INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Public

Compiled Comments on *Basic Capital Requirements (BCR) for Global Systemically Important Insurers (G-SIIs)*

9-Jul-14 to 8-Aug-14

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2. General Comments on Executive Summary		
Association of Bermuda Insurers and Reinsurers	Bermuda	ABIR would like to thank the IAIS for the publication of the Basic Capital Requirements for Globally Systemically Important Insurers (GSIIs) Paper and for the opportunity to provide comments. We would like to note that in some instances it has been challenging to respond to especially the elements of the paper which are not clear or are subject to change. In keeping with the IAIS request to be clear with the issue to be addressed, provide a clear rationale and basis for comments made and describe alternatives proposed for consideration, ABIR has provided respectfully submits its comments. Although the IAIS has outlined more details compared to the first BCR consultation, a thorough assessment of the BCR calibration is not possible as long as significant factors such as the alpha scalar to adjust the overall BCR level are not specified. We welcome the IAIS openness to develop alternative approaches to discounting that may better reflect the long-term nature of insurance liabilities. Furthermore, we note that while mark to market stresses have been discussed at length within industry and regulatory consultations we would like to reiterate again the importance of finding a way to reflect proper consideration of the illiquid nature of insurance liabilities and by extension the questions this raises around the usefulness of mark to market stresses. Although the IAIS states that G-SIIs should "be required to hold higher levels of regulatory capital than would otherwise be the case", it is not clear if this is based on existing local standards or on the BCR. In addition, the principle put forward in the paper that "G-SIIs should hold higher levels of capital" is not necessarily true and it doesn't take into account the interaction between the BCR/HLA measures and local capital regimes. More precisely, capital charges imposed via national legislation might be above the HLA uplift and therefore enough to mitigate the systemic risk, in which case there would be no actual capital increase.
Canadian Life & Health Insurance Association Inc.	Canada	The Canadian Life and Health Insurance Association Inc. ("CLHIA") is a voluntary trade association whose member companies account for 99 percent of Canada's life and health insurance business. Our industry provides a wide range of financial security products such as life insurance, annuities and supplementary health insurance to about 26 million Canadians. The CLHIA is an Observer of the IAIS and an active participant in making submissions to the IAIS. We have made submissions on a number of important IAIS initiatives on capital including: multiple submissions on ComFrame; with respect to G-SIIs, submissions in July 2012 and December 2012 on, respectively, the Assessment Methodology, and Policy Measures; and on the first BCR consultation in February 2014. The CLHIA is also an active participant in the Global Federation of Insurance Associations ("GFIA"). The CLHIA is submitting comments to provide the perspectives of our member companies operating in Canada. Although no life insurer headquartered in Canada has been designated a GSII, our industry is keenly monitoring the emerging development of BCR as it is intended to inform the development of the ICS. We envision the ICS will have some degree of influence on our domestic requirements. We are therefore highly motivated to provide our perspectives, particularly as the Canadian industry provides relatively longer guarantees than other

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		jurisdictions. We believe our insights will prove to be valuable to the IAIS in the development of both BCR and ICS. CLHIA Key Messages The IAIS document "Basic Capital Requirements (BCR) for Global Systemically Important Insurers (G-SIIs) 9 July 2014" is another positive step forward toward meeting the very aggressive 2014 timetable to derive an initial BCR for GSIIs. As was the case with the initial BCR draft, this second document for public consultation is comprehensive and thoughtful. The Canadian insurance industry appreciates the IAIS's work and solid progress on this challenging topic in light of the high fragmentation of the accounting and solvency regimes for insurers across jurisdictions. We also appreciate the opportunity to provide comments to further enhance the framework. As overarching comments on the development of a BCR, we wish to reiterate our key messages from our submission on the first BCR consultation. 1. Use of market information should not undermine the long-term nature of insurance business. 2. Striving for simplicity should not compromise the risk-sensitivity and comparability of the outcomes. 3. BCR should reflect risk mitigating features inherent in insurance products and their management including asset-liability management ("ALM") and natural offsets of certain risks as well as risk diversification. 4. For the time being BCR should only inform comparability between jurisdictions and the design of HLA while national regimes remain the primary drivers of capital adequacy assessments In relation to each of the points above, with the benefit of analyzing the provisions in this second BCR draft against our key messages above, we have the following respective comments and concerns with this second BCR draft: 1. It is crucial for the BCR (and ICS) to reflect the long term nature of the life insurance business. This is our key concern. The business is managed over long term horizons, including through economic cycles, and hence short-term volatility in market variables is largely not relevant. This is particularly the case for products with long term guarantees (but is also particularly the case for long term contracts with participating features to the extent contractual risk mitigating features are not appropriately reflected). If observable market variables are used unadjusted, particularly for tenors beyond where markets are deep and liquid, then such short term noise in market variables will create highly inappropriate volatility in the BCR. Hence we are concerned about the discounting aspects of the Market Adjusted Valuation Approach. Most notably, as described in our answer to Question #18, we outline why we believe the proposed discount rates are too low for the longer tenors. Also related to the importance of reflecting the long term nature of the life insurance business, we are concerned with Capital Resources, both with the relevance of tiering and with the proposed exclusions/deductions. As described in our answer to Question #14, tiering of capital is not appropriate for life insurers, as it is for banks, and in our answer to Question #28, we outline some of our particular concerns with the BCR proposals for exclusions/deductions.	

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		2. We continue to be concerned about the very aggressive timelines, and accordingly, reliance on simplicity as an expedient to meet the timelines. We appreciate that the document makes it clear the proposed BCR formula is calibrated to an illustrative level at this stage. However, we strongly suggest that before finalizing the BCR's initial actual calibration levels, the framework should be tested on how it performs under various economic environments to ensure reasonable risk-sensitivity and comparability of the outcomes, in particular in relation to current national regimes. Until such analysis is completed, the Principle "resilience to stress" (third bullet of paragraph 45 in section 3.7, and (Substantive) Principle #3 in Annex A), an indicator of risk sensitivity, will not be complied with. Comparability is crucial. Two of the key elements in ensuring comparability are, as we outline in answers to subsequent Questions, reasonable consistency in setting Current Estimates and avoidance of add-backs of margins to Technical Provisions. All considered, while recognizing the pressure of the timeline of the G20 leaders endorsing the BCR proposal, expected for November 2014, given the significance of the issues being raised in this second consultation, and the further consideration of field testing results this summer, we believe a third consultation, at least of a quick turnaround fatal flaw nature, should occur before the G20 endorses the BCR. Failing that, we urge the IAIS to consider amendments to the BCR subsequent to the G20 endorsing the initial BCR proposal. 3. Given the timeline for the BCR, we understand the IAISs reluctance to reflect asset-liability management and diversification features for the initial actual calibration for the fall of 2014. However, we encourage the IAIS to consider incorporating such features into the BCR, especially should the transition from BCR to ICS, as discussed in paragraph 5 of the Overview section, be sufficiently long enough to allow for a reasonable testing period for calibration. 4. Absent the robust analysis outlined in point #1 above, we are concerned about the IAIS's intention to publish the documents used for field testing collection (per the draft, in order to enhance transparency to the public). This could put pressure on the industry to start disclosing how individual companies fare against the average thus resulting in potential significant misleading conclusions about relative financial strength vis-a-vis current national regimes, leading to questions about consequences of being in breach. Finally, the second draft of the BCR has introduced the following new deficiencies (which we address in our answers to applicable Questions). - (Lack of explicit) reflection of loss absorption for participating products - (Lack of) use of internal ratings for bonds	
Manulife Financial	Canada	We support the development of a global capital benchmark to enhance comparability and understanding. We endorse the views expressed by the CLHIA on behalf of Canadian insurers and do not repeat them all in our submission. Instead, we would like to supplement the comments submitted by the Canadian insurers with more details regarding our perspective on further development needed for long term discount rates (Q5.0) and the use of tiering of capital resources (Q4.1).	
China Insurance Regulatory	China	Even though Ping An Group was listed as one of the G-SIIs, China's insurance market is still at its primary stage with features of a fast growing emerging market. At the same time, the capital market in China is also at its primary development stage, the products are relatively simple, and the business structure of the insurance groups is quite different from that of the advanced markets. We suggest that the IAIS take	

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Commission		it into full consideration in the corresponding rule-setting and implementation of BCR.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	The EIOPA Insurance & Reinsurance Stakeholder Group appreciates the opportunity to comment on the IAIS proposal for the Basic Capital Requirements (BCR). Although the proposal is applicable only to global systemically important insurers (G-SIIs), we believe it is of wider relevance given the BCR is likely to inform the development of the risk based global Insurance Capital Standard (ICS) applicable to Internationally Active Insurance Groups (IAIGs) from 2019. Indeed it is possible that delays in the formulation and agreement of ICS may mean that BCR persists for much longer. We support the development of the global capital standards with the purpose to ensure increased resilience of the global financial system. Solvency II is the most modern risk-sensitive prudential regime finalized and implemented after the financial crisis and should provide guidance to the development of new global capital requirements. We recognize the considerable challenge facing the IAIS in terms of resolving trade-offs between simplicity, comparability and risk sensitivity in the design of the BCR and subsequently the ICS. We understand that having simplicity as a target for the BCR design has resulted in a decision not to explicitly recognize diversification effects nor the impact of asset-liability matching (the latter especially important for life insurers). As a result the BCR is not very reflective of the risk profile of any individual G-SII and the calibration level should be carefully considered. This should be done to avoid interference with sound risk management principles and unfairly discriminate against G-SIIs with substantial operations in both life and non-life insurance. The proposed valuation approach of combining a market valuation of assets with a simple risk free discount of liabilities (taking into account to some degree the bond spreads) with essentially no link to the asset portfolio has been made to avoid complexity but, as acknowledged in the consultation document, will not correctly reflect the long-term nature of the insurer's business. This can lead to a significant exaggeration of the volatility of balance sheet, and therefore own funds, especially during financial crisis. In particular, the risk mitigation benefits of asset liability matching, profit sharing and diversification are not explicitly reflected in the BCR design. Whether or not this causes problems by resulting in BCR/HLA measures are unmanageable because of high undue volatility resulting in pro-cyclical behaviour will depend on the level of calibration of the BCR and the design of the HLA. The valuation principles and framework should be finalised as soon as possible given it provides the basis for determining exposure measures for the BCR as well as the qualifying capital resources against which the capital requirement is measured. It should be made clear, that all companies will be required to apply a consistent valuation approach for assets and liabilities. It should not be left ambiguous as to whether jurisdictions will be allowed to apply significantly different valuations.

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		We are concerned that the principle that "G-SIIs should hold higher levels of capital than would be the case if they were not designated as G-SIIs" could be misunderstood to mean the G-SIIs should always hold more than required under their local requirements. The IAIS should clarify that capital charges imposed via national legislation might be above the HLA uplift and therefore enough to mitigate the systemic risk, in which case there would effectively be no capital increase. We recommend that the following areas are further considered and clarified: - The purpose of the BCR and the supervisory action resulting from a breach - The target level of capitalization i.e. the risk measure underpinning the BCR - The specification and transparency of the overall level of the BCR (the alpha scalar) - The valuation principles and framework - In the BCR formula clarification is required e.g. which assets should be excluded from the asset exposure base in particular for unit linked business and participating life insurance business; treatment of other asset classes than credit and equity - The qualifying capital resources to cover the BCR, HLA and later ICS - The concept of the Margin Over Current Estimate, especially its interaction with/how it is embedded in the measurement rules/valuation principles and the treatment of MOCE as qualifying capital resources - The relationship between the BCR and HLA including the fact that HLA should only be imposed on systemically risky activities (i.e. activities that create additional risk for the global financial system). Prior to introduction of the BCR, HLA and eventually the ICS it is vital that potential unintended consequences are considered and the capital requirements are properly tested, not only at one point in time, but also in more extreme/ stressed conditions including a recurrence of 2007/2008 and 2011.	
European Insurance and Occupational Pensions Authority	EU	EIOPA welcomes the opportunity to provide comments on the work developed so far by the IAIS concerning the Basic Capital Requirement (BCR). EIOPA is supportive of the development of Global Capital Standards and believes this initiative will contribute to the enhancement of insurance supervision with regard to Internationally Active Insurance Groups (IAIGs) and Global Systemically Important Insurers (G-SIIs), namely by facilitating the cooperation of supervisors of the jurisdictions where such groups operate. More comparable standards should also bring significant benefits to the supervised groups, through the streamlining and reduction of compliance and reporting costs as well as supporting a worldwide level playing field. Despite recognizing the significant progress which has already been made in BCR development, expressed by the level of detail presented in this Consultation Document, EIOPA is aware of the challenging timelines which the IAIS faces and stands ready to continue actively supporting the development of this important work. With regard to the section on Overview and Purpose of the work, EIOPA would like to highlight that the Key Principle outlined ("G-SIIs should	

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		be required by their group-wide supervisors to hold higher levels or regulatory capital than would be the case if they were not designated as G-SIIs") will only become effective once the Global framework is complete, because Higher Loss Absorbency (HLA) for G-SIIs will be calculated and added on top of the Insurance Capital Standard (ICS, applicable to all IAIGs). However, the principle seems to be stated in a broader sense, without making clear if and how it intends to be implemented before the ICS development is completed. Currently, there is not a consistent or comparable level of Prescribed Capital Requirements (PCR) around the World, therefore comparisons between the initial elements of the IAIS framework (BCR and HLA, developed to be comparable across jurisdictions) and existing PCRs should be limited/avoided.	
Insurance Europe	Europe	Insurance Europe welcomes the opportunity to contribute to the second International Association of Insurance Supervisors (IAIS) basic capital requirements (BCR) consultation. Solvency II is a modern risk-based system which was finalised after the financial crisis. Its measures have been subject to a long period of development and have been tested through several rounds of quantitative studies over the course of many years. As a result of this, the IAIS has the opportunity to draw on this work and experience. The IAIS should in particular avoid developing fractionally different versions of concepts already developed and tested for Solvency II because, in addition to the effort and work that this would generate for the IAIS, European G-SII would face unnecessary additional costs for doing such calculations. The IAIS should therefore take care to avoid reinventing the wheel where there is an adequate existing basis that they could use. Despite the additional details provided, a thorough assessment of the BCR calibration is not possible until other aspects such as the alpha scalar and the design and calibration of the higher loss absorbency (HLA) become more clear. Discussions on the BCR and the international capital standards (ICS) should be separated. It is too early to state that the ICS will replace the BCR and inappropriate to state that the BCR development will inform the ICS given that: i. there is not sufficient information available on the design of the ICS - for example, it's not yet clear whether the ICS is a measure or a set of standards/principles, and ii. the BCR and the ICS are being developed with distinctly different aims We note the clarification that the BCR currently under development would not apply beyond G-SIIs and agree that the scope of the BCR should be limited to the development of the HLA. Insurance Europe welcomes a fair value approach for assets and a best estimate approach for liabilities. However, while the discounting approach for liabilities avoids complexity, as acknowledged in the consultation document, it will not correctly reflect the long-term nature of the insurer's business. Moreover, the economic benefits of asset liability matching, diversification, profit sharing and non-proportional reinsurance are unfortunately not explicitly taken into account or have been completely ignored. It is not yet clear if the above simplifications are fatal flaws. Fatal flaws would be, for example, a BCR+HLA measure that bites too often or forces pro-cyclical behaviour. This will be influenced by	

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		the final calibration of the BCR and the design and calibration of the HLA. Insurance Europe strongly opposes current or potentially envisaged proposals aimed at: -introducing margin over current estimate (MOCE) as part of technical provisions - this would in effect be an additional provisions for the same risks that the capital requirements are intended to cover; -applying the ComFrame approach to capital tiering in the BCR, which we find unnecessarily restrictive. Looking ahead, Insurance Europe believes that it is very important that: -a consistent implementation of the new requirements is envisaged and ensured across jurisdictions; -the IAIS seeks to understand how the proposed measures would work if applied at different points in time, including periods of market stress; -the HLA development focuses on the systemically risky non-traditional and non-insurance (NTNI) activities, in line with the financial stability board (FSB) mandate. 2 While we understand that the ICS development may be "informed" by work on the BCR, it should be recognised that the BCR is a very crude capital measure. Given its different purpose, the design of the ICS would require considerably more work than has been allowed in the case of the BCR. 3 Insurance Europe disagrees with the principle put forward in the paper that "G-SIIs should hold higher levels of capital" than would otherwise be the case. This statement does not take into account the interaction between the BCR/HLA measures and local capital regimes. It also does not recognise that capital charges imposed via national legislation might be above the HLA uplift and therefore there would be no actual capital increase. Higher capital for G-SIIs is therefore not a valid objective in its own right. The key point should be that capital add-ons, if applied to G-SIIs, do not create unintended consequences. 5 Insurance Europe welcomes the acknowledgement that there are implementation and other issues that may affect the timeframes for ICS application.	
Bundesanstalt fr	Germany	BaFin welcomes the opportunity to provide comments on the work by the IAIS concerning the Basic Capital Requirement (BCR). We support the development of Global Capital Standards and believe this initiative will contribute to the enhancement of insurance supervision with regard	

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Finanzdienstleistungsaufsicht (BAFIN)		to Internationally Active Insurance Groups (IAIGs) and Globally Systemic Insurers (G-SIIs) by facilitating the cooperation of supervisors.	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	The GDV appreciates the opportunity to provide comments on the second consultation of the Basic Capital Requirements (BCR) for Global Systemically Important Insurers (G-SIIs). As expected, the approach pursued by the IAIS emerges in more detail which allows for more substantial and constructive comments of the insurance industry. Taking into account the next level of the BCR-evolution as outlined in the consultation paper, we reiterate our continuing support not only for developing a global capital standard for G-SIIs, but also for the intention to establish an aligned capital framework for all international active insurance groups (IAIGs) as eventually embodied by the ICS. However, a thorough assessment requires getting a full picture in terms of the actual calibration. Anticipating the impact on capitalization levels is not possible as long as both details on HLA requirements and essential BCR-components such as the final alpha factor, valuation measurements and definition of regulatory capital are not specified. We strongly request the IAIS to ensure a constant involvement of the industry before final decisions are made. We particularly welcome that the IAIS responds to urgent questions about the envisaged interaction between BCR, HLA and ICS once the global capital framework is due for full implementation in 2019. We explicitly agree with the conclusion that BCR and HLA are perceived as dependent components of one consolidated capital requirement. Therefore, we understand that the BCR will only serve as a basis for calibrating HLA on activities deemed to be systemically relevant and does not pursue any other regulatory purpose. As a result, it is -as now clarified in paragraph 31 of the consultation paper- consistent not to apply the BCR on IAIGs. Although we agree with this decision, we urge the IAIS to remain sensitive to level playing field issues. G-SIIs must not suffer competitive disadvantages compared to IAIGs and other contenders. This is one reason why we believe that the calibration of the BCR should stay at the currently envisaged 70 % of the PCR and therefore the alpha factor should not exceed 100% as currently assumed. The other reason is the strategic purpose of the BCR. As admitted by the IAIS, the design is intentionally simple and rough and consequently lacks an explicit recognition of important aspects such as diversification and ALM. Pushing the calibration of such a capital requirement artificially to higher limits would lead to disruptions with local standards and discourage G-SIIs from applying sound and sophisticated risk management practices. As regards the valuation approach chosen by the IAIS, we agree that comparability is vitally important. The GDV believes that the BCR -as well as the ICS- and the capital resources available to cover these requirements need to be built on a consistent and uniformly applied valuation framework which is suitable to capture the long-term business model of insurers. While we think that the current estimate of	

