged, even though there is no impact on cash flows. Hence, this charge is calculated in a manner that is inconsistent with solvency risk and solvency evaluations. (We recommend reviewing our response to Q109 for more discussion of this issue.)
Prudential Financial, Inc.	United States of America	No	No	Please refer to our response to questions 110 through 115.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	No	See our response to Q110.

Q117 Section 7.13 Is the approach used in 2018 Field Testing to determine the overall Non-Default Spread risk charge for GAAP Plus, where different GAAP Plus specifications are applied to different parts of the business, appropriate for ICS Version 2.0? If “no”, please explain.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	
Dai-ichi Life Holdings, Inc.	Japan	No	No	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Legal & General	UK	No	Yes	We are broadly comfortable with this.
National Association of Mutual Insurance Companies	United States	No	No	The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable. Non-default Spread risk and all other risks and their factors should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges.

American Academy of Actuaries	United States of America	No	No	As pointed out in the consultation document, the potential for the overall charge for this item to be based on inconsistent assumptions across jurisdictions is a flaw. We view that flaw to be minor in comparison to the flaw in the overall approach of ignoring the need for a liquidity deficiency for this risk to be relevant to solvency.
American Property Casualty Insurance Association (APCI)	USA	No	No	As with several other questions posed in the CD, it is difficult to answer this question without the experience of being a field testing participant.
Property Casualty Insurers Association of America (PCI)	USA	No	No	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	No	See our response to Q110.

Q118 Section 7.13 Should the liquidity component of spreads be excluded when designing and calibrating Non-Default Spread risk? Please explain. If “yes”, please also provide suggestions about the practical approach to perform the split of the total spread.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	No	Yes	Liquidity risk is excluded from the scope of ICS, hence changes in spreads due to changes in liquidity should be excluded from non-default spread risk.
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	No	

European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	
General Insurance Association of Japan	Japan	No	No	Please refer to our comments on Q112.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	The liquidity component of spreads should be excluded, but the practical approach is not easy. This is also the reason that it is hard for us to accept Non-Default Spread risk.
Legal & General	UK	No	No	We agree with the argument that a change in the market value of credit assets due to changes in the liquidity component of spreads could reasonably impact upon the solvency of a company where assets and liabilities are not well matched. For example, if an IAIG held corporate bonds in the shareholder fund then any reduction in value of these bonds would reduce capital resources available to subsequently meet shortfalls within the insurance business of the IAIG, regardless of the reason for the value of the bond to have changed. We believe that the existing approach whereby a spread stress including a liquidity component is applied to assets but also to liabilities through a revised discount rate gives a suitable and realistic approach to assessing genuine exposure to spreads.
American Academy of Actuaries	United States of America	No	Yes	Non-Default Spread risk typically evolves as Liquidity risk. We believe that this risk is remote for most, if not all, the property/casualty industry due to the positive cash flows that exist from assets being greater than liabilities, the lack of call risk on the liabilities, the positive cash flows arising from new and renewal business, and the ability to sell government securities first before selling those with Spread risk. While Liquidity risk is present for the life industry to the extent there is exposure to Liquidity-risk bearing activities (e.g., derivatives, securities

				lending), we do not believe the ICS is the right construct for assessing Liquidity risk as additional capital does not necessarily alleviate liquidity issues, which are more strongly driven by the liquidity profile of assets versus liabilities. Consequently, from both a life and non-life perspective, we believe the liquidity component of spreads should be excluded from the Non-Default Spread risk.
Prudential Financial, Inc.	United States of America	No	Yes	Please refer to our response to questions 110 through 115.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	There is a lack of clarity of what the NDSR is expected to cover. Liquidity risk has been specifically excluded from the ICS and should not be included in any ICS component. While some indirect recognition may have been given to Liquidity in reducing the calibration of the NDSR charge, there should be a clear articulation of the various components of the NDSR, in order to gauge the appropriateness of the liquidity element and other component parts.