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		insurance liabilities and market value of assets are adequate cornerstones of such a framework, we are afraid that comparability is likely to be undermined if the corresponding measurements are derived from general-purpose balance sheets. Given the fundamental conceptual differences between accounting frameworks such as IFRS and US-GAAP and the lack of guidance how the adjustments are supposed to be executed in practice, we struggle to see how comparability and level playing field conditions ought to be ensured. The problems arising from such an approach are clearly illustrated by the controversial treatment of margins over current treatments (MOCE). Given the widely different margins applied due to different accounting regimes, massive implications on the BCR core and total ratios are inevitable. Therefore, we are convinced that the current estimate of insurance liabilities should only reflect the present value of expected cash flows arising from a contract and not include any other components or margins. If nevertheless the IAIS comes to the conclusion that an additional margin for remaining uncertainties must be considered, a methodology like the risk margin of Solvency II seems to be a desirable option. This would serve the aim to ensure comparability and not -as stated in paragraph 51- compensate for the lack of convergence in accounting standards. After all, we believe that a comparable valuation framework should be based on the cornerstones of current estimate for liabilities and market values for assets for BCR and ICS purposes, to be applied to both balance sheet items and the capital resources stemming from this balance sheet. Moreover, we generally welcome the notion about the ICS replacing the BCR, but would like to highlight important challenges of this process. First of all, the development of the ICS serves different purposes and sets different priorities compared to the BCR. Secondly, given its straightforward and simple conception, it is questionable whether the BCR can actually inform the ICS-development as intended to a large degree. Since the ICS is expected to be a more sophisticated and risk-sensitive and therefore more suited measure to reflect the overall risk profile of a G-SII it will differ fundamentally from the BCR in terms of construction as well as in terms of calibration level. We believe the transition of the HLA-basis must recognize these aspects and be supplemented by a re-calibration of the HLA to fulfil its regulatory goals under an ICS-regime in the same way as under the BCR. Finally we would like to use the opportunity to highlight again the need for an impact assessment once the HLA as the last component of the capital requirements for G-SIIs is adopted. Ambitious deadlines cannot justify the potential detrimental consequences if a new capital framework is implemented untested.	
Munich Re Group	Germany	Munich Re has been constructively accompanying the ComFrame discussions and the development of a group-wide global framework as this could ultimately lead to a convergence of existing local/regional regimes with benefits for both policyholders and the insurance industry. The work accomplished by IAIS within a very tight timeframe on capital standards addressed to systemically important insurers is impressive. The current BCR consultation is an important milestone towards the development of a global insurance capital standard (ICS) and as such of interest also for Munich Re. We therefore highly appreciate the opportunity to comment on the current proposal. Munich Re has been	

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		contributing to the industry positions through several trade associations; we would like to explicitly mention our support to the statements of the German Insurance Association (GDV). In the following we would therefore restrict ourselves to very few specific issues: - We would appreciate if the BCR formula would explicitly consider diversification effects. This can be achieved using a simple square-root formula between the risk categories - In general, BCR is not a sophisticated measure and therefore we can hardly imagine how this could inform the development of the ICS, should the latter reach a high level of sophistication and risk sensitivity. A linear formula cannot be the base for a state of the art ICS. We would therefore see BCR as a provisional measure (to be replaced by ICS) being the foundation of HLA. - Comparability is key: Therefore, we strongly believe that the choice of valuation should be decided very soon (we support an economic approach, as used in our internal model) and MOCE should be a component of the available capital. - Further clarification of the notion "non-qualifying reinsurance" is needed.	
International Credit Insurance & Surety Association (ICISA)	Global	ICISA appreciates the opportunity to submit comments on the Public Consultation Document of 9 July 2014, "Basic Capital Requirements for Global Systemically Important Insurers published by the International Association of Insurance Supervisors (IAIS). The International Credit Insurance & Surety Association (ICISA) brings together the world's leading companies that provide private credit insurance and/or surety bonds. Founded in 1928 as the first credit insurance association, the current members account for 95% of the world's private credit insurance business. Today, with over USD 2.7 trillion in trade receivables insured and billions of dollars worth of construction, services and infrastructure guaranteed, ICISA members play a central role in facilitating trade and economic development on all five continents and practically every country in the world. Some of our member's parent companies are named GSII's (AXA, Allianz, Ping An) and therefore need to be compliant to the BCR. This will be the case for more of our members will when the Internationally Active Insurance Groups (IAIGs) will be identified in the future.	
Global Federation of Insurance Associations	International	The Global Federation of Insurance Associations (GFIA) through its 38 member associations represents insurers that account for around 87% or more than $4.0 trillion in total insurance premiums worldwide. The GFIA welcomes the opportunity to provide input into the discussion. GFIA members will be doing individual responses to reflect their jurisdictions' perspectives, however, at a global level there are comments on the BCR consultation that are shared by industry worldwide. Responding to the BCR is complicated by the high level of uncertainty in many of its components which remain subject to change. For instance, the calibration of the alpha scalar will hugely impact the level of the BCR and thus ultimately the impact it will have on G-SIIs. In addition, the development of the HLA is separate from the BCR, which means there remains a great deal of uncertainty in what the final BCR+HLA measure will look like. How the BCR and HLA will apply together is still not clear to observers, and any assessment of the BCR will	

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		necessarily need to be viewed in the context of what the final measure looks like. While the desire to keep the valuation approach and capital assessment as simple as possible is understood, this is very difficult to achieve while at the same time creating a framework that works as intended across all the G-SIIs and across a range of economic conditions. Particular examples of simplifications that can potentially raise concerns are the exclusion of explicit recognition of risk mitigation techniques such as asset-liability matching, non-proportional reinsurance, profit sharing and diversification, all of which can have a very significant impact on the overall measure. Whether or not such simplifications can result in BCR/HLA measures that will cause problems by e.g. biting too often or forcing pro-cyclical behaviour will depend on the level of calibration of the BCR and design/calibration of the HLA and requires further testing. We are also concerned that the principle that "G-SIIs should hold higher levels of capital than would be the case if they were not designated as G-SIIs" could be misunderstood to mean the G-SIIs should automatically hold more than required under their local requirements. The IAIS should clarify that capital charges imposed via national legislation might be above the HLA uplift, in which case there would effectively be no capital increase. Higher capital for G-SIIs is therefore not a valid objective in its own right – rather it should be that the BCR/HLA framework provides additional reassurance that the GSIIs hold enough capital. The relationship between the BCR and the ICS also requires further clarification. From the consultation we understand that the development of the BCR is intended to inform the development of the ICS, and that the IAIS intends to replace the BCR with the ICS as the basis for the HLA. Both statements create concerns for us as we believe it is too early to say to what extent the ICS can actually be informed by and/or replace the BCR, especially given its simplicity and lack of sophistication. Given that the BCR and the ICS are being developed with significantly different purposes and timelines, transition from one to the other may not be appropriate or effective and therefore the discussions should be kept separated at this stage. The timeline of the development remains aggressive, and we continue to hope that the IAIS will not sacrifice the quality of the BCR in order to finalise the BCR on time. In line with the BCR principles, it should be expected that the IAIS has done extensive testing of the BCR before finalisation to ensure that it does not produce unintended negative consequences. However, we are concerned that the field testing exercise will not allow sufficient time for the necessary impact assessment and testing, in particular how the BCR works during periods of financial market stress. The current approach to valuation of liabilities leaves a lot of room for refinements to better reflect the long-term nature of the insurance business. We understand that the current approach was used for timing and simplification reasons, but future developments should consider how to improve this. The definition of qualifying capital resources is very prescriptive, and should be reconsidered to ensure that it is designed with the insurance industry in mind. Given that the BCR is designed as a going-concern measure, the current design of tiering capital should be reconsidered to be more appropriate for its purpose. We especially disagree with the idea of introducing MOCE as part of the technical provisions - which would in effect be additional provisions for the same risks that the capital requirements are intended to cover.	

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		Overall, we would like to express our appreciation for the thoughtfulness that the IAIS has demonstrated in this BCR consultation document, and we recognise the IAIS' desire to deliver a workable BCR proposal later this year. That said, to increase confidence in the quality and effectiveness of the BCR, future refinements should be allowed for and extensive empirical testing will need to be done. Equally, we urge the IAIS to provide sufficient comment periods for expected public consultations. The GFIA is keen to provide input into these discussions going forward and intends to assist the IAIS however it can.	
International Actuarial Association	International	The factor based approach is a practical way to create an approximate measure of required capital levels and is an approach used both in the US and in Solvency II. The document shows good self-awareness of the limitations of such an approach, the trial nature of its use that will be undergone over the next few years, and what has already been learned through the field testing process so far. Our major observations (which will be detailed below) address the following topics which are of particular interest to the IAA: 1. How to address on an ongoing basis the risk sensitivity shortcomings of whatever becomes the recommended BCR factor approach? 2. Recommended improvements for the BCR itself. 3. Recommended focus on items that need to be addressed from first principles if carried over into the ICS requirements (BCR methods & approaches which may work for a small set of GSII's, may not translate easily to an International Capital Standard or may need further development as work continues on an HLA charge). 4. Some questions and suggestions to manage the issue of Current Estimates through actuarial standards. We think it would be helpful to focus on the outcome that is desired by the IAIS i.e. estimates without any conservatism/margin in them and then have the actuarial profession address the methods and principles to use to achieve that purpose. The IAA Council has already added a proposed IAA global actuarial standard on BCR current estimates to its official proposed International Standard of Actuarial Practice list and a Statement of Intent for this standard is currently under consultation.	
Financial Services Agency	Japan	Financial Services Agency of Japan ("JFSA" or "we") generally supports the direction of the BCR proposal set out in the consultation document. We agree that the proposed BCR design, the factor-based approach, would strike a balance between the principles, approporiate risk sensitivity and simpleness in particular, consistent with the mandate from the FSB, thereby eliminating a non-risk sensitive model such as the leverage ratio in the banking context. Relating to the paragraph 15, we especially appreciate the last sentence highlighting the necessity of proper adjustment to reflect the specific characteristics of insurance liabilities. We believe that the IAIS should maintain this point as a high level principle for further deliberations and future discussion in developing insurance capital standards. On the other hand, we would like to express our concern over the proposed current estimate approach based on our internal assessment of the results, which could create excessive fluctuations in the balance sheet of insurers, especially for those with long-term liabilities of insurance products due to its assumption employed in the discount rate curve. When the liability position would be fluctuated according to the assumption embedded in the discount rate curve, supervisors could not appropriately validate the proper level of insurance liabilities to be	

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		held by insurers under the proposed approach. In this context, further assessments such as a time series analysis will be needed especially in light of the long-term nature of insurance products through the process of field testing, which would be warranted to ensure that the BCR framework should be implementable to the insurers with long-term liabilities. In the calculation of required capital, we feel that the proposed framework lacks clarity of the treatment of off balance sheet exposures including those associated with hedging and non-hedging derivatives, while the consultation document has noted that the "off balance sheet" exposure should be properly captured in the paragraph 14.	
The General Insurance Association of Japan	Japan	- We would like to express our respect for the IAIS having set out the BCR proposal, which strikes a good balance between comparability and risk sensitivity within this very limited timeframe. - We also welcome this opportunity for the industry to express its opinions and the IAIS's endeavors toward further calibration work.	
The Life Insurance Association of Japan	Japan	We, The Life Insurance Association of Japan (LIAJ), would like to extend our gratitude to the IAIS for providing us with an opportunity to submit our comments on this public consultation document. We also would like to express our respect to the IAIS for its efforts in developing global Basic Capital Requirements (BCR) for Global Systemically Important Insurers (G-SIIs). We understand that the BCR are expected to apply to G-SIIs, and that the development of the ICS will be informed by the work on the BCR. Therefore, please note that our comments described below give due regard to the expected development of ICS in the future. Given the tight timeframe required for development of common capital requirements for G-SIIs, we understand that it is reasonable to make its design simple as proposed in this consultation document. We believe that measures for mitigating the impact on insurance liability valuations and market risk assessments would be essential when applying the market adjusted valuation approach for assessing insurance assets and liabilities, in order to reduce excessive volatility of the financial soundness of insurers due to short-term market fluctuations. We hope that these measures will be further considered during the development of the ICS. We understand that G-SIIs are required to have higher loss absorbency (HLA). This public consultation provides an opportunity for comments on the BCR proposal which serves as a basis for the application of the proposed HLA. Thus, given that the development of the ICS will be informed by the BCR, if the levels of the basis including the ICS were set at excessively conservative levels, we are concerned that insurers' capital efficiency might be decreased, and thereby, lead to negative impacts such that the interests of policyholders and investors would be significantly reduced. Therefore, we would very much appreciate if the IAIS will take this into account in future discussions. As shown in Annex H, field testing volunteers have ample levels of capital adequacy exceeding the level of the PCR, and as a result they have sufficient capital exceeding the level required by national regulation in each jurisdiction. There will be a need for reconsidering the level of required capital in the manner that the BCR and the HLA are jointly treated, considering the intention of the IAIS to develop the BCR and the HLA to be applied to insurance groups exposed to systemic risks. In addition to this, policy measures for addressing breaches against the BCR and/or the HLA should also be considered. We believe that when developing regulations for the G-SIIs as well as for individual insurers, the IAIS would not be able to pursue discussions on prudential regulations without presenting	

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		an overview on prudential regulations for insurers including these policy measures on breaches. When determining the level of the BCR plus the HLA, additional considerations should be given focusing on how NTNI risks could be adequately assessed and how capital charges for NTNI risks could be imposed, in the context of utilizing lessons learnt and reflections from the past global financial crisis.	
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	KNF welcomes the opportunity to provide comments on IAIS Proposal for Basic Capital Requirements for Globally Systemically Important Insurers (G-SIIs) at different stages of development. KNF also appreciates the significant progress made in BCR development proved by the level of detail presented in this Consultation Document.	
The Global Reinsurance Forum	Switzerland	The Global Reinsurance Forum (GRF), whose membership accounts for 65% of global net reinsurance premiums, is pleased to contribute to the IAIS consultation process on the capital standards addressed to G-SII's and IAIG's. We would like to reiterate our ongoing interest to be involved and provide technical input to further development of these standards. We fully support the comments jointly submitted by the IIF and The Geneva Association. The second consultation document on the BCR is clarifying many issues that would shape its final design. The fact that this has been made within an extremely tight time schedule deserves our respect. We also realise and appreciate in the current proposal the consideration of points that have been raised by the GRF and the insurance industry, e.g. consideration of the risk mitigating effect of reinsurance (at least partially), appropriate valuation principles, inclusion of a measure against pro-cyclicality etc. Given the timetable for the BCR development, there are inevitably areas that should be revisited and improved over time. We would like to underline the following: - Recognition of risk mitigating effects from (especially) non-proportional reinsurance - Lack of explicit reflection of diversification benefits, being a core element of the reinsurance business model, most notably the geographical diversification of risks - ALM risks not being considered Overall, we feel that the current BCR proposal doesn't capture the risk profile of a global reinsurer properly (as it is not primarily addressed to reinsurers). It is important that this should be the case when developing the international insurance capital standards; misstating the risk profile could give the wrong incentives to reinsurers (increasing for example their risk concentrations). Therefore, it's very difficult for us to assess adequately how the BCR in its current design could inform the development of a sophisticated and risk sensitive measure like the envisaged ICS.	

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		Furthermore, we believe that the choice of the valuation basis for the BCR should be decided very soon; we strongly support an economic valuation of assets and liabilities and the use of internal models in this respect. For companies having economic balance sheets in place, it would be more appropriate to consider these as the starting point (instead of artificially adjusting GAAP or IFRS figures). From a reinsurer's perspective the notion of "non-qualifying reinsurance" needs further clarification. We understand that risk mitigating effects can be only considered on the basis of executed and legally binding reinsurance contracts but we have serious concerns about the interpretation of the notion "non-qualifying reinsurance" in various jurisdictions.	
Association of British Insurers (ABI)	United Kingdom	The Association of British Insurers would like to thank the IAIS for providing further details on the development of the BCR and for opening this to public consultation. We would like to support the submission made by Insurance Europe and also commend the response submitted by the group of European G-SIIs. We look forward to our continued engagement with the IAIS on its global capital measures agenda.	
Institute and Faculty of Actuaries	United Kingdom	The Institute and Faculty of Actuaries (IFoA) welcomes the opportunity to respond to the IAIS's Consultative Document on the development of Basic Capital Requirements (BCR) for Global Systemically Important Insurers (G-SIIs). Actuaries have significant involvement in the field of capital requirements and undertake important roles, both within the insurance industry, and the regulation of it. This response has been prepared by the IFoA's Global Capital Standards Working Party; its members have experience of, and expertise in, the insurance industry and its regulation. Summary of our response We support the calibration of the BCR measure using relevant recent financial data and other regulatory information; the planned refinements to the calibration in light of experience; and the acknowledgement of the limitations of the measure within the calibration document. As described in the consultation document, the intentionally simple design of the BCR has limited risk sensitivity. The causes of this include the use of a factor-based approach and the omission of certain important factors, such as the degree of asset-liability matching and diversification, from the BCR formula. We appreciate that the BCR has been developed with the restricted population of G-SIIs in mind. However, if some of the simplified elements of the BCR calculation were carried forward into the development of the insurance capital standard (ICS) and applied to the larger and more	

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		diverse population of Internationally Active Insurance Groups (IAIGs), then the consequences for some of these groups could be significant. Under current proposals, very different product types are grouped together for BCR purposes and this may limit the comparability of results between different companies with different business mixes (or, indeed, the same company over time - if its business mix changes rapidly). Increased comparability and a closer relationship between the capital requirement and risk could be obtained by segmentation that creates more homogenous groups in regard to risk characteristics than is currently proposed. An example is variable annuities, which are offered with significantly different guarantees in different markets and, hence, can have different levels of risk. Finally, while we are generally supportive of the current estimate methodology described in Annex C, it is important to note the potential consequences associated with the construction of the discount curve (as described in paragraphs 44-52), in particular, the adjustment based on corporate bond indices, which is based on 40 per cent of the spread on a corporate bond index. In general, where a framework involves the use of actual asset values, but uses a liability discount curve that is not based on the assets held, a disconnect between assets and liabilities can result. This can lead to non-economic investment policies, a risk of pro-cyclicality, and difficulties in hedging. In order to reflect the long term nature of insurance liabilities and to avoid undesirable consequences for the consumer and for the capital markets, we suggest that the discount rate for liabilities should relate to the expected return on assets that insurers would hold. When setting discount rates, we suggest the IAIS examines how to take into account the assets that the insurer uses to cover the liabilities; adjusting for expected losses through default or other actions. This brings the liability and capital regimes onto a common base and avoids the IAIS regime changing the economics, other than where the consequent required risk capital acts as the driver.	
ACE Group	United States	ACE appreciates the opportunity to comment on the July 9th, 2014 BCR consultation document. While ACE is not a G-SII and the BCR will not apply to us, the work undertaken developing the BCR will be the basis of an ICS and therefore it is important that we continue to express our concerns and scepticism about the need for and efficacy of an ICS. We continue to believe that too much time and attention is being directed to developing an ICS that will not improve the supervision of IAIG's and actually could harm supervision by creating a false sense of security and detract from the more important aspects of supervision. In our view the primary objective for supervisors of an IAIG should be to determine whether the IAIG has strong and effective risk management. We do not agree that there is a conceptual or practical basis to mandate a "group" capital standard. A group capital requirement ignores current regulatory structures, which focus on legal entity capital requirements. An insurance group with legal entities operating in many jurisdictions already must comply with the local capital requirements in the countries in which it does business. Given these existing statutory requirements, we do not understand how a "group" capital standard could be practically implemented, since no jurisdiction can require another to increase its capital requirements or to mandate the transfer of capital between legal entities. We also do not accept comparability as a desirable or achievable goal; therefore, we have concerns about the considerable work effort to	

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		create an additional financial statement merely for the goal of ComFrame comparability. An ICS is being pursued without any cost-benefit analysis regarding whether the outcome will improve supervision of insurers sufficient to justify the cost. Since we do not accept the premise of comparability or the perceived benefits of a global standard, for us, the "benefits" do not justify the costs to companies and ultimately consumers. Different approaches to valuation is just one reason why we do not see an ICS as an achievable goal, but differences in the risk management framework among IAIG's are equally important. We are particularly concerned that an ICS will not replace public financial reporting or statutory reporting and will be in addition to current reporting. We are very opposed to a requirement to produce a third set of financial statements for the sole purpose of satisfying a ComFrame requirement.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	The undersigned U.S. companies have been actively engaged in evaluating the International Association of Insurance Supervisors' ("IAIS") Public Consultation Document - Basic Capital Requirements for Global Systemically Important Insurers ("BCR Proposal"). The BCR, which is intended to be the basic capital requirement to be completed by November 2014, will serve as the foundation on which the higher-loss absorbency ("HLA") capital requirements will be based. Together, these requirements will apply to international insurers designated as Globally Systemically Important Insurers ("G-SIIs") as part of work by the IAIS on systemic risk under the leadership of the Financial Stability Board and G-20. Our primary interest in the BCR Proposal relates to the fact that the IAIS has indicated that its work on the BCR will inform the development of the insurance capital standard ("ICS"), which will apply to all Internationally Active Insurance Groups ("IAIGs") beginning in 2019. Moreover, once applied to G-SIIs and IAIGs, it is conceivable that national solvency regulators could extend the requirements more broadly. Our primary accounting concern with the BCR Proposal is that it requires the introduction and application of a unique accounting framework that is not in place in the U.S., and while it suggests that values produced by other frameworks may be acceptable if they produce close approximations, this would require market consistent accounting computations be developed and maintained to support such an assertion. We believe this would be an extraordinarily expensive undertaking for U.S. insurers. In addition to the substantial cost, we are also concerned about the prospect of implementing an accounting approach that was extensively evaluated and rejected by the U.S. Financial Accounting Standards Board and National Association of Insurance Commissioners and for which there is no substantial historical empirical support of its efficacy. Accordingly, we ask the IAIS to consider a more "inclusive" position on the acceptance of alternative measurement/accounting frameworks and capital adequacy measurement tools so long as they can be	

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		determined to meet the basic quantitative and qualitative objectives of the BCR. In particular, we would like to work with the IAIS in developing standards , pursuant to paragraph 30 of the May 2014 ICS Conceptual Memorandum, that define elements necessary to determine if a jurisdictional group solvency regime satisfy the objective of "at least as robust" as the IAIS global capital standard. Such standards would assist the IAIS in meeting its objective of developing an international group solvency standard, which is comparable at a high level, while not burdening insurance groups with the additional cost associated with implementing and maintaining a new accounting system along with increased volatility in its capital management structure. We look forward to working with the IAIS to accomplish the important objectives set forth in this BCR Proposal.	
American Council of Life Insurers	United States	In paragraph 2, the IAIS notes that the "development of the BCR is the first step of the IAIS project to develop group-wide capital standards. We are deeply concerned that the drive to a new, globally consistent balance sheet is not practical because it may ultimately pose a barrier to the adoption of standards that are tied to the new globally consistent balance sheet. In paragraph 3, the IAIS states that G-SIIs should be required to hold higher levels of regulatory capital than would otherwise be the case and that the BCR and HLA, at least initially, will achieve that goal. We respectfully seek additional clarification on whether the requirement to hold higher levels of regulatory capital is intended to be an additional layer on top of existing local standards or on top of the future IAIS Insurance Capital Standard.	
Institute of International Finance - IIF	United States	The joint IIF/GA BCR Task Force would like to thank the IAIS for the opportunity to provide feedback on the latest Basic Capital Requirement ("BCR') Consultation Document ("CD'). We very much appreciate the ongoing dialogue which we have been afforded. Our joint Task Force comprises a broad range of insurance companies including both G-SII and non G-SII members. Our comments emphasize the concerns of the G-SIIs who are immediately subject to the BCR, but input was received from non G-SIIs. The application of the IAIS's proposals will give rise to specific considerations, which may be addressed through individual responses. General comments We have aimed to engage constructively with the IAIS throughout the development of the BCR and are pleased that some of our points have been considered, including the allowance for the risk mitigating effect of reinsurance through the use of net technical provisions and	

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		the principles for valuation that we shared in February 2014. We welcome the increased clarity provided by the CD. It confirms that the BCR will be calculated on a consolidated group wide basis, developed to reflect major categories of risk impacting G-SIIs consisting of three basic components (insurance, banking and noninsurance), and calculated using 15 factors applying to specific segments of insurance activities. This is in line with our previous discussions and expectations. We recognise that the BCR is being developed with the aim of establishing a simple and comparable basis that will serve as the foundation for the Higher Loss Absorbency ("HLA'). As a result, the BCR is by design a more simplified tool that will not fully reflect the complexities of the insurance business model such as diversification and asset-liability management which will not be explicitly factored into the BCR. Since the CD has been developed under an ambitious timetable, it leaves a number of areas unclear or unresolved. These areas include the treatment of Margin Over Current Estimate ("MOCE'), the classification of assets and liabilities into segments, the determination of current estimates for certain products, the definition of non-qualifying reinsurance, the final level of the alpha scalar factor and the tiering of available capital into core and additional. Additional time and further discussions are needed to obtain more clarity on these and other issues in order to achieve sufficient comparability, a level playing field among G-SIIs and ultimately consistent application of the BCR. Moreover, these unresolved areas are critical in determining the impact of the BCR on GSIIs' capital requirements and thus we are unable to fully assess the overall appropriateness of the BCR in its current form. The appropriateness and impact of the BCR cannot be fully assessed without consideration of the HLA, which remains a key missing piece of the quantitative measures identified by the FSB for G-SIIs alongside enhanced supervision and recovery & resolution planning requirements. Beyond simplicity, the IAIS objective was to have a BCR that would be comparable across jurisdictions. Such an objective is a must in the prospect of setting up an even basis for	

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		HLA and dealing with level playing field issues across jurisdictions. It also means that any new regulation covering G-SIIs would ultimately need to apply and be implemented in a manner which achieves reasonable comparability across G-SIIs to ensure a level playing field while recognising that national policy makers and supervisors may use discretion when implementing the BCR and HLA to make certain that the standards meet jurisdictional requirements and market concerns. We would suggest that such a critical and key objective be explicitly stated in any final standard issued by the IAIS, with the recognition of the need for political agreement to ensure implementation. Introducing new rules specific to G-SIIs for comparability purposes might have severe distortion effects compared to non-G-SIIs, who will not be subjected to the same rules. In addition, it must be recognized that to the extent that the design of the BCR differs from an existing or emerging framework applicable to G-SIIs, changes to national law may be required for the BCR to be implemented. We welcome the confirmation that BCR will be reported to supervisors confidentially until 2019. We would strongly recommend that this be made clear in the final BCR proposal to manage market expectations alongside a clear explanation of the purpose of this private reporting to supervisors during that period. We would also recommend that the BCR reporting occur on an annual basis with appropriate reporting deadlines. We fully expect that during this confidential reporting period, the IAIS will engage with industry/G-SIIs and consider ways to resolve the shortcomings of the BCR, especially those aspects which will be carried forward into the HLA and ICS. In the context of field testing, we would also note that a full bottom-up implementation of the BCR proposal for Q2 2015 for all volunteers will be significant challenge, if not a near impossibility, even if the requirements were already finalized. Thus, to make future field testing meaningful, we would request that discussions regarding the specifications for next year begin as soon as possible. We have a number of specific comments on the design and calibration of the BCR as proposed in the CD provided in the detailed comments section of our response. However, we would like to specifically highlight the following key concerns: - Financial resources available to cover BCR requirement & tiering - we have concerns	

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		with the definition of and restrictions applied to capital resources including the proposed tiering. For member firms, compatibility with existing regimes is important. If change to national regimes were deemed necessary, then transitional provisions should be introduced in order to allow firms to adapt their capital base over an appropriate period of time without creating market distortions. - Clarity of the purpose and level of the alpha scalar factor - we note that the final level of the alpha scalar may be subject to ongoing discussions. However, the rationale for this factor and whether there is underlying overall calibration target for the BCR are unclear. - MOCE - we would be concerned should any part of MOCE be re-introduced as part of insurance liabilities as it would be a step backward in comparability. We strongly believe that the entire MOCE should be included in Core capital, reflecting the ability of that margin to absorb unexpected losses. - Contracts with Participating and Other Risk Mitigating Features - we have concerns with a 100% charge being applied to assets backing participating contracts in addition to a capital charge on liabilities resulting from these contracts. This would result in double counting of risk and in an undue capital charge for market risk when the downside risk can be contractually passed to policyholders. We support further IAIS consideration as to how the loss absorbing capacity of such contracts can be taken into account. Similar concerns apply to a range of contracts that have profit sharing or risk mitigating features embedded in their product structures. - Financial activities which are subjected to neither banking nor insurance regulation - We believe that the same treatment should apply for all participants in any given market to ensure a level playing field, regardless of the ultimate owner. For insurance-owned non-bank non-insurance (NBNI) activities we therefore strongly oppose the application of a 25bp charge on AUM for G-SIIs. Such a measure would significantly alter the playing field not only between G-SIIs and non-G-SIIs, but also G-SIIs and other participants in these businesses. - Property Valuation - since valuations may differ under different accounting regimes it is important that insurers have the ability to value at market value both	

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		investment and owner occupied property to ensure consistency. - Unrated/Internal/ Local rated assets - we do not agree with treating all but global rated assets as sub-investment grade. This is overly conservative, given the significant expertise and sophisticated techniques that G-SIIs have for assessing the credit quality of exposures and is inconsistent with the FSB´s commitment to reduce reliance on external credit ratings. The lack of a global investment grade rating does not necessarily mean the asset is sub-investment grade. Further, we do not agree with the treatment of policy loans as non-investment grade. In the event of default of the borrower these loans would be directly offset against liabilities towards policyholders and as such do not pose risk to the insurer in the event of default. - Long term nature of insurance and the yield curve - The proposed BCR construction is likely to generate results that are very volatile. The long term and illiquid nature of some insurance liabilities makes insurance undertakings less exposed to losses from the forced sale of assets. This key feature needs to be appropriately reflected in the way the BCR available and required capital are calculated, to avoid incentivizing pro-cyclical behaviours in times of stress. We will monitor with interest the ongoing deliberations of the IAIS in relation to developing yield curves to mitigate volatility and pro-cyclicality, including use of the longest tenor of observed rates and to extend the yield curve, which in our view needs to be more stable with long term parameters by being based more on historical data in the absence of credible market information. - Minority Interest - the treatment of minority interest is currently not clear, in both the calculation of BCR and Qualifying Capital Resources the treatment should be consistent. Based on our preliminary discussions with the IAIS we understand that this is an issue that the IAIS intends to address. - Contract Boundaries - The stated basis for the BCR is that it should be an economic view of our businesses, based on realistic, best estimate assumptions and observable data. The basis for the liabilities is to be without conservatism or margins (explicit or implicit). Furthermore, the BCR CD stresses the importance of substance over form. A major deviation from this desired approach for the BCR is the requirement that we apply a strict legal definition to the contract boundaries of products. Instead, as for all other assumptions	

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		used for the calculation of insurance liabilities, contract boundaries should be established on a best estimate basis. *** We hope these comments are useful as the IAIS considers the way forward in this area. Given the complexity of these issues, we believe direct dialogue with the industry is essential and appreciate the IAIS's willingness to engage in that dialogue. The IIF and GA stand ready to provide additional views or clarifications. Should you have any questions on the issues raised in this letter, please contact Andres Portilla (aportilla@iif.com), Yannis Pitaras (ypitaras@iif.com), Felipe Valdez (fvaldez@iif.com), or Kathrin Hoppe (kathrin_hoppe@genevaassociation.org). Very truly yours, Kevin Nixon, Kathrin Hoppe	
Liberty Mutual Insurance Group	United States	Liberty Mutual has reviewed the July 9, 2014 Consultation Document on a BCR for G-SIIs. This has been developed within an extraordinary short timeframe and is clearly a huge undertaking. We note the tremendous effort that the IAIS team has dedicated to this project and appreciate the opportunity to comment on the proposal. Notwithstanding the effort of the IAIS, and the significant commitment of time and resources by those companies who volunteered to be field-tested, the consultation document demonstrates clearly that the BCR is far more complicated than the IAIS, and probably the FSB, originally envisioned. As a result, the BCR is being developed on a timeline that precludes the type of careful analysis, development and testing that is necessary to ensure the BCR is effective. As discussed in more detail later in our comments, certain elements in the proposed design have been compromised during the design process, including the following: 1. The lack of a well explained basis for the tiered approach to capital and the unclear distinctions between types of capital; 2. The elimination of express provision for ALM and diversification; 3. A valuation methodology based in substantial part on "best estimates;" and	

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		4. A rather arbitrary process for segmentation, contract boundaries, and the resulting Factor Values. Given these outstanding issues and other remaining challenges, before the IAIC commences development of an ICS, or announces a firm time table for doing so, the IAIS should focus on the primary reason it started the process of designing a new global capital assessment regime, which is the need for capital standards that protect against systemic risk posed by G-SIIs. Consistent with that mandate, the first order of business for the IAIS should be to complete an effective BCR that has not been compromised by an arbitrary time frame. Only after that objective is accomplished should the IAIS begin to consider when and how to develop an ICS. The current BCR design has too many gaps and flaws to be considered a finished product. The compromises the IAIS has made (which include matters the IAIS has previously indicated were important to address) materially reduce the effectiveness of the BCR. Let us take the time necessary to deliberate over the many open issues, resolve them, and develop an effective BCR before commencing development of an ICS. The challenges of the BCR will only multiply during the development of a surely more sophisticated ICS. In previous comments Liberty Mutual expressed the view that developing a one-size-fits-all quantitative capital requirement would face major inherent design challenges. Those comments addressed both theoretical concerns as well as practical obstacles. We are frustrated that for whatever reasons, perhaps due to the compressed timeframe, the drafters of the BCR chose not to incorporate those comments and similar comments by other insurance groups into the current BCR design. We strongly believe the IAIS must continue its work in a truly collaborative manner with the industry to develop a workable and more rational BCR. The current BCR design will also not provide supervisors with information sufficient to accomplish any objective related to "comparability." Liberty Mutual believes the better goal is to seek "consistency" in capital assessment rather than "comparability" via a quantitative capital requirement. The weaknesses in the current BCR design, clearly revealed during field-testing, support our continuing advocacy for developing a principles based approach to capital assessment, rather than a single set of quantitative capital requirements. Liberty Mutual supports the goal of ComFrame to enhance group wide supervision, including provisions that will allow for consistent cross-border assessment of capital adequacy. Unfortunately, the BCR design in the July 9, 2014 Public Consultation Document will not advance this objective.	
Property Casualty Insurers Association of America (PCI)	United States	PCI agrees with the IAIS' decision that the BCR should apply only to G-SIIs, and we also agree with the decision that, for non-life liability valuation, companies may use their current GAAP valuations rather than the "current estimate" method. There are a number of other structural issues, however, that the IAIS must address before the effect and appropriateness of the BCR can be determined: - What will happen to the BCR when the ICS is developed and becomes the basis for the additional HLA capital charges for G-SIIs? - Until we know the level of the alpha scalar in the BCR formula (paragraph 19, currently set at 1.00) and the factors for the HLA charges are determined, it will be impossible to assess the impact of the BCR (with the HLA) on G-SIIs. We continue to urge that the BCR be a minimum capital requirement, rather than an intermediate one in between the PCR (prescribed capital requirement) and MCR (minimum capital	

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		requirement). - What actions, if any, will supervisors be required to take if the BCR/HLA is breached? In addition, - The timetable remains too compressed to avoid unintended consequences; - The "tiering" concept for capital resources should not be applied to the BCR; - Jurisdictional, rather than global, credit ratings should be used to determine whether assets are investment-grade or non-investment grade; and - The BCR should be a minimum capital standard, rather than calibrated at a level between a PCR (prescribed capital requirement) and an MCR (minimum capital requirement).	
American Insurance Association	United States of America	SUMMISSION OF THE AMERICAN INSURANCE ASSOCIATION ON THE BASIC CAPITAL REQUIREMENT FOR GLOBAL SYSTEMICALLY IMPORTANT INSURERS PUBLIC CONSULTATION DOCUMENT I. Overview The American Insurance Association (AIA) appreciates the opportunity to submit comments on the International Association of Insurance Supervisors (IAIS) July 9, 2014 Public Consultation Document, "Basic Capital Requirements for Global Systemically Important Insurers" (the BCR Proposal or Proposal). AIA represents approximately 300 major U.S. insurance companies that provide all lines of property-casualty insurance to consumers and businesses in the United States and around the world. AIA members write more than $117 billion annually in U.S. property-casualty premiums and approximately $225 billion annually in worldwide property-casualty premiums. AIA's membership includes U.S. insurers that write insurance only within the U.S., U.S. insurers that write insurance inside and outside the U.S., and insurers that are U.S. subsidiaries of multinational insurers. This membership diversity enables AIA to analyze issues from many perspectives and enables us to draw on the global experience and expertise of our companies with many forms of insurance regulation. As stated in the Proposal, the IAIS intends the Basic Capital Requirement (BCR) to serve as the first step in the development of "group-wide global capital standards." The second step will be development of Higher Loss Absorbency (HLA) requirements for Global Systemically Important Insurers (G-SIIs), followed by "development of a risk based group-wide global insurance capital standard (ICS), due to be completed by the end of 2016, and to be applied to Internationally Active Insurance Groups (IAIGs) from 2019 after refinement and calibration in 2017 and 2018." (1.1.2) According to the Proposal, a "primary goal of the BCR is to introduce a common measure for capital assessment to be used as a comparable foundation for the calculation of HLA." (1.1.3). We understand the value of that goal, but recognize the difficulty of balancing comparability and jurisdictional coherence; simplicity and valid output. We hope that our comments will assist the IAIS in achieving a workable balance for the BCR among regulators, the G-SIIs, and other stakeholders.	