Q119 Section 7.13 If the liquidity component of spreads would be excluded from Non-Default Spread risk, should the IAIS modify (ie reduce) the MAV discounting adjustments which are considered for discounting of insurance liabilities (the Three-Bucket Approach) to ensure consistency in the ICS? If “no”, please explain, in particular, the issue of consistency across different ICS elements. If “yes”, please explain with sufficient detail.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments

Office of the Superintendent of Financial Institutions (OSFI)	Canada - OSFI	No	No	The fact that a risk is or is not covered in capital requirements should not affect the valuation. The valuation is a measure of an insurer's situation at a particular date, while capital requirements are based on what could happen after that date.
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	Yes	Should the liquidity component of spreads be excluded from Non-Default Spread risk, IAIS should also adjust the MAV discounting methodology accordingly. This would ensure consistency across all the different ICS features.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	Yes	Should the liquidity component of spreads be excluded from Non-Default Spread risk, IAIS should also adjust the MAV discounting methodology accordingly. This would ensure consistency across all the different ICS features.
General Insurance Association of Japan	Japan	No	No	The MAV discount rate which has been discussed for quite a while is more sophisticated. Non-default spread risk should be adjusted so that it will be consistent with the MAV discount rate.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Legal & General	UK	No	No	We would not support this for either the Top or Middle Buckets. The spread addition to discount rate for liabilities qualifying for the Top or Middle Buckets is to reflect the fact that the IAIG expects to be able to hold the assets associated with these liabilities to maturity if desired. This means that the IAIG should not be required to sell these assets at suppressed market prices at any point and the only risk that should concern the IAIG is default of payments due. The decomposition of the remaining spread (that is the spread other than that required cover future defaults) is irrelevant in this case. We could see a logical argument for reducing the spread addition to liability discount rate for the General Bucket for consistency with an alternative formulation of the spread allowance in

				required capital. In this case it would not seem appropriate to allow for additional spread on these liabilities if the risk of these spreads changing is not being allowed for within required capital. In summary, as set out in our response to Q118, we are happy with the current specification of the MAV discounting and NDSR capital requirements, i.e. that no deduction is made to either for the liquidity component of spreads.
American Academy of Actuaries	United States of America	No	No	From the property/casualty perspective, the Three-Bucket Approach is actually a one bucket approach, as all the liabilities are in the general bucket. Given the shorter payouts for this business, ICS results for non-life operations are far less sensitive to discounting assumptions than is the case for life insurance. Hence this is a minor issue for non-life. The overriding factor is that Non-Default Spread risk is remote for non-life, and this should be reflected in both the MAV and the GAAP Plus approaches. From the life insurance perspective, the inclusion of the liquidity component of spreads is important to the valuation of liabilities. That said, it still makes sense to continue to include the liquidity component of the spread in the liability valuation to allow the current estimate of liability to be more aligned with the market value of assets, which implicitly factors in liquidity. By doing so, the capital resources will be valued at a more appropriate level as the assets and liabilities are valued on a similar basis with respect to liquidity. However, if Liquidity risk is excluded from the ICS (see response to Q118), then it does not make sense to stress the non-default spreads and develop a separate risk charge unless there is some other risk scenario beyond defaults and liquidity in which spread movements could compromise a company's solvency.
Prudential Financial, Inc.	United States of America	No	No	The rationale for including a credit spread adjustment in the liability discount rate is to fully reflect the benefits of ALM practices in the ICS by measuring assets and liabilities on a consistent basis. This in turn may create some volatility to the extent ALM mismatches exist, which is typically the case with very long-dated life insurance products. Resulting volatility in capital resources and capital requirements will be attributable to both changes in market spreads and changes in interest rates. Non-default driven spread changes are typically short-lived and not a meaningful driver of losses for insurers, whose products tends to be illiquid

				even in stressed times. Therefore, we consider the impact to be "valuation noise" within a market value-based capital framework which should not be introduced as an additional risk charge.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	No	No. The liquidity risk is supposed to be excluded from the ICS entirely and should not be taken into consideration in considering spread adjustments in all elements of capital charges.

Q120 Section 7.13 Should the design of Non-Default spread risk be modified to address the issue identified in this section? If "yes", please provide details about the technical solution to be adopted (which could be the proposed approach or an alternative one).