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		II. Distinction Between G-SIIs and IAIGs Having identified nine insurers as G-SIIs in July 2013, the Financial Stability Board (FSB) is now faced with the prospect of determining how to mitigate the risk these insurers pose to the global economy. At the same time, the FSB has tasked the IAIS with designing a comprehensive, group-wide supervisory and regulatory framework for IAIGs, including an ICS. As is clear from the development of the Common Framework for Supervision of IAIGs (ComFrame), of which ICS is a component, the number of IAIGs will be larger than the group of G-SIIs, and the focus for IAIG supervision will be on effective, on-going group-wide supervision rather than systemic risk mitigation. As a result of the different purposes and the intended scope of these two workstreams, we urge the IAIS to proceed cautiously, with respect to the extent to which the ICS is "informed" by the work on the BCR, as well as the temporary nature of the BCR as the foundation for HLA requirements applied to the G-SIIs. As the Proposal states clearly, the HLA and the BCR together will "address additional capital requirements for G-SIIs reflecting their systemic importance in the international financial system." (1.1.2) However, the IAIS must not confuse the distinct purposes of the BCR and the ICS. A foundational standard for policy measures applicable only to G-SIIs is not interchangeable with a standard appropriate for IAIGs. While the IAIS and the FSB should learn from the work done on the BCR in developing the ICS, the interplay must be strictly "informational," to use the IAIS' own term. Otherwise, the IAIS risks blurring important distinctions between the G-SIIs and IAIGs, including the risk that this conflation would be perpetuated by local, national or regional authorities. Equally important, in the United States, as a result of the Dodd-Frank Act, our Federal Reserve Board is implementing rules that maintain regulatory distinctions between systemically important insurers, insurers that are organized under a bank or thrift holding company structure, and those insurance groups that remain subject to state-based insurance regulation. Development of an ambiguous BCR that is indistinguishable from a specific ICS may undercut that national law and the important economic and marketplace strength it seeks to support. III. Diversification We remain deeply concerned about the lack of explicit credit given to companies for diversification of their products and their investments, including the lack of specificity in the measures that the IAIS plans to use in the BCR to measure diversification. After "further exploration" following the December 2013 BCR proposal, this Proposal states, "[w]hile it would be appropriate to reflect the effect of diversification between major risk drivers in the ICS, the technical complexity of doing so explicitly in the BCR formula is inconsistent with its simple design." (2.2.4.24). AIA must respectfully disagree. If the IAIS intends to advance a meaningful proposal to functional supervisors to require the world's most "systemically important" insurers to increase their reserved capital, it cannot simply relegate one of the most important measures insurers utilize to manage and mitigate risk. While we agree that simplicity and comparability are important, those potentially conflicting goals must ultimately yield to validity of the measure as the paramount objective. Any other course of action threatens to undermine the entire BCR process, and leaves the G-SIIs without recourse to utilize one of their most important risk mitigation tools in meeting the BCR standard. Furthermore, the IAIS' approach to diversification underscores non-G-SIIs' concern about the long-term linkage between the BCR process and development of the ICS standards. While we understand that the IAIS intended to quash these concerns by promising that consideration of diversification will be "appropriate" for the ICS, such general representations provide little comfort to insurers who feel strongly that it is equally appropriate to consider for the BCR. IV. Proposed BCR Approach	

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		A. BCR Ratio (3.2.34) Because G-SIIs' portfolios are so complex, and differ from one another, reducing the BCR to a comparative ratio elevates simplicity over utility. We would urge the IAIS to reinforce its use of metrics through renewed reference to the qualitative aspects inherent in overall group capital adequacy assessment. B. Required Capital (3.3.35) Footnote 7 indicates the initial calibration level will be determined following analysis of additional data from field testing participants in July and August. However, given the important role of the alpha scalar, it would be useful to understand the level of scalar that will be used. As it is an overall multiplier of the BCR required capital formula, information on the actual level of the scalar is critical to understanding the real impact the BCR will have on G-SIIs in 2015. The absence of this information makes it difficult to understand the ultimate outcomes of the BCR formula, and therefore to provide meaningful comment. C. Segments (3.4.36) As part of AIA's comments on the G-SII Assessment Methodology and the Policy Measures, we have consistently maintained that the IAIS approach to systemic risk assessment of insurers has suffered because of its isolation of the insurance sector from other non-bank financial sectors. In other words, viewing systemic risk only from an insurance lens, rather than through the broader lens of the financial system and its different product sectors, will inevitably result in flawed and mischaracterized views of some insurance lines and activities as presenting risk to global financial stability that does not exist. We continue to believe that the segmentation approach of the BCR illustrates our point. Taking products out of context of the role they play within an overall entity and an overall market do not provide a good proxy for risk. Pulling out a particular type of product and assigning it a factor value independent of how a company uses that product as part of its business, and independent of how that product is used in the local market overall, produces an inaccurate and skewed picture of a company's overall risk exposure. Given the small number of companies involved in the BCR, it might not be too burdensome to allow for a sliding scale with a national factor calibration as a more appropriate proxy for risk. Characterizing products out of context runs the risk of unfairly disincentivizing companies from offering these products, which could have negative effects on consumers and markets. More specifically, we believe that surety, trade credit and political risk insurance should be included in, or at least treated in the same way, as the Traditional Non-Life/Property category; Current Estimate or Notional Value would be inappropriate as an exposure measure. Current Estimates are not forward looking and do not correctly reflect how these risks are underwritten. Volatility in the market would increase by over-emphasising past events. Further, Current Estimates cannot reflect sufficiently the dynamic exposure management of the credit insurance industry as and when it reacts to the economic events involved in trade credit and political risk insurance. Equally important, surety, generates minimal, if any, systemic risk as compared to other types of traditional and non-traditional insurance, since once of its defining characteristics is qualifying the principal for the obligation insured and the ability to repay any losses. Therefore we believe that surety, trade credit insurance and political risk insurance should be categorized within the "Traditional Non-Life /Property" segment, but with the net written premium as proxy for the Exposure Measure instead of the Current Estimate/Notional Value. Since trade credit insurance was not in this segment in the Field Test, we cannot comment if the Factor Value (7.5%) for this sub-segment is a valid one for trade credit insurance. V. Qualifying Capital Resources (4) & Discount Curves (Annex C)	

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		Without a set definition of Core Capital, and without a single proposal for a BCR Ratio, it is difficult even to know how to comment. It is critical that the IAIS fully develop these ideas before it presents them, and certainly before it proposes applying them to G-SIIs. It is also important to note that the Core Capital Ratio captures only a single point-in-time estimate of a company's core capital position, and does not therefore demonstrate necessarily the company's resilience to volatility. Specifically, we remain concerned about the exclusion of surplus notes from core capital. Surplus notes have unique equity-like features, and are deeply subordinated to all policyholders and non-regulatory capital creditors. Importantly, payments of both principal and interest require prior regulatory approval. While payments under surplus notes generally cannot be cancelled and are therefore cumulative, the supervisor can withhold approval for payment indefinitely. If payments are not made because the supervisor does not approve, no event of default is triggered under the surplus notes and holders have no legal remedies. Surplus notes are also, by definition, unsecured, and cannot give creditors any right to seize collateral of the issuer in the event of a default. For these reasons, surplus notes are appropriately treated as surplus under U.S. statutory accounting principles and we believe should be categorized as core capital for purposes of the BCR and ComFrame generally. The same logic applies to holding company debt. Holding company debt is repaid through insurance entity dividends, which is subject to regulatory approval for an entity in distress. As a result, holding company debt is clearly subordinated to policyholder liability for a distressed company. We also note that, as drafted, debt issued by the holding company that is contributed to the insurance company subsidiaries meets the definition of capital, but does not meet the definition of core capital or additional capital and therefore would not qualify as capital in this Proposal. This inconsistency appears to be the result of a failure in the Proposal clearly to identify clearly the purpose of capital, and should be addressed before the BCR is finalized. Deferred tax assets also should remain part of core capital and should not be relegated to additional capital. In addition, the IAIS Specified Discount Curves lack the specificity that would allow for useful comment. In particular, the Proposal does not discuss which corporate bonds and which government securities the IAIS chose to build its curve, or why it chose the ones it did. Further, and more importantly, the Proposal does not set forth a rationale as to why this macroeconomic calculation is the correct tool to impose on a microeconomic, individual company basis. VI. Valuation (5) The Proposal states that "[a] Market Adjusted Valuation Approach is the valuation approach to be initially adopted for the BCR . . . with the amount as reported on its audited, consolidated, general-purpose balance sheet, whether that be on an IFRS or GAAP basis." (5.1.56) We support the deference given to local jurisdictional accounting rules throughout the Proposal, but question the absence of any references to statutory accounting (STAT) as used by many insurance entities in the U.S. Additionally, there appears to be a disconnect among the many prescribed adjustments and the desire to respect local jurisdictional accounting rules. We urge the IAIS to avoid such a high level of prescription that runs the risk of favoring one type of accounting regime over another. VII. Data Confidentiality & Transparency Some aspects of the BCR Proposal also raise confidentiality concerns. For example, while the IAIS proposes that the BCR will be reported to supervisors on a confidential basis, it will be "subject to access by the IAIS for refinement purposes (if relevant)." (6.2.66). We are troubled by	

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		the idea that the IAIS, which is not itself a regulator, will have access to confidential BCR reports, and concerned by the lack of clarity about who would determine the "relevancy" of IAIS access. The Proposal must also clearly state that the IAIS must never store any confidential information that may be shared. Further, the IAIS promises that it will maintain "appropriate governance and security arrangements to protect the confidentiality of the information collected." (6.2.66). Again, there is no clarity about what "appropriate" might mean, and who is responsible for determining whether the definition is met. Considering the value of the BCR information to the companies providing it, the IAIS must provide a more robust and well-explained confidentiality regime, perhaps by demonstrating to the relevant group supervisor that it has appropriate security protocols in place before the group supervisor passes along any supervisory information. We agree with BCR Principle 6, which calls for optimizing the use of publicly available data. (Annex A). The more BCR development can rely on publicly-available data, the easier it will be for companies to comply, and the more transparent, and therefore legitimate, the development process will be to those non-G-SII stakeholders not directly affected by the BCR. This principle, however, is in some ways at odds with a proposed revision of the BCR Principles in another part of this Proposal. Section 3.7.45 states, "…transparency would be improved if all G-SIIs were required to publish the specified components of the BCR calculation, after the period of confidential reporting ends." Requiring G-SIIs to publish information is not the same as relying on "publicly available" information. It is the creation of a new data reporting burden. For that reason, we oppose any plan to require the G-SIIs to publish information beyond that which they are already required to make public by their functional supervisors.	
Conference of Consulting Actuaries	United States of America	The Conference of Consulting Actuaries (CCA) supports the comments submitted to the IAIS by the Solvency Committee of the American Academy of Actuaries. Thank you.	
National Association of Mutual Insurance Companies	United States of America	NAMIC appreciates the effort IAIS has made on the development of the BCR for GSIIs. We are in agreement that if such a capital requirement must exist that it should be limited to GSIIs. We believe that the requirement should apply on an informational basis only for the first several years to allow for IAIS to revise the capital standards as it gains experience with weaknesses in the formula. Certainly the IAIS has been diligent in conducting field testing on the proposed standard, but even at this point there remain gaps in the formula and unanswered details for the IAIS and GSIIs. While further field testing is anticipated in 2014, in the Next Steps proposed there is no plan to conduct a final consultation that includes a completed BCR proposal. This creates significant challenges for all commenters. It is not possible to provide a thorough analysis of the consultation without a clear understanding of all of the specifics of the requirement. Informational filings for a few years that will increase understanding of the potential unintended consequences and provide opportunity for an analysis of the root cause of those consequences will result in a better product that serves the purpose of all. During this time, we urge the IAIS to continue efforts to explore other options and test different approaches as well. We strongly believe a	

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		more flexible approach that is outcomes-based instead of one that is overly prescriptive will prove less costly to implement for regulators and insurers alike, will limit pricing impacts on policyholders, and will be equally valuable in protecting against systemic risk. We recognize that the IAIS feels compelled to move down a very formulaic and prescriptive path with the BCR at this time, but urge that IAIS remain open to the potential need for flexibility.	
Prudential Financial Inc.	United States of America	Prudential Financial Inc. would like to thank the IAIS for the opportunity to comment on the July 9, 2014 Basic Capital Requirements (BCR) for Global Systemically Important Insurers consultation draft. We recognize the progress that has been made on the BCR framework and formulation since the December 2013 consultation. We appreciate the IAIS's continued willingness to engage with industry throughout the intensive and time limited development phase of the BCR. Notwithstanding the IAIS's recent plans to eliminate observer status and reduce opportunities for face to face interaction with industry, we have every expectation that the IAIS, through the ComFrame Field Test and other means will continue to seek constructive and substantive input and insight from the G-SIIs. Due to the extremely tight schedule within which the IAIS was given to develop the initial framework we understand that the BCR will be an expedient, simple and therefore imperfect policy response. The IAIS must not view the G20 Leaders Meeting as an end point; instead November approval of the BCR should only be viewed as one milestone in a much longer journey. It is critical for the IAIS and supervisors to continue with BCR development and refinement process throughout the "G-SII confidential consultation" period between 2015 and 2019 and during development of higher loss absorbency standards (HLA). We also recognize that due to the overall simplicity of the BCR, the framework will only capture the broadest of risk categories posed to an insurance group and will not reflect core, differentiating aspects of the insurance business model like asset-liability matching and diversification. While we understand the significant challenges posed in balancing simplicity versus complexity in the BCR context, we believe that the ICS must contain explicit recognition of these features that are core to insurance. We therefore, fully support the IAIS in its effort to develop a fully risk sensitive global capital standard for insurance groups that would replace the BCR. It is difficult for us to make substantive comments on certain critical aspects of the BCR especially its overall impact. The fact that the consultation draft includes only illustrative calibration levels which will be refined through further confidential data analysis through August provides little in the way of definitive information to use in an impact analysis. In addition, there remains no certainty regarding HLA levels and how the standards will function in concert with the BCR. It is critical that the IAIS begins work on HLA standards in the near term, so that impacted firms, like Prudential Financial, can gain a full understanding of the overall impact of these standards. It is important for the IAIS to acknowledge that the BCR (and all other G-SII policy measures) are global standards; not binding regulations. For any global regulatory standard to be credible it must be implemented across all impacted jurisdictions. BCR, HLA and ultimately ICS must include the flexibility for national policy makers and supervisors to apply jurisdictional official/supervisory discretion to make certain that the	

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		standards meet local requirements and market specificities. Prudential Financial continues to have concerns with the BCR construct as proposed in the current consultation draft especially regarding the following core topics. Global Consistency vs. Comparability - We agree that a primary goal of the BCR should be greater comparability across G-SIIs and jurisdictions. However, comparability does not mean full global consistency. We continue to have serious reservations about the IAIS's unyielding drive to develop a globally consistent balance sheet for G-SIIs. In the context of the BCR, and ultimately the ICS, we strongly believe that the comparability of material items of an insurance group's balance sheet can be accomplished without requiring a brand new, unaudited balance sheet or accounting/regulatory standard. The IAIS should strive to achieve a pragmatic/realistic goal that promotes comparability of material balance sheet items as opposed to 100% global consistency across G-SIIs. Valuation/balance sheet The BCR provides that the starting point of the calculation should be consolidated GAAP financial statements prepared in accordance with local IFRS or GAAP, with which Prudential Financial fully agrees. However, the BCR then requires a brand new unaudited balance sheet that does not follow the valuation concepts of a G-SII's home jurisdiction consolidated GAAP/IFRS regime. We believe the starting with the local IFRS or GAAP should be applied consistently and any deviation from the use of local IFRS or GAAP must be justified and the BCR must provide a group supervisor the flexibility to consider proportionality and materiality in any deviations from the prescriptive approach in their application of the BCR. Margins Over Current Estimates - We agree with the IAIS in their recognition that "the key difference in the IFRS or GAAP valuation and the market adjusted valuation of insurance liabilities is due to the recognition of the margin over Current Estimate in equity." - It follows then, that much of the detail prescription in the BCR, to the extent that it deviates from US GAAP or IFRS, is immaterial and could be ignored under the IAIS's "proportionality principle." - This includes guidance pertaining to technical details such as non-qualifying reinsurance, contract boundaries, expenses to include in Current Estimate valuation, data quality and assumptions, etc.). Even the differences due to liability discounting are dwarfed by the impact of MOCE and could be considered under the proportionality principle. - ALL of the MOCE should be in capital. The fact that all the G-SIIs have high capital ratios, reflecting strong capital positions, is NOT a reason to reduce the amount of margin included in capital. These and other key points are addressed in the following detailed comments to the BCR consultation draft. Prudential Financial would also note its support of the comments submitted by a group of eight G-SIIs, the IIF/Geneva Association coalition and joint comments of MetLife and Prudential.	

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		We look forward to all future opportunities to engage in a substantive and constructive manner.	
Aflac	USA	American Family Life Assurance Company of Columbus (Aflac) welcomes the opportunity to provide comments on the July 9, 2014 Public Consultation Document with respect to Basic Capital Requirements (BCR) for Global Systemically Important Insurers (G-SIIs). Aflac's principal business is supplemental health and life insurance. Aflac operates in two countries - the United States and Japan (as a branch). According to the July 9, 2014 Public Consultation Document, the current BCR proposal "will apply to G-SIIs only" (Para. 12). We also understand that "the development and field testing of the BCR will inform development of the ICS" (Para. 13). According to the May 28, 2014 Memorandum and other IAIS statements, the ICS will be incorporated in ComFrame, which applies to Internationally Active Insurance Groups ("IAIGs"). Aflac is not a G-SII as it is engaged only in traditional insurance activities. Aflac currently does not meet the IAIG criteria specified in the ComFrame Consultation Paper (October 17, 2013). However, Aflac is a major provider of fixed indemnity-type supplemental health insurance -- i.e., accident and health ("A&H") products -- in the world's two largest insurance markets. A&H products play an increasingly important role in well-functioning healthcare markets around the world. In mature economies, as the burden on individuals climb in the face of rising costs brought about by aging populations and increasing demands on government resources, A&H products provide policyholders with cost effective means to promote financial security (e.g. income loss protection) when accident or health events occur. In emerging economies, meanwhile, A&H products can supplement national and other major medical systems to ensure balanced development. In this macroeconomic context, care must be taken to ensure that global capital standards accurately reflect the risk profile of this important--but easily overlooked--product segment and not harm insurers' abilities to provide A&H products to customers globally. Aflac recognizes and very much appreciates the very constructive dialogue that has taken place with regard to segmentation and A&H products to-date and asks that the IAIS continue to take into account the specific risk profile of A&H products as the development of global capital standards moves forward. We appreciate the opportunity to participate in further development of the BCR and, ultimately, the ICS.	
American International	USA	We write to offer comments on the results of the Basic Capital Requirements (BCR) Field Test.	

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Group (AIG)		American International Group, Inc. (AIG) appreciates the work of the IAIS and participating Observers in developing group-wide global capital standards for the insurance industry. We agree that the development of a properly calibrated set of group capital requirements, based on clearly-defined and prescribed calculation methodologies, is an important regulatory objective, and we believe that the BCR can serve as a useful regulatory tool, particularly during the period before the promulgation of the Insurance Capital Standard (ICS). The BCR Field Test, while truncated in time and scope, did illuminate certain particular areas where further work is warranted in advance of adoption. In developing and implementing the BCR and its subsequent iterations, we believe that there are critical objectives that the IAIS should attempt to achieve: - It is essential that the future development of the BCR and related IAIS capital initiatives be designed and administered in a way that will align with the consolidated capital standards that the Federal Reserve is developing for non-bank systemically-important financial institutions (SIFIs) in the United States. - The full inclusion of MOCE (the margin over best estimate liabilities) as a component of Qualifying Capital Resources runs contrary to the BCR's emphasis on simplicity, comparability, and resilience to stress. As an embedded component of a defined reserve, the MOCE, unlike equity capital, is not capable of absorbing losses beyond its defined purpose. - The Field Test clearly demonstrated that the broad segmentation applied within the current draft iteration of the BCR does not provide sufficiently refined categorization of many well-established and traditional insurance products. In addition to these central observations, we are here providing AIG's comments on the specification of the yield curve, diversification, treatment of non-regulated banking activities, and non-qualifying reinsurance.	
CNA	USA	CNA appreciates the opportunity to respond to the most recent Basic Capital Requirement (BCR) exposure draft and submits the following comments for your consideration. In general, CNA acknowledges the significant work that has been done by the IAIS over the last several months. We support the concept of a simplified factor based approach and agree that since the BCR is being developed as a starting point for the HLA systemic risk requirement it should be limited to only those firms designated as systemically important. Although this proposed standard will not apply to CNA as we have not been designated as systemically important, we are providing comments since the BCR will influence the development of the International Capital Standard (ICS) which will directly impact us. CNA comments are focused on the following areas of concern: 1. General - Similar to our response to paragraph 30 of the ICS Conceptual Memorandum in May 2014, CNA believes that a principles-based framework allowing different jurisdictional approaches for both the BCR and ICS is the most productive and cost effective means of achieving the IAIS goal of a global capital standard. This framework could include guidance on calibration and other high level requirements which local	

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		jurisdictions could develop and implement and then apply to their specific risks and products. 2. Valuation - We believe that a market-adjusted valuation basis does not appropriately reflect the economic realities of our business and introduces significant capital volatility. The rationale for mandating a universal valuation approach is to achieve comparability. Our strong view is that a common valuation basis is not required to achieve a level of sufficient comparability and, further, that comparability could be achieved through a principles-based framework allowing different jurisdictional approaches. More specifically, for both the BCR and ICS we advocate an approach where high level jurisdiction-specific adjustments are made to a group's audited GAAP or statutory financials statements. We strongly believe this approach can achieve an adequate level of comparability to identify groups operating outside of regulatory norms. 3. Segmentation - Insurance contracts are developed to address specific risks and conditions present in specific markets. Assuming products written in different jurisdictions contain the same risk profile warranting the same risk charge is a misleading assessment and will not achieve true comparability. Segmentation as proposed will only result in increased system costs as product data will now have to be maintained in a different manner than used for management or jurisdictional regulatory purposes. From our perspective comparability can only be achieved within a jurisdiction where groups write similar products and risks not across jurisdictions. In addition, CNA questions the rationale as to why Surety products are being classified as non-traditional insurance risk. From our perspective Surety business has a significant indemnity component and is priced with that expectation. Therefore it should be classified as a traditional non-life risk. 4. Timing - CNA questions the need for such an aggressive timeline for the development of the global capital standards which include the BCR and ICS. These standards are too important and could have a significant impact on the cost and viability of many insurance products going forward. Accordingly, we strongly encourage the IAIS to take a very thoughtful and collaborative approach with the proposed global capital standards. 5. Contract Boundaries - The exposure draft proposes "an insurer would recognize an insurance obligation when it becomes a party to the contract, which is defined as the earlier of the date on which the insurer is bound by either; a) the terms of the contract, or b) initial exposure to risk under the contract." Currently, insurers in many jurisdictions do not have systems or processes in place designed to capture and recognize policy data as of the contract binding date. Non-life insurers would incur significant costs to modify systems and make process changes in order to account for the proposed recognition for seemingly minimal to no benefit. We do not believe this element of a capital requirement is material enough for non-life companies to warrant the additional cost that would be incurred in changing company systems and processes. As such.we suggest that the contract boundary requirement be eliminated for non-life insurers.	
Metropolitan Life Insurance Company (MetLife)	USA	MetLife thanks the IAIS for this second opportunity for formal comment on the BCR for G-SIIs (BCR). We would also like to recognize and express our appreciation for the hard work of all who have dedicated time and effort, including a firm commitment to appropriate engagement with stakeholders, to complete this substantive document in just over six months' time. We would preface our comments on the BCR with some thoughts as to its context. MetLife supports sound regulation and reasonable capital standards that provide protection for policyholders. We understand the current exercise seeks to extend protections to the markets we serve. All told, we are in the midst of the most significant domestic and international expansion of insurance regulations and standards in the history of the industry.	

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		The contribution of the insurance sector to economic growth and financial stability is well documented. We cannot therefore ignore the potential for inappropriate standards and regulations to restrict, or make more expensive, our ability to continue to offer the products and services that contribute to growth and stability through assumption of risk from individuals and commercial enterprises. We must also consider that unsuitable standards and regulations will have an impact on the critical role the industry plays in deepening capital markets and promoting long-term investment both as an institutional investor and provider of life and retirement products. The move to develop new standards also raises issues of comparability and consistency of application. We are concerned that new standards and rules could conflict and/or be incompatible with other local/regional regulatory regimes. Regime conflict could give rise to inequitable implementation and competition issues resulting therefrom. A level playing field for insurance companies should be an important goal of any new regulations and standards, including capital requirements. In this regard, while recognizing the IAIS efforts to develop a common balance sheet, we propose that we cannot ignore the issue of a lack of a common valuation basis and accounting standard as these are significant barriers to comparability and consistent application of capital standards. The potential problem of inconsistent application has the potential to be compounded because the higher loss absorbency requirement (HLA) will be added to the BC, and both requirements will have to be applied by appropriate national authorities. In certain cases laws may need to be changed and/or supervisors will require additional legal authority to implement the BCR and HLA requirements. This could lead to discretion as to the manner of implementation and time within which this takes place. This possible outcome needs to be given full consideration. In addition to the above general comments, we have some overarching concerns specific to the BCR consultation document itself. MetLife's analysis of the actual impact of the BCR is impeded by the absence of information on HLA, the scalar to be applied to the BCR required capital formula, and the composition of Qualifying Capital Resources. The links between these and the BCR are critical to understanding its impact and without additional information it is very difficult to fully assess how the BCR is likely to affect G-SIIs in 2015. For example: - The current BCR draft stipulates that the BCR and HLA together form the group-wide consolidated capital requirement for G-SIIs. It follows, therefore, as the draft points out, that final decisions on calibration levels must consider both BCR and HLA levels (Annex F, para. 20 p. 41). - Footnote 7 (page 12) states that the scalar could be modified depending on (as yet unknown) HLA requirements. - The IAIS continues to consider whether both core and additional capital will be assessed against BCR required capital (Section 4.1, para 48, p.17) and what percentage of capital resources can be classified as core capital, the only capital that will qualify for HLA purposes (section 4.2, para 51 p.18) Section 4.3 a. states the IAIS intends to revisit the movement of MOCE to capital resources. We comment on this issue below but would emphasize our concern by suggesting here that to include MOCE in technical reserves is inconsistent with a best estimates approach and	

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		that if the IAIS is to reintroduce MOCE it should, at a minimum, count as additional capital. Similarly, while we comment on the BCR market-adjusted valuation approach below, we wish here to highlight our concern about the volatility a market-based approach will introduce. Ultimately, this could result in the potential for unfounded reduced confidence in the stability of the insurance industry with the unintended consequence of forcing insurers to withdraw long-term guaranteed products from the market and requiring governments to provide the backstop these insurance products otherwise would provide. We would also reiterate two important fundamental points for HLA development. First, residual systemic risk exposure should be the relevant factor for HLA. The 2013 Policy Measures' recognition of "prudent conduct" boundaries separating traditional and non-traditional conduct of NT activity is an excellent start and should not voided by current proposed BCR segmentation. Second, to ensure we have a level playing field and that there are no opportunities for capital arbitrage, HLA must be applied to all activities deemed systemically risky, not just systemically risky activities conducted by a select few companies on the basis of their size and geographic scope.	
NAIC	USA	The 2nd BCR Consultation Paper contains much more detail on the construction of the BCR than the first. However, a number of key aspects and related decisions still need to be addressed in order to allow supervisors, designated G-SIIs and other observers to assess the impact of the BCR (and a BCR ratio). In particular, the average ratios of BCR to PCR and Capital Resources to BCR require further analysis over the summer and possible revision. In order to provide informed comments on a number of related decision points regarding different parts of the formula it is suggested that the components of the BCR be addressed in the following order: a. BCR Factors and results must be further analyzed to establish a meaningful starting point for measurement of the BCR requirements against existing PCRs and against qualifying capital resources: - Data from all G-SIIs should be included - Refinements may be required to the BCR factors based on the full data set; review of volunteer proxy data and segmentation for accuracy and consistency; and a better understanding of the accounting differences. b. Jurisdictional PCRs must be normalized to reflect consistent measure of loss absorbency: - Consistency in whether jurisdictional PCR is provided pre or post diversification benefits must be established. - In addition to moving reserve conservatism (e.g. MOCE) to capital resources, MOCE could also be recognized as an element of jurisdictional PCR in order to reflect the excess loss absorbency that is locked in insurance liabilities proxies (this is related to the accuracy of the current estimate) presented in developing and applying the BCR factors. c. Core and qualifying capital resources numbers must be analyzed and further developed: - The data and values for qualifying and core capital must be reviewed for reasonableness and consistency across firms.	

Organisation	Jurisdiction	Comments	
		- Consideration needs to be given in determining what constitutes core versus additional capital -- it is important to consider supervisory measures which may achieve the same outcome as the criteria established for core capital. For the U.S. in particular, capital that is infused into the insurance company subsidiaries are essentially "trapped" and cannot be repaid without supervisor approval. Because of the strong supervisory approval process, subordinated debt treated as capital is available for the payment of policyholder and creditor obligations and should be treated accordingly. - The level of MOCE should be verified for further discussion of the impact on capital resources and any removal or transfer of MOCE from capital resources should be deferred. d. The Alpha should be determined only after the other BCR components are close to being finalized: - Focusing on the ratio of capital resources to BCR at the beginning of the process is not a sufficient rationale to adjust the alpha at this point and it should remain at 1. - The alpha should be the last component that is addressed. Calibrating via use of the alpha can only be intelligently discussed after we know the impact of a refined BCR; verify jurisdictional PCRs; and have a full picture of what comprises capital resources. That will foster informed discussion and analysis by firms and supervisors as to where the BCR actually sits relative to both jurisdictional PCR and capital resources. The consultation paper references refinements during the initial reporting periods of 2015 and 2016. The NAIC supports the notion of continuing refinements, but strongly supports using the maximum opportunity for initial refinement of the BCR and BCR ratio prior to implementation of supervisory reporting. It is important that the BCR go live for reporting purposes with a thoroughly developed and understood basis for its components. If initial revisions result in materially different results than those portrayed in the Paper, it may be necessary to have another round of consultation.	
Northwestern Mutual Life Insurance Company	USA	The Northwestern Mutual Life Insurance Company is pleased to provide these comments in response to the Public Consultation Document dated 9 July 2014 on Basic Capital Requirements for Global Systemically Important Insurers (BCR). Our company, headquartered in Milwaukee, Wisconsin, USA, was founded in 1857 and today is among the largest writers of individual life insurance in the United States. We have commented on prior BCS and ICS consultations because we recognize the impact that these standards may ultimately have on our regulation, markets, competitors and the ability of insurers generally to continue to provide the long-term insurance products that have served consumers well for many years. Since the last BCR consultation it appears the IAIS has further attempted to address the issues of unregulated activity, risk sensitivity relative to the number of factors used and the risk mitigating effects of participating policy provisions.	
The Travelers Companies, Inc.	USA	The focus of the BCR is on Global Systemically Important Insurers, which are insurers with predominantly life insurance business. We believe this focus results in a BCR that is life insurance focused which creates significant issues when applied to property and casualty (P&C) insurers and does not meet the principles in Annex A since it does not reflect major risk categories and it is not comparable across	

Organisation	Jurisdiction	Comments	
		jurisdictions for P&C insurers. We believe that in order to have a credible proposal, there will have to be improvements made to consider the risks of P&C insurance. We believe that if the underlying issues are not addressed, that the BCR will have no informative value for the ICS for P&C Insurers. The most significant issues that we have with the proposal from a P&C perspective are: 1. Adequacy of reserve estimates - the single largest risk for property and casualty insurers has historically been the adequacy of reserve estimates. BCR/ICS is not meaningful for this industry unless this risk is addressed in the design of the capital requirements. For context, the risk-based capital formulas in the U.S. for life versus property and casualty insurers specifically address the investment risk of life insurers versus the adequacy of reserve estimates for non-life insurers. Said differently, the significant risks for life insurers are on the left hand side of the balance sheet whereas the risks for property and casualty insurers are on the right side. Additionally, the formula probably needs to better differentiate between low and high risk liability lines and to recognize the insurer's track record in producing claim liability estimates. 2. Material variation in risk for similar sounding product names across jurisdictions - for example, motor insurance in Mexico has materially different risks from motor insurance in the U.S. or the U.K., etc. The current definitions for segments (lines of business) in the ComFrame field test came from the U.K. and were heavily influenced by Lloyds. We worked with the NAIC to map the definitions to the U.S. definitions; however, with making significant changes to the IAIS field test, we believe that the various P&C risk factors will not be appropriately calibrated. 3. Correlation of risks across jurisdictions - P&C premium risks and reserve risks generally have no correlation across jurisdictions but are directly related to the location of the underlying risk exposure. This differs from life insurance where the principal risk is generally invested asset risks, which are frequently correlated across jurisdictions. Cross jurisdiction diversification should be recognized forP&C, and risk charges should be based on the risk, not on the label applied to the product. In addition, we believe there is significant merit with using local capital requirements as a foundation for property and casualty insurance, as the risks in the products are appropriately captured by the jurisdictional requirements. 4. Catastrophe risks - a significant risk to property and casualty insurers is the exposure to Cat risks. Based on the current data requests for the Field Test, it appears these risks are ignored. We inquired whether this risk will be addressed in the field test and were told that it is being handled elsewhere; however, there is no data request in the field test and it would be very difficult, if not impossible, to obtain a description of a company's cat risk from a source other than the company directly. In the U.S. the NAIC is coordinating a data request through RBC filings to develop a cat risk charge based on catastrophe models. Such risk is not amenable to a factor-based approach. 5. Underwriting profitability - a risk-based capital requirement should take into consideration the underwriting profitability of a property and casualty insurer. Based on current data requests for the Field Test, it is unclear whether this is part of the determination. 6. Focus on a market consistent balance sheet - a market consistent balance sheet is unnecessary and potential misleading for P&C insurers.	