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
China Banking and Insurance Regulatory Commission (CBIRC)	China	No	Yes	We support to fix the correlation between currencies and support the proposed approach in the consultation document.
European Insurance and Occupational Pensions Authority (EIOPA)	EIOPA	No	No	
Insurance Europe	Europe	No	Yes	The IAIS should continue to investigate the design of Non-Default spread risk. In terms of aggregation methods for the NDSR, Insurance Europe considers the current method to be

				appropriate. Credit spreads are highly correlated between currencies, and therefore it is appropriate to allow an offsetting impact between currencies in spread up and down scenarios.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	
Global Federation of Insurance Associations	Global	No	No	GFIA takes the view that the current method of aggregation for NDSR is appropriate. Credit spreads are highly correlated between currencies, and therefore IAIS's proposal in Paragraph 397 of the consultation to allow an offset between currencies exposed to the stress in opposing directions is appropriate. Additionally, GFIA takes the view that an aggregation approach similar to interest rates would not be consistent with economic realities.
General Insurance Association of Japan	Japan	No	No	
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	Yes	
Legal & General	UK	No	Yes	We believe that the aggregation of the non-default spread risk charge should be aligned with the aggregation of the interest rate risk charge. Based on the 2018 field testing specification this would mean 75% correlation between economies with same biting direction and -75% correlation between economies with different biting direction.
Association of British Insurers	United Kingdom	No	No	The ABI believes the current method of aggregation for NDSR is appropriate. Credit spreads are highly correlated between currencies, and therefore IAIS's proposal in Paragraph 397 of the consultation to allow an offset between currencies exposed to the stress in opposing directions is appropriate. Additionally, we believe an aggregation approach similar to interest rates would not be consistent with economic realities.
National Association of Mutual Insurance Companies	United States	No	Yes	Non-default spread risk and all other risks and their factors should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5%

				VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges.
Prudential Financial, Inc.	United States of America	No	No	With respect to the degree of diversification, we agree with the 2018 Field Testing approach of applying the spread widening and tightening stresses simultaneously across all currencies. Given the likely global contagion of market stresses in the connected world economy, we believe that this approach is a simple yet reasonable one.
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.

Q121 Section 7.13 Are there any further comments on Non-Default Spread risk that the IAIS should consider in the development of ICS Version 2.0? If “yes”, please explain with sufficient detail and rationale.

Organisation	Jurisdiction	Confidential	Answer	Answer Comments
CLHIA	Canada	No	Yes	Consistent with our comments on CC-MOCE, it is unclear why NDSR is actually needed. While spreads can widen or compress, movements in spreads tend to be temporary in nature. As a result, NDSR only impacts a company’s ability to discharge its long term liabilities if it is forced to sell assets in a stressed spread environment. This is a liquidity issue i.e., not in scope for ICS, that should be addressed elsewhere in ComFrame.
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	Insurance Europe believes that the ICS should be developed with the long-term life insurance business model in mind. More specifically, liquidity concerns should be addressed through separate assessments and tools, while capital measures should strive to align with the long-term, going concern mindset behind the life insurance business model. It is not necessary to address every supervisory concern through the “Pillar 1” solvency ratio. It believes the risk associated with investing in spread sensitive assets are sufficiently captured in the credit risk module and does not require a non-default spread risk module which goes against the long-term, going concern life insurance model where assets are generally held to maturity. Insurance Europe believes that the IAIS should permit the use of internal ratings, providing the internal rating process is well governed. This will serve to reduce reliance on external rating agencies, support the development of robust internal risk management processes, and promote investment in emerging economies and other sectors (eg infrastructure projects) where ECAI ratings are not available.
Allianz	Germany	No	Yes	A consideration of the absorption of credit default risks by policyholders, depending on product type, is essential for a correct reflection of the true nature of our business and to avoid unrealistically high capital requirements. Default risk charges are too conservative where this risk absorption is not reflected.
Bundesanstalt für Finanzdienstleistungsaufsicht (BaFin)	Germany - BAFIN	No	No	
Global Federation of Insurance Associations	Global	No	No	
Dai-ichi Life Holdings, Inc.	Japan	No	Yes	