Organisation	Jurisdiction	Comments	
		This is due to the nature of P&C liabilities which are not subject to call risk and hence secondary markets do not exist for these liabilities and they are generally not interest rate sensitive. We also believe that a market consistent liability valuation will be substantially less comparable than the nominal reserves that are currently calculated globally. Additionally, fundamental issues such as fungibility of capital, enforceability and the objective of the capital standard (policyholder protection versus protection of policyholder and capital market participants) will have to be addressed prior to a successful global capital regime.	
2.1 - Comments on Background & Mandate			
Association of Bermuda Insurers and Reinsurers	Bermuda	ABIR notes that the paper states that the BCR will be replaced by the ICS which is planned for adoption in 2018. This would mean that the BCR could conceivably have a shelf life of less than three years before being replaced. If this is the case, and since there is still no agreement as to the interaction with the ICS going forward, it seems that the BCR should be proposed to be adopted only as a "temporary measure" until such time that insurance capital standards development has evolved. In keeping with the IAIS request to be clear with the issue to be addressed, provide a clear rationale and basis for comments made and describe alternatives proposed for consideration, ABIR would respectfully submit that it would seem that the BCR should not be labeled as a final proposal for endorsement in the fall of 2014 given that the data call has been limited and that so much uncertainty rests with its future role and interaction with the insurance capital standard (ICS). When one considers the length of time for multiple number of data calls and testing when other solvency capital regimes have been developed for example, Solvency II and Basel III, the IAIS proposal does not seem to be rationale. We understand from the Paper that the BCR is meant be a temporary and simple measure, lacking sophistication. It's too early to state that the ICS will replace the BCR given that there's not much information available on the design and measures to be included in the ICS at this stage of discussions. In addition, given that the BCR and the ICS are being developed with distinctly different aims, i.e. one for GSIIs and the other for IAIGs, it is too soon to say that the ICS will be a (more) appropriate basis for the HLA. Discussions on BCR and ICS should be kept separated at this stage. The paper itself confirms the need for further re-testing by stating that calibration may need to be adjusted and this will require ongoing testing in order to ascertain whether or not BCR has met the regulatory objective. To that end, more fundamental to this discussion though is the lack of clarity and defined regulatory purpose and objectives of the BCR as applied to GSIIs and the ICS to IAIGs. The paper offers various scenarios that do not present clarity of purpose or highlight what the problem is that the proposed regulatory capital standards are trying to address. For example, the BCR is being developed for GSIIs which some would	

Organisation	Jurisdiction	Comments	
		suggest by their very nature, scale and complexity have been categorized in a "higher risk profile'. However, the target levels for capital for the BCR in the paper are set between MCR and PCR. The IAIS have suggested that the ICS which will be developed for IAIGs will be more "comprehensive' and set at a possible target level at PCR. We note the statement that "it is expected that a more comprehensive approach will be adopted for ICS development". We take that to be more comprehensive than the approach to the development of the BCR and this would seem to mean that the applications to IAIGs will be more granular than those applied to GSIIs. Again we look to the IAIS to provide greater clarity and rationale for the regulatory purpose, objective and capital benchmarks to be applied to GSIIs and IAIGs in the future. Additionally, how will BCR and ICS be considered in light of local jurisdictional capital requirements. We would support creation of a global capital standard at the minimum capital level. In the development of a group capital assessment we would support a simple, minimum, base-line risk based capital measurement that can provide an illustration of a group's minimum regulatory capital needs, affords a basis of comparison amongst international groups and focuses on a minimum or floor capital requirement that if breached would be the basis for regulatory discussion. In order to achieve consistency with the IAIS approach applied to its Comprehensive Framework for the Supervision of Internationally Active Insurance Groups (IAIGs) (ComFrame), ABIR is concerned that the "comprehensive' approach envisioned by the IAIS for the ICS may be overly prescriptive. The ICS should be principles based as is the basis of ComFrame. Fundamentally, ABIR would ask the IAIS that as it has done so in its Insurance Core Principles (ICPs), that it applies the same approach in the development of an ICS so that there are "principles" which govern the application of an ICS. Around the world there are sophisticated solvency regimes in place and under development. For these jurisdictions it is vital that the ICS sets principles for balance sheet valuation and capital requirements that allow for the various approaches taken by these regimes without duplication where they meet the ICS principles. Duplicative or redundant group capital standards would be inefficient and counterproductive to the functioning of consumer insurance markets. ABIR would support an approach that recognizes existing jurisdictional group-wide capital requirements.	
Canadian Institute of Actuaries	Canada	We understand that the BCR is being developed relatively quickly, as a stop-gap measure, so that capital requirements for G-SIIs can be established in short order. We also understand that the BCR will act as a foundation for the development of incremental HLA capital requirements, such that total capital requirement for G-SIIs will be BCR plus HLA. Finally, we understand that the ICS, when fully developed, is intended to replace the BCR as the foundation for HLA for G-SIIs, as well as to serve as the capital requirements for IAIGs that are not G-SIIs. We applaud the work done to date and the plans for HLA and ICS. It is also said that the role of the BCR will be reassessed when the development of the ICS is completed. It is our expectation that the ICS will more fully address entity-specific risks than the BCR and will generally be a superior risk-based capital requirement standard than the BCR. Given the compromises that were made in developing the BCR, as well as the lack of granularity in the BCR approach, we would encourage	

Organisation	Jurisdiction	Comments	
		replacing the BCR with the ICS in defining the foundation for capital requirements for G-SIIs as soon as the ICS is fully developed.	
Canadian Life & Health Insurance Association Inc.	Canada	#12 - We would like to emphasize the importance of keeping BCR results confidential until it is widely accepted that the BCR substantially meets both the objectives of comparability and risk sensitivity. We propose the IAIS should adopt the working assumption that the BCR finalized in November 2014 should not necessarily be deemed to meet these objectives, and accordingly, there should be an acknowledgement by the IAIS that it is possible these objectives will not be met until a subsequent revision is completed, post 2014, and hence an extension of the timeframe of keeping the results confidential.	
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(11) The paper clarifies that the Basic Capital Requirement will act as a foundation for the Higher Loss Absorbency (HLA) which together will form the consolidated group-wide capital requirements. The target level of capitalization for the BCR and BCR+HLA respectively should be clearly stated to enable comparison by firms with existing regulatory and internal capital measures e.g. Economic Capital and for European players Solvency II. In addition it would be of interest to state the anticipated supervisory action upon a breach of the respective levels. (12) We welcome the intention for confidential reporting although it is expected that there likely will be pressures on the G-SIIs to disclose their BCR coverage ratio in due course. (13) We are not convinced that the BCR can inform the development of the more risk sensitive ICS given the BCR is relatively simple and crude e.g. not taking into account diversification effects, not reflecting the impact in the capital requirement of ALM or other risk management/ risk mitigation activities.	
European Insurance and Occupational Pensions Authority	EU	As previously stated, EIOPA is fully supportive of the work currently being undertaken by the IAIS to develop a Common Framework for the Supervision of Internationally Active Insurance Groups, including its mandate from the FSB to deliver Global Capital Standards.	
Insurance Europe	Europe	13 While Insurance Europe understands that the BCR is meant to be a simple measure, it's too early to state that the ICS will replace the BCR given that: i) there is not much information available about the design of the ICS, the strategy and the goals pursued by the IAIS, and ii) the BCR and the ICS are being developed with distinctly different aims Insurance Europe therefore believes that discussions on the BCR and the ICS should be kept separate at this stage. The IAIS' focus should be on the BCR and not on the ICS.	

Organisation	Jurisdiction	Comments	
		If the BCR is removed as basis for the HLA it is not clear why the BCR should remain. We doubt the BCR could be changed to serve a different objective.	
Bundesanstalt fr Finanzdienstleistungsaufsicht (BAFIN)	Germany	BaFin strongly supports the view expressed that the BCR is not in itself a capital requirement, but the first step in the calculation of a capital requirement, which is BCR+HLA. Furthermore, BaFin supports the ICS becoming both a capital requirement in itself and a basis for calculation of HLA once it has been finalized.	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 12: We strongly welcome that the "symbiotic" interaction between BCR and HLA as a capital requirement on a consolidated basis is clarified. Accordingly, the BCR is not an independent capital measurement with an own regulatory purpose. It would be helpful if the IAIS responds to some questions arising from this clarification, i.e. particularly with regard to the usefulness of calculating BCR/capital-ratios and reporting the BCR to the group wide supervisor. Moreover, it needs to be recalled that especially the HLA should be primarily focused on measuring risk arising from systemically risky activities and the BCR is only intended to be the basis for his. Given this regulatory emphasis, there is still a considerable lack of clarity and transparency about which activities should qualify as systemically risky and how these activities are charged with capital requirements. Paragraph 15: We support the notion that the BCR needs to be evaluated in conjunction with the qualifying capital resources. Qualifying capital resources should stem from the delta of assets over liabilities with assets measured at fair value and technical provisions measured at their current estimate.	
International Actuarial Association	International	We appreciate that asset charges and valuation methods for banks are different than those being proposed for insurers. Despite attempts to deal with NT and NI business separately within the BCR this difference is not overcome easily, This should be clearly recognised in any comparison with capital requirements for the banking sector. We recognize that even getting comparisons across insurers is a challenge due to the varying time horizons and risk management practices needed to manage insurance. We do think it helpful to understand that historically banks have capital for their assets, but not their liabilities. The asset charges are there because that is the risk they are underwriting - the risk of loaning out money they already have. Insurers traditionally have had capital charges for their liabilities and then added charges for assets that create liquidity risks because they are not matched to liabilities or because their book yield may not be realized due to liquid liabilities. Also, what consequences are intended to flow from the calculated numbers? Is it just to be used as a basis for a HLA or will there also be an implied or actual regulatory intervention of some sort? If it is just for the HLA, then we suspect the real critique of the BCR needs to be on what BCR charges are related to systemic/contagion type risks vs. diversifiable risks and fewer nuances may be needed for the relative risk	

Organisation	Jurisdiction	Comments	
		weights assigned to the insurance risks.	
Financial Services Agency	Japan	First of all, we generally agree that the proposed BCR framework should capture risks from all group activities of G-SIIs insurers on a consolidated group-wide basis and appreciate that the BCR design employs the basic principles to reflect the specificities of insurance business. The IAIS should maintain this point as a high level principle for further deliberations and future discussion in developing insurance capital standards.	
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	KNF supports the work currently being undertaken to develop a Common Framework for Supervision of Internationally Active Insurance Groups, including Global Capital Standards. KNF also agrees that BCR will apply to G-SIIs only.	
ACE Group	United States	We agree with the decision that the BCR should only apply to G-SIIs. While we have concerns with the G-SII designation process and its lack of transparency and due process, at least as to G-SIIs there has been some determination that their failure could cause broader economic consequence arguably justifying the imposition of the BCR/HLA. There is not so for IAIGs whose size, geographic and product diversity actually make them more stable than their less global competitors. The BCR will ultimately be replaced by an ICS which is proposed to apply to both G-SIIs and IAIGs. Although the IAIS has stated that a goal of an ICS is to establish level playing fields, applying such a requirement to IAIGs and not regional or local insurers will actually distort the competitive landscape. For example if an ICS is developed as a group-wide PCR, it is possible the PCR could dictate that an IAIG hold more capital than that required by the local statutory rules creating an un-level playing field for the IAIG vis a vis a local competitor not subject to an ICS. Global insurers already face local barriers to entry in many developing markets and have a very real concern that, while unintended, the requirement of an ICS for IAIGs could be used to support more protectionist measures against global firms, perversely creating more financial instability in local markets. This issue needs to be considered as the IAIS moves to development of an ICS.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation,	United States	See Q-2 General Comments on Executive Summary	

Organisation	Jurisdiction	Comments
Employers Mutual Casualty Company		
American Council of Life Insurers	United States	_
Institute of International Finance - IIF	United States	Section 2.1 Question 2, (Paragraph 13 page 7) Paragraph 13 notes that ultimately the ICS will become the foundation for the HLA at which point the role of the BCR will be reassessed. We believe it to be premature to discuss the ICS and its relationship to the BCR and urge the IAIS to focus on refinement of the BCR and development of the HLA.
Liberty Mutual Insurance Group	United States	Any information reported by an insurance group related to the BCR (and an ICS, if and when one is developed) must be confidential. We appreciate that the IAIS agrees, at least initially. We strongly urge the IAIS to announce that the confidential treatment of such information will be a permanent element of any global group-wide capital regime.
American Insurance Association	United States of America	We understand the value of that goal, but recognize the difficulty of balancing comparability and jurisdictional coherence; simplicity and valid output. We hope that our comments will assist the IAIS in achieving a workable balance for the BCR among regulators, the G-SIIs, and other stakeholders. Some aspects of the BCR Proposal also raise confidentiality concerns. For example, while the IAIS proposes that the BCR will be reported to supervisors on a confidential basis, it will be "subject to access by the IAIS for refinement purposes (if relevant)." (6.2.66). We are troubled by the idea that the IAIS, which is not itself a regulator, will have access to confidential BCR reports, and concerned by the lack of clarity about who would determine the "relevancy" of IAIS access. The Proposal must also clearly state that the IAIS must never store any confidential information that may be shared. We urge the IAIS to proceed cautiously, with respect to the extent to which the ICS is "informed" by the work on the BCR, as well as the temporary nature of the BCR as the foundation for HLA requirements applied to the G-SIIs. As the Proposal states clearly, the HLA and the BCR together will "address additional capital requirements for G-SIIs reflecting their systemic importance in the international financial system." (1.1.2) However, the IAIS must not confuse the distinct purposes of the BCR and the ICS. A foundational standard for policy measures applicable only to G-SIIs is not interchangeable with a standard appropriate for IAIGs. While the IAIS and the FSB should learn from the work done on the BCR in developing the ICS, the interplay must be strictly "informational," to use the IAIS' own term. Otherwise, the IAIS risks

Organisation	Jurisdiction	Comments	
		blurring important distinctions between the G-SIIs and IAIGs, including the risk that this conflation would be perpetuated by local, national or regional authorities. A foundational standard for policy measures applicable only to G-SIIs is not interchangeable with a standard appropriate for IAIGs. While the IAIS and the FSB should learn from the work done on the BCR in developing the ICS, the interplay must be strictly "informational," to use the IAIS' own term. Otherwise, the IAIS risks blurring important distinctions between the G-SIIs and IAIGs, including the risk that this conflation would be perpetuated by local, national or regional authorities. Equally important, in the United States, as a result of the Dodd-Frank Act, our Federal Reserve Board is implementing rules that maintain regulatory distinctions between systemically important insurers, insurers that are organized under a bank or thrift holding company structure, and those insurance groups that remain subject to state-based insurance regulation. Development of an ambiguous BCR that is indistinguishable from a specific ICS may undercut that national law and the important economic and marketplace strength it seeks to support.	
National Association of Mutual Insurance Companies	United States of America	Despite our concerns about the value of a formulaic requirement overall, NAMIC agrees with the decisions to apply the BCR to GSIIs only and to collect the information on a confidential basis. We also appreciate the clarification that a capital requirement is just one element of a supervisory assessment of financial condition.	
Prudential Financial Inc.	United States of America	None	
U.S. Chamber of Commerce	US	August 8, 2014 To Whom It May Concern International Association of Insurance Supervisors	

Organisation	Jurisdiction	Comments	
		c/o Bank for International Settlements CH-4002 Basel Switzerland Re: Proposal for Basic Capital Requirements (BCR) for Global Systemically Important Insurers (G-SIIs) The U.S. Chamber of Commerce ("Chamber") is the world's largest business federation representing the interests of more than three million companies of every size, sector, and region. Our members include purely U.S. domestic, as well as international and globally active insurance companies headquartered both in and outside of the United States. Perhaps more importantly we have member companies that rely both on insurance products as well as the larger role insurance plays as an investor in our globally interconnected economy. Therefore, we are broadly supportive of the goal of ensuring the solvency of insurance companies and safeguarding against systemic risk; however, we remained concerned over the IAIS work plan for developing capital standards over the next few years. As IAIS lays out in its consultation, following the development of a basic capital requirement (BCR), the plan is to couple this requirement with a higher loss absorbency (HLA) standard for G-SIIs. Following the adoption of the HLA standard, IAIS has made clear its intention to develop an international capital standard (ICS) which will replace the BCR currently under development. The Chamber believes it is absolutely critical that the IAIS' work be guided by two fundamental principles. First, solvency is solvency and a firm's ability to meet its financial obligations, particularly during times of market stress, should carry much weight in determining systemic risk. Further companies operating in multiple markets generally do not increase the risk of insolvency; if anything it can have the effect of diversifying risk, similar to the core concept of reinsurance. While we recognize that solvency and liquidity are separate but related concerns, whatever standards IAIS develops should not penalize companies operating in multiple jurisdictions. Second, developing trust among regulators across borders is absolutely necessary. The Chamber fully recognizes the need for regulators across jurisdictions to be able to better understand and transparently verify the level of capital held by an insurance firm operating in multiple jurisdictions so that the regulator has confidence that policy holders in its country are appropriately safeguarded. Keeping these two principles in mind, the Chamber offers the following comments on the current consultation: 1) The IAIS BCR consultation is highly technical and the field testing under way will provide some real-world information. While the Chamber applauds a data-driven, evidence based approach the field testing may not uncover critical unintended consequences. Our hope is the feedback received from the field tests and the observations of the companies will ultimately be incorporated to strengthen the next iteration of the BCR. 2) The timetable for completing the BCR is extraordinarily short resulting in limited opportunity for consultation and for consideration and	

Organisation	Jurisdiction	Comments	
		thoughtful resolution of key issues. A rushed process risks producing a BCR with limited value and, worse, one that serves as a poor foundation for development of both the HLA standard and ICS. 3) In setting the BCR, the IAIS needs to remain mindful of the business models of different insurers - life, property and casualty, re-insurance, etc. These differences among insurers should be evaluated in the context of the varying risks that each of these subgroups of insurers carry, and the BCR set accordingly. For example, the market adjusted valuation approach proposed by the IAIS introduces significant volatility to a life insurer's capital management structure and creates the likelihood for procyclicality, potentially impacting the availability of certain long-term insurance products in the market and ultimately harming consumers. The development of any insurance standard should use a valuation basis that is compatible with or accommodates existing consolidated accounting or regulatory regimes in order to avoid unnecessary overlap, duplication, and increases in cost without a corresponding benefit. Over the years, many attempts have been made to develop a common international accounting standard, yet all have failed due to the enormous complexities involved. IAIS should carefully evaluate potential alternatives as it continues with the refinement of the BCR and development of the global ICS. 4) The BCR will have a direct impact on the formation of the HLA standard. It is difficult to fully evaluate the BCR at this stage as it is impossible to understand its planned relationship to the HLA standard. For G-SIIs, the BCR is just one half of the picture. The current consultation over the BCR is being done in a vacuum with respect to its relationship to what an HLA capital buffer may ultimately be. IAIS needs to better define the fundamental principles of an HLA standard and how it will work together with BCR. 5) The Chamber supports the development of insurance standards as tools to building both greater comparability for regulators and compatibility for companies across regulatory regimes. However, the goal of IAIS should not be the harmonization of regulatory frameworks. IAIS has acknowledged that the standards under development are not intended to be binding regulations. BCR, HLA, and ultimately ICS need to accommodate the role of national policy makers and insurance supervisors to apply their discretion to make certain that the standards do not conflict or layer upon national regimes, create competitive market imbalances or negatively impact the provision of socially important insurance products and services. 6) Looking ahead at the development of an ICS, given all the uncertainty that surrounds the BCR and HLA insurance standards, the Chamber is concerned about the development and intended role of an ICS. The development of an ICS should not be a rushed exercise. Enough time will need to have passed following the implementation of BCR and HLA standards to constructively learn the impact of these standards. The Chamber appreciates the opportunity to provide its views on the capital standards work of IAIS. Sincerely, Alice Joe Sean Heather	

Organisation	Jurisdiction	Comments	
		Managing Director Vice President Center for Capital Markets Competitiveness Center for Global Regulatory Cooperation U.S. Chamber of Commerce U.S. Chamber of Commerce	
CNA	USA	CNA agrees with and applauds the IAIS decision to apply the BCR to G-SIIs only and collect the data on a confidential basis. While CNA supports the concept of a simplified formula based approach for the development of both a BCR and ICS, our view is that the stated IAIS timeline or level of transparency is not sufficient for such important capital standards. These regulatory tools could impact the solvency and expense structure of the global insurance market impacting not only individual insurance organizations but also the overall economy and policyholders in particular. We and other impacted parties continue to request that the IAIS develop these capital standards at a more reasonable pace and include all impacted parties in the discussion as these important standards are being developed. While CNA acknowledges that significant progress has been made on the BCR conceptual framework since it was first exposed in December 2013 it is important to point out that the final calibration the BCR is not complete making it very difficult to provide comprehensive and conclusive comments. Further to our previous point, CNA believes that the IAIS should slow down the process and re-expose the BCR framework once the final calibration is determined. Moving forward without exposing the final calibration of a capital model is inconsistent with the practices of other international standard setters. The reality is that we may agree with the capital standard approach in concept, but without the final calibration and factors we are unable to provide a reasonable and thoughtful response. Finally, similar to our response to paragraph 30 of the ICS Conceptual Memorandum in May 2014, CNA believes that a principles-based framework allowing different jurisdictional approaches for both the BCR and ICS is the most productive and cost effective means of achieving the IAIS goal of a global capital standard. This framework could include guidance on calibration and other high level requirements which local jurisdictions could develop and implement and then apply to their specific risks and products.	
Metropolitan Life Insurance Company (MetLife)	USA	Paragraph 12 - BCR plus HLA are consolidated group-wide capital requirement As mentioned in our response to Q2, Given that BCR and HLA together form a consolidated group-wide capital requirement, information on structure and application of HLA is necessary to understanding the actual impact of the BCR. Please also see our response to Q 3.1 Paragraphs 30-32 below.	
NAIC	USA	The NAIC strongly supports the position in the paper that the BCR in its current form will only apply to G-SIIs and solely as the base for a combined BCR + HLA capital standard.	
The Travelers Companies, Inc.	USA	As noted in our response to Q1, the BCR proposal does not sufficiently reflect the major categories of risks that impact P&C insurance liabilities as it does not cover CAT risk.	

Organisation	Jurisdiction	Comments
2.2 - Comments on BCR Design		
Association of Bermuda Insurers and Reinsurers	Bermuda	We note in paragraph 23 that the IAIS is still assessing whether one or both categories of Qualifying Capital Resources will be assessed against the BCR Required Capital. Again we would urge the IAIS to continue its assessment in order to make its determination of appropriateness.
Canadian Institute of Actuaries	Canada	We are pleased that the calibration of the BCR factors implicitly reflects some degree of diversification, and accounts for the absence of an ALM factor, but we suggest that this approach is not as robust as an explicit recognition of entity-specific diversification and ALM positions. Given the nature and variety of business and risk composition amongst insurance entities, we view this as a key difference relative to banks, which warrants an entity-specific treatment. However, we understand that the urgency with which the BCR is being developed may not permit the development of explicit recognition of diversification and ALM position within the formula. We therefore strongly suggest that the design of the ICS include explicit recognition of entity-specific diversification and ALM.
Canadian Life & Health Insurance Association Inc.	Canada	The comments in the second BCR draft on its construction severely downplay the amount of work that is necessary to come up with the IAIS adjusted balance sheet. We encourage regulators globally, including our regulator OSFI, to work together as much as possible in the design of BCR, through leveraging views from various jurisdictions, to simplify this requirement while safeguarding comparability and alignment (or at least the lack of conflict) with local regimes. #20 - With regards to applying adjustments to assets values, we trust there will be some sort of IAIS oversight of the adjustments by territory to ensure further consistency. #24 and #25 - We note that the IAIS intends to implicitly address diversification and asset-liability management aspects through calibration. We recommend the IAIS disclose to industry how this will be accomplished. This will assist in gaining public confidence with the BCR.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(17) We acknowledge that the BCR will be calculated on a consolidated group-wide basis, its composition of three segments and the use of Basel III measures for the banking component. Capital requirements regarding non-insurance financial activities should be included using the capital requirements as defined under (future) sector specific global requirements. Until those requirements have been developed the final inclusion in the G-SII standards cannot be settled. (19) We understand that having simplicity as a target for the BCR design has resulted in a decision not to explicitly recognize diversification effects nor the impact of asset-liability matching (the latter especially important for life insurers). As a result the BCR is not very reflective of the risk profile of any individual G-SII and the calibration level should be carefully considered in order to avoid interference with sound risk management principles and unfairly discriminate against G-SIIs with substantial operations in both life and non-life insurance.

Organisation	Jurisdiction	Comments	
		(19) It is not sufficiently clear from the Consultation Document in which way the alpha scalar should/will be determined, whereas the process for determining the factors for the segments within the BCR has been described. Given the enormous importance of alpha scalar for the BCR required capital one would expect more transparency on this. (20) We support the use of "current estimates', which appear to be equivalent to the principles underlying "best estimate' under Solvency II although with a different approach to discounting. We would encourage a consideration of the naming convention i.e. the "current estimate' could be interpreted as current practice whereas it is reflecting an unbiased best estimate. Therefore in discussing methods for valuation of liabilities, the IAIS should separate the two issues - a) the method of projecting liability cash-flows and b) the method of discounting those projected cash-flows into a single valuation figure. We support strongly that the liability cash-flows be projected based on updated ("current") assumptions and forecasts e.g. the timing, frequency and severity of claims; direct and indirect expenses; inflation, policyholder behaviour. The method for discounting is a more complex discussion because of the challenge of having to design a method that is simple, yet avoids exaggerated exposure to market volatility by capturing the long-term nature of the business and Asset-Liability Matching. (20-21) We recommend that it is made clear that all companies will be required to apply consistent valuation approach for assets (and liabilities). It should not be left ambiguous as to whether jurisdictions will be allowed to apply significantly different valuation of their balance sheets. (20-23) The valuation principles and framework should be finalised as soon as possible given it provides the basis for determining exposure measures for the BCR as well as the qualifying capital resources against which the capital requirement is measured. A simplified valuation approach has been proposed, combining a market valuation of assets with a very simplified method for setting the discount rate, with no link to the asset portfolio for liability valuation. As indicated in the consultation document, this will not correctly reflect the long-term nature of the insurer's business and ignores the economic benefits of asset liability matching and profit sharing. This will lead to a significant exaggeration of the volatility of balance sheet, and therefore own funds, especially during periods of financial market stress. Whether or not this causes problems by resulting in BCR/HLA measures which are unmanageable because of their high undue volatility resulting in pro-cyclical behaviour will depend on the level of calibration of the BCR and design/calibration of the HLA. While we recognize the aim of keeping the BCR as simple as possible, care must be taken to avoid unintended consequences and we believe further consideration should be given to recognizing profit sharing in the design of the BCR. (22-23) The goal of adjusting the capital resources is not clear. For example it is not clear what the adjustments are and how sectorial rules may be applied to capital resources which are then added and compared to the total required capital for the group.	

Organisation	Jurisdiction	Comments	
European Insurance and Occupational Pensions Authority	EU	EIOPA supports a simple and straightforward approach for the BCR. The factor-based approach, as proposed by the IAIS, is consistent with such design requirements. EIOPA believes the design suggested in the Consultation Document fulfils this mandate, reflecting the major specificities of insurance business and incorporating a certain degree of risk sensitivity, without entering into the most complex elements of insurance business. These elements, like sophisticated ALM or explicit risk diversification methodologies, are not appropriate to the simple and straightforward nature of the BCR and should be considered in the development of the ICS (which is expected to be a sophisticated risk-based measure). In particular, the elimination of the two-level formula approach, enhances the simplicity and understanding of the BCR calculation and results, without affecting its quality. Concerning the criteria for Qualifying Capital Resources, EIOPA would like to highlight that, given that only the sum of BCR+HLA effectively constitute a Capital Requirement for G-SIIs (as stated in Paragraph 12), the definition of such qualification criteria should take into account the level and purpose of these two measures considered in conjunction. Once the HLA will have been finalized, the rule on qualifying capital resources should be reviewed to consider if fixed percentages of the combined BCR+HLA would constitute a more practical approach. Otherwise, there will be a lack of clarity as to exactly what percentage of BCR+HLA is covered by tier 1 capital for each individual G-SII.	
Insurance Europe	Europe	17 Insurance Europe supports the use of a consolidated group-wide basis for the BCR required capital, as well as the use of sectorial rules for non-insurance activities. 21 Insurance Europe welcomes the use of the Market Adjusted Valuation Approach and particularly the use of a current best estimate liability valuation. Insurance Europe also believes that it should be made absolutely clear that the valuation approach will be applied consistently across G-SIIs (ie consistent approach for calculating best estimate liabilities and fair value of assets). 23 Insurance Europe believes that if capital remains classified as core and additional, then the BCR required capital should be covered by both core and additional capital. It's not clear at this stage what is meant by "the IAIS is still assessing whether one or both categories of Qualifying Capital Resources will be assessed against the BCR Required Capital". We believe that an approach that only allows core capital for backing the BCR would create an unnecessary constraint given that additional capital is just as valid as core capital as source of support.	

Organisation	Jurisdiction	Comments	
		24 As previously indicated, Insurance Europe believes that diversification is key to the insurance industry, and the lack of explicit diversification recognition is a major weakness of the BCR. 25 Insurance Europe would like to reiterate that asset-liability matching and profit sharing are fundamentally distinctive features of the insurance industry and also crucial to appropriately assess exposure to market risk. Insurance Europe understands that given the challenging calendar of the BCR design, such features could not be explicitly reflected in the BCR formula. Nevertheless, transparency and details on how the implicit recognition of asset-liability matching was approached in the BCR calibration as well as information on how the IAIS plans to approach profit sharing would be welcomed. There is a risk that undesirable incentives could be created if the BCR i) is calibrated above the local capital measures - aimed at encouraging good risk management behaviour - and ii) does not explicitly take into account and/or ignores important issues, such as diversification, asset-liability matching, profit sharing and non-proportional reinsurance.	
Bundesanstalt fr Finanzdienstleistungsaufsicht (BAFIN)	Germany	BaFin supports the Market Adjusted Valuation Approach being chosen as common valuation approach for this exercise and for the ICS. In our point of view, the valuation framework is an essential building block to reach comparability in global capital requirements and thus, the compromise reached for the BCR should not be reconsidered when designing the ICS. Further, the rule on qualifying capital resources should be redefined once HLA has been finalized. As such, qualifying capital resources should be defined as fixed percentages of BCR+HLA as only the sum will be the "real" capital requirement.	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 16: As acknowledged by the IAIS, the BCR does not serve an independent purpose other than providing a foundation for imposing HLA-requirements. Thus, we do not see a reason for calculating various ratios between BCR and qualifying capital resources. These ratios do not provide useful information, neither for supervisors nor for analysts and only inherit the danger of incentivizing wrong risk-management actions. Paragraph 17: We support the calculation of required capital on a consolidated group-wide basis and Basel III requirements are applied to banking entities. Once developed and finalized, NBNI-activities should be recognized with their regulatory capital requirements. As long as a globally accepted regulation framework does not exist, ill-conceived interim measures which may distort the level playing field with competitors not subject to G-SII-regulation need to be avoided. Paragraph 19:	

Organisation	Jurisdiction	Comments	
		As mentioned in the comments on the executive summary, absent important specifications it is impossible and premature to finally assess the impact of the formula. As a general comment, we strongly recommend to keep the final calibration on a comparatively low level. On the one hand, a restrained calibration would partly balance the accepted shortcomings of the BCR-design as a simplified measure. On the other hand, the BCR itself is not determined to define an increased security level for systemically risky activities. This is the mandate of the HLA. Pushing the BCR to artificially high levels not in line with the risk profile could seriously impede the business activities of a G-SII without a justification. Paragraph 20: While we consider current estimates and market values as a suitable measurement proxy, deriving the values from the general-purpose balance sheet is likely to be very problematic in terms of ensuring comparability. G-SIIs are working under different accounting regimes. Absent a comprehensive guidance for the reconciliation of differently measured balance sheet items, we have serious concerns that G-SIIs will be arbitrarily and disproportionately regulated. Therefore, we strongly support a comparable valuation framework for the global capital standards to guarantee a level-playing field. Paragraph 21: While reiterating the need for a comparable valuation framework as a basis for calculating capital requirements and determining capital resources, we also stress that the valuation framework cannot be subject to changes once the capital methodology in finally agreed on. Paragraph 23: We again emphasize that BCR, HLA and qualifying capital resources require a holistic assessment and a deliberate consideration of the possible interactions between these components. There is no justification in exploring which capital categories should be available without knowing at which prudency-level the capital measure, consisting of both BCR and HLA, is going to end up. From our point of view, it is inevitable to make all components subject to a thorough impact assessment after finalization. Paragraphs 24 and 25: We understand that an adequate recognition of diversification and ALM is hardly manageable when creating a simple measure like the BCR within a very ambitious deadline. However, at the same time, we would like the IAIS to acknowledge that obvious shortcomings of the design should result in a certain restraint when calibrating the BCR in order to prevent false incentives and competitive distortions.	
Munich Re Group	Germany	24: Diversification can be reflected straightforward by applying a square root formula using stress correlations. In our view this is still in line with the simple design of the capital measure and would be decisive when moving to the ICS development.	
International Credit	Global	2.2.4 Treatment of diversification ICISA understands that the technical issues regarding the treatment of the diversification effects between the different Lines of Business	

Organisation	Jurisdiction	Comments	
Insurance & Surety Association (ICISA)		might be complex and inconsistent with the simple design IAIS has envisaged. However ICISA fears that, IAIS, in its effort to keep the design simple, may not sufficiently take into account the diversification benefits which are often a key success factor for the profitability and stability of the composite G-SIIs. ICISA would advocate for a further analysis of the Treatment of Diversification and how to include it in the BCR Formula.	
AIA Group Limited	Hong Kong	Overall Framework for the BCR: The proposed framework for the BCR uses a simple factor-based formula overlaid on a consolidated market-adjusted balance sheet with current estimates of liabilities calculated using IAIS-specified discount rates. Given the short time frame imposed on the development of the BCR and wide range of markets and individual company circumstances to which it applies, a relatively simple approach was inevitable. The approach adopted is suitable for use as a basic capital requirement, however, AIA does not believe that the model is sufficiently well developed to be applicable to IAIG's generally and that substantial modification will be necessary to transform the BCR into a meaningful Insurance Capital Standard. However, even within the context of a simple BCR, whilst AIA is supportive of a simple factor based approach, we believe that a number of improvements are warranted. These are commented on below.	
Global Federation of Insurance Associations	International	(comments repeated from above - see Q2) The relationship between the BCR and the ICS also requires further clarification. From the consultation we understand that the development of the BCR is intended to inform the development of the ICS, and that the IAIS intends to replace the BCR with the ICS as the basis for the HLA. Both statements create concerns for us as we believe it is too early to say to what extent the ICS can actually be informed by and/or replace the BCR, especially given its simplicity and lack of sophistication. Given that the BCR and the ICS are being developed with significantly different purposes and timelines, transition from one to the other may not be appropriate or effective and therefore the discussions should be kept separated at this stage.	
International Actuarial Association	International	What to do about ALM and Diversification? The proposed solution will not be consistent with a level playing field to achieve comparability across GSIIs. A formula meant to adjust the average charge across all G-SIIs for the impact of diversification (ALM risk) will penalize the highly diversified (best matched) companies and wrongly benefit the least diversified (and least matched) companies. Even a simple option like using a square root formula to capture diversification for uncorrelated risks could be a practical alternative here. How the BCR will "implicitly account" for both diversification effects and ALM (P 9 of BCR consultation document) needs to be described as fully as possible (e.g. by reference to field testing results) to avoid the "black box" accusations that would otherwise inevitably follow. The BCR formula does not address the quality of reinsurance, which can be a significant element that results in calls on capital. The IAIS report (page 18) indicates that more work is planned on this element, which we would highlight as being quite important. Lastly, fungibility is not addressed, which can be a significant legal impediment to accessing what should be adequate capital on a consolidated basis, There is a lot of effort to split out core vs. non-core capital to reflect if consolidated capital could really be used, if needed. Yet, fungibility may be an even greater limitation on what might be seen as available capital	

Organisation	Jurisdiction	Comments	
Financial Services Agency	Japan	We would like to comment on the treatment of the margin over current estimates ("MOCE") which is flagged as an issue to be reviewed. We recognise that the IAIS has adopted the current estimate to overcome the jurisdictional differences in the valuation of insurance liability in the development of the BCR. If the IAIS were to maintain the current estimate of insurance liabilities as a comparable basis for a global capital standard, the full recognition of the MOCE in core capital resources should be incorporated. Its recognition is essential given the fact that prudence in insurance liabilities has differed among the existing jurisdictional regulatory regimes in order not to discourage insurers from adopting a prudent reserving policy for the sake of policyholder protection. Relating to the current estimate, further assessments such as a time series analysis will be needed especially in light of the long-term nature of insurance products through the process of field testing, which would be warranted to ensure that the BCR framework should be implementable to the insurers with long-term liabilities. With regard to the issue of diversification addressed in paragraph 24, we have no evidence as to whether such diversification effect could work where life and non-life business within the composite insurance group is similar size. It could be understandable that the life and non-life business would be treated independently in the aggregation process, but we do not agree if the effect of diversification would be treated as a tool of risk mitigation in the context of composite insurance group.	
The General Insurance Association of Japan	Japan	- (Para 19) An across-the-board alpha (a) scalar for Traditional Life (TL), Traditional Non-Life (TNL), Non-Traditional Insurance (NT) and Assets (A) is used to adjust the overall BCR level in the proposed formula for the BCR Required Capital. We do not think it would be an appropriate concept to uplift the entire level of capital requirement without taking into account the relative importance of the respective riskiness of the four elements. - Above all, there is apprehension that the capital requirement for Assets risks could be overstated relative to assets risks of Non-Insurance (mainly banking) activities, when the same scalar as the one for Traditional Insurance and Non-Traditional Insurance is applied to the Assets risks of Insurance activities that have already been calibrated at an appropriate level for Insurance. - Considering the possibility that the NT component may be relatively emphasized in applying the HLA in the latter stage, it would be worth considering distinguishing among the alpha scalar for TL and TNL, a scalar for NT (temporarily ´ ‡acute;), and a scalar for A (temporarily "?'). - These would be represented as the formula below. BCR Required Capital = a*(Sai*TLi+Sbi*TNLi)+ ‡Sci*NTi+?*Sdi*Ai+SNLi	
The Life Insurance Association of Japan	Japan	We understand that it is reasonable to make the BCR structure simple, given the tight timeframe required for development of common capital requirements for G-SIIs.	
Komisja Nadzoru	Poland	KNF supports the IAIS intention to develop a simple, factor-based approach to the BCR design and calculation, considering the short timeframe for its development. Nevertheless we have some reservations regarding too simplistic approach to BCR design, which could cause	