General Insurance Association of Japan	Japan	No	No	
The Life Insurance Association of Japan	Japan	No	Yes	• On a going concern basis, changes in spread risk do not lead to change in cash flows earned from holding assets. Therefore, the LIAJ believes that insurers need not consider Non-Default Spread risk in ICS calculation. • In the case of the MAV approach, Non-Default Spread risk will not be considered as material because changes in asset and liability will be largely offset. Based on the results of 2018 Field Testing, if it deemed immaterial, the LIAJ suggests that the implementation of the Non-Default Spread risk be cancelled in order to avoid complexity.
Financial Supervisory Service (FSS) & Financial Services Commission (FSC)	Korea (Republic of)	No	No	
American Council of Life Insurers	Office of General Counsel	No	Yes	The NDSR has an unclear purpose. Credit and migration risk are already fully captured within the existing ICS credit risk methodology (since, in its design, it is based on a Basel credit risk formula that reflects migration risk through an explicit maturity adjustment) and attract significant amounts of regulatory capital. ACLI believes standards within ComFrame (e.g., those addressing ALM, risk management, etc.) already, and perhaps better and more directly, address concerns with the risk of losses due to forced asset sales, which is what we believe the NDSR shock is targeting.. For a liability portfolio backed by robust ALM, the potential volatility in credit spreads (beyond fundamental credit risks which are already well addressed elsewhere in the ICS) should be viewed as temporary “noise” rather than as a potential loss for which an additional capital buffer should be required. Analysis performed by our members shows that even if an IAIG’s liability is perfectly cash-flow matched the NDSR shock results in an inappropriately high charge for the following reasons: First, to be spread-matched in the ICS, a group must hold the reference portfolio. However, no IAIG can do that, because the reference portfolio is a blend across property-casualty and life

				companies. Since no group is an industry-matching blend of the two, no group uses the prescribed industry weighting. Second, to be financially stronger, firms seek to find assets with better risk-adjusted returns, and NDSR is designed to be a penalty for doing this. Finally, even if (1) above is corrected, e.g., by creating separate property-casualty and life insurance benchmarks, the NDSR will still be especially designed to penalize life insurers with long-tail liabilities and fixed-income markets with more positively sloped spread curves, because the NDSR penalty is a function of the risk-adjusted spreads, which is higher for long duration assets and in economies with more positively sloped spread curves (facing better growth prospects). (Note that economies with declining populations, such as Japan and Western/Southern Europe tend to reflect very different economic growth prospects than North American and developing markets.)
Aegon NV	The Netherlands	No	Yes	It is essential that the ICS be developed with the long-term life insurance business model in mind. More specifically, liquidity concerns should be addressed through separate assessments and tools, while capital measures should strive to align with the long-term, going concern mindset behind the life insurance business model. It is not necessary to address every supervisory concern through the “Pillar 1” solvency ratio. We believe the risk associated with investing in spread sensitive assets are sufficiently captured in the credit risk module and does not require a non-default spread risk module which goes against the long-term, going concern life insurance model where assets are frequently held to maturity.
Legal & General	UK	No	No	Our feedback has been adequately captured by the other points in this section.
Association of British Insurers	United Kingdom	No	Yes	The IAIS should permit the use of internal ratings, providing the internal rating process is well governed. This will serve to reduce reliance on external rating agencies (which reduces the potential for systemic risk), support the development of robust internal risk management processes, and promote investment in emerging economies and other sectors (e.g. infrastructure projects) where ECAI ratings are not available.

National Association of Mutual Insurance Companies	United States	No	Yes	The ICS is not yet fit for purpose. Significant additional work is needed to achieve an appropriate global capital standard and it may be completely unachievable. Non-default spread risk and all other risks and their factors should be determined by the local jurisdictional supervisor. NAMIC disagrees with the mandate of a standard method, the 99.5% VaR calibration level and the IAIS dictating the factors to be used in the formula. Jurisdictional flexibility is the appropriate way to capture these risks with mutual recognition and shared understanding of the jurisdictional approach at supervisory colleges.
Prudential Financial, Inc.	United States of America	No	No	
MetLife, Inc	USA	No	Yes	It is difficult to understand what issue the NDSR is attempting to solve and we strongly advocate for its removal from the ICS Standard Method for the following reasons. -- Capital requirements are overstated. There is a double count between the NDSR and market risk and credit risk as some allowance for spread widening risk is included within the credit risk module. -- Procyclicality is introduced to the results. The NDSR risk charge will be much higher during times of crisis when the net asset value is already depressed. This may also incent counterintuitive asset trades (e.g. selling, rather than buying spread assets when spreads widen).
Property Casualty Insurers Association of America (PCI)	USA	No	Yes	PCI´s yes or no response was simply required in order to open the text box and file comments. We believe this question to be best addressed by field test volunteers who have the ability to do so with the benefit of actual data for support and context. The absence of a response by PCI should not be taken one way or the other with respect to the subject of the question.
National Association of Insurance Commissioners (NAIC)	USA, NAIC	No	Yes	See our response to Q110.

End of Section 7.13