Organisation	Jurisdiction	Comments	
Fiansowego - KNF (Polish Financial Supervisory Authority)		incompatibilities and inconsistencies. The design proposed in the Consultation Document fulfils the mandate given and reflects the major specificities of insurance business without covering the most complex areas. In KNF's opinion ALM or explicit risk diversification methodologies, are very important, but they seem to be in contradiction with the assumption of having the simple and straightforward capital requirement (BCR). Therefore KNF believes that in future ICS should cover them. KNF also believes that operational risk as well as non-financial activities are currently missing in the quantitative requirement and only qualitative assessment of them as suggested in para 43 and 51 will not be effective in practice.	
Autorite des marches financiers	Qu 顥 c - Canada	We understand that the BCR is a temporary step that will lead to the creation of the ICS, which will give a more robust approach to measure the risks of an insurance company. In the meantime, we believe that some improvements can be made to the BCR in order to refine it while keeping its simplicity feature. The consultation document states that the Asset-Liability Matching (ALM) risk and diversification credits will not be considered explicitly but would rather be considered implicitly in the BCR. By doing so, the proposed approach implicitly assumes that all G-SIIs have an identical degree of diversification and an identical exposure to the ALM risk. We believe that some simple approaches could be considered to improve the proposed approach, such as adding a diversification credit based on simple correlation factors between the different risks and by measuring the ALM risk based on the difference of duration of assets and liabilities cash flows. These approaches would be easily implemented and would help to reduce the reliance on implicit factors, all that without adding significant complexity to the proposed approach.	
The Central Bank of the Russian Federation	Russia	BCR design simplification Current proposal: 1) Diversification. For the reason of technical complexity of reflecting the diversification explicitly, the calibration level of the BCR will implicitly account for some degree of diversification. 2) Asset-liability matching (ALM) was considered one of the main risk categories in the first BCR Consultation Document. Further analysis has shown that ALM should be accounted for implicitly. Comment: It is not clear how these components will be included into the BCR. Principle 2 envisages that there should be comparability of outcomes across jurisdictions through the reduction of discretion included in valuation processes.	
Institute and Faculty of Actuaries	United Kingdom	We have a number of comments around the design of the BCR: - The intentionally simple design of the BCR will not distinguish between firms with closely matching assets and liabilities and those with a riskier, less well matched strategy. - It is also not clear that the BCR will capture differences in the fungibility of capital within G-SIIs. We would therefore welcome clarification from the IAIS as to whether it considers fungibility of capital to be an important consideration in the BCR. - The proposal to calibrate the BCR by considering its size, relative to PCR at 31.12.13, could quickly become outdated as the BCR and Prescribed Capital Requirement (PCR) will not move in line with one another. A solution might be to regularly recalibrate the BCR and we	

Organisation	Jurisdiction	Comments	
		would welcome clarification on whether the IAIS is likely to do this. - The BCR is also targeted to lie between the Minimum Capital Requirement (MCR) and PCR and we suggest the IAIS remains mindful these could be calibrated to different levels in different territories.	
ACE Group	United States	The current proposal does not contain sufficient detail regarding a number of important areas necessary to provide specific comments. For example, the alpha scalar, definition of qualified reinsurance and the tiering of available capital into core and additional capital are areas where detail is lacking. In our view the incompleteness of the current BCR consultation highlights the need for additional time to develop a BCR in a thoughtful way that provides an opportunity for Observers and Supervisors to provide meaningful comments. Without more specifics regarding how the IAIS is treating some of these open items, it is difficult to know whether our analysis of the BCR is consistent with what the IAIS intends for BCR and certainly for ICS.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
American Council of Life Insurers	United States	While we understand that the IAIS intends to limit application of the BCR to GSIIs, if the BCR was expanded to include non-GSIIs or if the BCR's approach to valuation was incorporated into the future ICS, we would encourage the IAIS to evaluate how to accommodate companies who rely on statutory accounting. (paragraph 21) We support the use of an implicit approach to account for Asset Liability Matching risk in this context. Given the critical nature of ALM to life insurance groups, we respectfully request more details on the development of the BCR's implicit approach.	
Liberty Mutual Insurance Group	United States	In general, Liberty Mutual believes a factor-based approach does not provide the flexibility and sophistication necessary to account adequately for the endless complexity and variation in risks and capital needs within and among insurance groups. We have a number of specific concerns about the BCR design, including the following:	

Organisation	Jurisdiction	Comments	
		1. The division of capital into "core" and "additional" categories is unclear. 2. The first BCR Consultation Document acknowledged that asset liability matching is a critical component to managing an insurance business. However, the current BCR contains no explicit factor for ALM, simply because it is "not appropriate given the simple design of the BCR." The BCR must specify the degree of allowed asset liability matching. This is particularly important for life insurers, whose asset liability matching impacts the ability of an insurer to meet cash flows related to liabilities. 3. Diversification has met a similar fate, though many commenters and supervisors have emphasized its importance in previous consultations as a pillar of enterprise risk management and a significant component of the capital model, particularly in light of the level of diversification at the large global insurers to which the BCR and ICS are to apply. Yet, the IAIS dropped the treatment of diversification altogether from the BCR, because it allegedly is inconsistent with the simple design of the BCR. The drafters ignore the need for an explicit consideration of diversification simply because it is too hard to address. The view that diversification can be addressed through calibration incorrectly assumes that all groups have the same inherent level of diversification. 4. The BCR will "be calculated on a consolidated group-wide basis," but the IAIS still has not yet specified what an insurance group will consist of. The potential revision of ICP 23 will conceivably address this, but until that work is completed, it is unclear what business units (and, consequently what activities) will be considered in determining a group's BCR. 5. The "Market Adjusted Valuation Approach" selected for valuation is not workable without convergence of accounting systems. 6. Segmentation and contract boundaries have been done arbitrarily, making it unlikely that insurers' systems will be able to provide accurate information upon which the equally arbitrarily selected Factor Values will be applied. Even if the proposed contract boundaries were logical, the proposed approach will require complex and costly accounting systems changes that most insurers could not implement prior to the proposed start day of the BCR.	
Property Casualty Insurers Association of America (PCI)	United States	The ComFrame "tiering" concept of dividing capital resources into "core" or "additional" capital should not be applied to the BCR. If the tiering concept is kept, both types of capital should be considered to be qualifying capital resources for purposes of the BCR. Diversification effects should also be taken into account, if not in the risk factors then by reduction in the level of the scalar used to calibrate the BCR.	
American Insurance Association	United States of America	We remain deeply concerned about the lack of explicit credit given to companies for diversification of their products and their investments, including the lack of specificity in the measures that the IAIS plans to use in the BCR to measure diversification. After "further exploration" following the December 2013 BCR proposal, this Proposal states, "[w]hile it would be appropriate to reflect the effect of diversification between major risk drivers in the ICS, the technical complexity of doing so explicitly in the BCR formula is inconsistent with its simple design."	

Organisation	Jurisdiction	Comments	
		(2.2.4.24). AIA must respectfully disagree. If the IAIS intends to advance a meaningful proposal to functional supervisors to require the world's most "systemically important" insurers to increase their reserved capital, it cannot simply relegate one of the most important measures insurers utilize to manage and mitigate risk. While we agree that simplicity and comparability are important, those potentially conflicting goals must ultimately yield to validity of the measure as the paramount objective. Any other course of action threatens to undermine the entire BCR process, and leaves the G-SIIs without recourse to utilize one of their most important risk mitigation tools in meeting the BCR standard. Furthermore, the IAIS' approach to diversification underscores non-G-SIIs' concern about the long-term linkage between the BCR process and development of the ICS standards. While we understand that the IAIS intended to quash these concerns by promising that consideration of diversification will be "appropriate" for the ICS, such general representations provide little comfort to insurers who feel strongly that it is equally appropriate to consider for the BCR.	
National Association of Mutual Insurance Companies	United States of America	The design proposed has a number of gaps and unknowns that make specific, constructive comment challenging and that will make implementation for insurance groups impossible in the time frame proposed. We have identified the following gaps and missing details in the BCR design: 1. The Calibration Level is unknown. 2. The Capital Resources - Core and/or Additional Capital -- to be applied are not specified. 3. The treatment of the MOCE has not been determined. 4. Diversification, Risk Mitigation and ALM have not been incorporated into the design. 5. There is lack of clarity about the aspects of the Basel III standard that will apply to banking affiliates. 6. There is no clear direction about the treatment of capital for Non-Bank Non-Insurance financial affiliates. 7. There are no details on how Non-Financial activities will be treated except to say they will be incorporated into the qualitative risk assessment. There is no information on how the qualitative risk assessment will fit into the design. 8. There is no clear definition of what comprises the group that is subject to the capital requirement. 9. There is no information about the treatment of non-qualifying reinsurance. 10. There is no consideration of operational risk and liquidity risk except in the context of non-insurance activities. 11. There appears to be no consideration of other legal, regulatory and product insurance differences in particular when a group capital level is deficient and how the needed group surplus is to be generated and held. At the same time there is very detailed and specific information about the following: 1. Discount yield curve calculation. 2. Specific segments included and detailed factor mapping. 3. Very specific factor values have been developed to apply to each segment. 4. Very specific information is provided about the items to be included or excluded from core capital and additional capital.	

Organisation	Jurisdiction	Comments	
		The gaps and missing criteria are found in critical components of the formula, so without more information about the definition or treatment of the components it is impossible to opine on the validity of the formula itself. This is, in fact, one of the primary reasons for our concern about a formulaic approach. It requires so much specificity and so many changes in the treatment of capital from the jurisdictions around the world that it is an extremely costly and challenging process. We do not believe that this BCR approach will provide the comparability and specificity desired and do not believe this approach will address systemic risk. Several options have been proposed and/or are being designed by various parties that offer meaningful alternatives for consideration. We do not suggest that all of these approaches are feasible, but would like to see options considered and IAIS responses provided as to why each approach is rejected. Some of the concepts discussed include: 1. Supervisory College Assessment Approach - Since there are only nine GSIIs at this time and since we do not envision that number reaching unmanageable proportions, an individualized capital assessment by the supervisors familiar with the GSII including reviews of internal capital models to assess the capital levels would provide a more detailed and accurate analysis of each of these organizations. 2. Principle-Based Approach -- Provision of IAIS capital principles and including a jurisdictional assessment of existing local capital models to assess whether they satisfy the principles and have satisfactory solvency outcomes. This approach was alluded to in paragraph 30 of the ICS memo distributed earlier this summer. The acceptance of a flexible approach to capital standards that considers the outcomes of each jurisdictional capital framework would provide a better lens for evaluation than the prescription of specific formulaic elements and quantitative targets. Such quantitative targets ignore the realities of the regulatory environment and the oversight of the regulator in that jurisdiction. A lower capital standard combined with consistent, thorough and regular oversight may well produce a better outcome related to solvency than a high capital standard. A review of the outcomes related to rate of insolvencies, back-up protections of policyholders in the event of insolvencies, market conduct regulation, financial analysis and examinations to detect hazardous financial conditions. These features of a legal/regulatory system should be part of the analysis in determining whether changes to jurisdictional capital levels are warranted. 3. Basel III Approach to Different Valuation Models - Under the Basel III model for banks, jurisdictions are allowed to use their own accounting valuation and capital models but for comparability they apply different risk weights that provide for international consistency. While we do not prefer a bank-centric approach to the formula, this method of addressing differences in valuation models is one that may resolve concerns about a common balance sheet. 4. Cash Flow Stress Testing - Some have proposed the concept of a cash flow stress testing approach that would allow for companies to use different valuation basis but would provide comparability by applying similar stress scenarios to the values. While this does not propose a capital requirement, it offers a more outcome-focused approach for assessing the ability of a group to withstand various market and claim scenarios. While convergence may be an IAIS goal, it should not suppress the testing and evaluation of optional approaches. The IAIS should continue to experiment with alternatives to a capital requirement that will improve the balance between insurance regulatory oversight and insurance capacity to encourage a healthy, efficient, continuously improving global insurance market. Settling on a formulaic approach at this stage in the process will unnecessarily limit investigation into better approaches.	

Organisation	Jurisdiction	Comments	
Prudential Financial Inc.	United States of America	- Par 20 - We appreciate and support the comment that the market adjusted valuation approach "starts with the amounts as reported on its audited, consolidated, general-purpose balance sheet, whether that be on an IFRS or GAAP basis." We suggest that the BCR adhere to this as an overarching principle. Further, we agree with the proposal to apply adjustments to enhance comparability however, any deviations from IFRS/GAAP should be justified and considered relative to the proportionality principle. We have concerns that many of the specific aspects of the BCR which deviate from audited, consolidated, general-purpose financial reporting frameworks in order to achieve comparability cannot be justified and fail the proportionality test. - Par 20 - The use of balance sheet measures such as Current Estimates as the proxy measure for risk exposure is crude and produces non-intuitive results. This could be especially problematic as it pertains to comparability - one of the primary goals of the BCR - in that results will be difficult to compare across companies and over time. While the current BCR design applies factors to balance sheet measures, we feel that the BCR will eventually need to migrate to economic drivers following the initial adoption of the BCR (also see paragraphs 36 and 55). We strongly suggest that consideration be given to risk factors and drivers which do not depend on the balance sheet in the ongoing testing of the BCR. - Par 21 - See Annex C comments on the definition of Market Adjusted Valuation Approach. - Par 24 - We agree that it is "appropriate to reflect the effect of diversification" in any insurance capital construct; diversification is core to the entire business model of insurance. However, while we acknowledge that diversification is beyond the scope of the BCR, the calibration of the BCR to existing regulatory regimes needs to be done in a manner which considers that most of these provide for explicit diversification. - Par 25 - Asset-liability matching (ALM), like diversification, is core to the insurance business model. ALM mismatch is a significant risk to an insurer. Failure to address ALM is a significant short coming, however we agree that it would be too complicated to be captured appropriately in the BCR, given the simple nature of the BCR. We do not believe that it is possible to calibrate the BCR to account for the absence of an ALM factor because of the potential variation in ALM practices of individual firms - there would be no benefit to being prudently managed. A mitigating factor may be the existing local regulatory rules that already ensure reasonable ALM. For example, under US RBC, insurance entities are subject to Asset Adequacy Testing (AAT) which penalizes poor ALM. So ALM may be covered by other means than BCR.	
American International Group (AIG)	USA	Alignment with prospective US and European requirements We consider that it is essential that the BCR and related IAIS capital initiatives be designed and administered in a way that allows them to accommodate and align with the consolidated capital standards that the Federal Reserve is developing for non-bank SIFIs in the United States, as well as with those developed for Solvency II in Europe. We believe that regulatory harmonization of the evolving consolidated capital standards applicable to the insurance industry should be one of the paramount goals of the IAIS project. AIG believes that it is important for policymakers and other stakeholders in the BCR process to achieve similar and comparable conservatism	

Organisation	Jurisdiction	Comments	
		in capital standards, when existing national regulatory regimes and accounting standards differ both technically and conceptually. The use of a market-adjusted valuation (MAV) balance sheet to bridge these jurisdictional differences, despite its drawbacks, provides a temporary expedient to promoting a more consistent valuation basis for calculating an interim BCR across insurers globally, until the promulgation of the ICS. It is important to bear in mind that a MAV balance sheet is not consistent with how AIG or the other U.S. carriers manage their businesses, risk profile, and reporting to stakeholders (whether shareholders or policyholders). A MAV balance sheet cannot be audited by our accountants. A MAV balance sheet diverges materially from the extensive financial reporting mandated by law by our numerous sovereign regulators and the public securities markets. While such a synthetic balance sheet can, in our view, be a useful regulatory tool, it is not a substitute for the native and auditable financial disciplines imposed by existing accounting and regulatory conventions. Margin over current estimate (MOCE) The full inclusion of MOCE (the margin over best estimate liabilities) as a component of Qualifying Capital Resources would, in AIG's view, tend to undermine the rigor of the BCR framework by virtue of its sensitive dependence on actuarial approaches. Such inclusion runs contrary to the BCR's appropriate emphasis on simplicity, comparability, and resilience to stress. These concerns are amplified by the potentially significant impact that MOCE would have on the BCR ratios; as noted by the IAIS, MOCE would account for about 38% of G-SII Core Capital on average, based on the Field Test results. The MOCE is estimated through a computationally-intensive company-specific actuarial process, which can generate significantly different results based on relatively subtle changes in assumptions. Including MOCE as a component of capital therefore infuses this complexity and variability directly into the BCR capital ratios. During periods of stress, both supervisors and market participants rightly focus on an institution's capital position as defined by the purest, strongest forms of loss absorption, and are unlikely to place significant credence in the MOCE component of reserves. Although the MOCE does provide valuable loss absorbing properties, it is, in our view, unlikely that during a stress period these properties would be accepted by market participants, policyholders, and regulators as tantamount to those of true equity capital. As an embedded component of a defined reserve, the MOCE, unlike equity capital, is not capable of absorbing losses beyond its defined purpose. The IAIS should work to develop an economically appropriate treatment of MOCE that reflects both the benefits and limitations of its loss absorbing properties and that accounts for the likely variability and inherent opacity of individuated calculations in the estimation of MOCE across firms. A thoughtfully designed BCR should not be dependent on MOCE. Segmentation	

Organisation	Jurisdiction	Comments	
		The Field Test clearly demonstrated that the broad segmentation required by the Technical Guidance for this draft BCR does not provide sufficiently granular categorization of many well-established insurance products. Our own experience in the BCR Field Testing process illustrates the need for more refined and thoughtful segmentation before implementation of the BCR. On a US GAAP basis, the majority of AIG's Property & Casualty insurance liabilities were classified as "Other" according to the specifications of the Field Test, even though this book of business includes well-established and traditional insurance lines (e.g., workers compensation; environmental; general liability; directors & officers). Some of these product groups date back to the late nineteenth century. Others date back multiple decades in the marketplace. While the lines of business have varying risk profiles, they are product lines of long-standing and economic significance in insurance markets and cannot reasonably be segmented in this undifferentiated manner. Enhancing and rethinking the relatively crude existing segmentation is essential to aligning the BCR more closely with insurers' internal product categorizations used for management purposes, and to precluding unintended but marked differential commercial results across the US, European and world markets. Such enhancements would, in our view, also provide the basis for a more refined calibration of factors applied in determining BCR Required Capital. Yield curve The determination of the yield curve for purposes of revaluing reserves for the MAV balance sheet is an important consideration that requires further specification before the finalization of the BCR. Differences in the yield curve generate differences in the MAV liabilities and, in turn, in reported equity. Disparities in yield curve assumptions across G-SIIs would introduce a potential source of variability and, in turn, reduce the comparability of insurers' MAV results. To promote consistency and comparability in BCR calculations, it is our view that the same yield curves should be applied across all G-SIIs for the purposes of deriving the MAV balance sheet. The yield curve selected by supervisors for calculating the BCR should be realistic, be based on available market and historical inputs, and reflect the long tenor of insurance liabilities which, in many cases, exceeds 30 years. Moreover, the yield curves should be relatively stable over time. Significant shifts in yield curve assumptions could introduce potential volatility and pro-cyclicality into the capital standards, as yield curve changes that affect the value of equity but do not affect underlying cash flows could force insurance companies to deleverage in a period of stress, exacerbating risks rather than absorbing shocks. Diversification AIG recognizes that, in the interests of simplicity, the BCR does not allow for the explicit incorporation of diversification effects within the capital charges. Although this decision is consonant with the limited initial objectives of the BCR, we encourage the IAIS, as it refines the BCR, develops the HLA, and promulgates the ICS to further consider potential methodologies for reflecting, for example, the low dependency between natural catastrophes and financial risks. Explicit, rather than implicit, recognition of diversification effects among differing risks and products can provide important and useful prudential incentives for insurers to reduce risk and business concentrations. Explicit recognition of	

Organisation	Jurisdiction	Comments
		diversification would also enhance the relevance of the BCR as a measure of risk-based capital, in turn increasing the utility of the BCR as an indicator of solvency.
CNA	USA	CNA supports several of the basic components of the BCR design including using a simplified factor based approach and starting with a group's audited general purpose financial statements. Where we disagree with the design is the mandate that a market adjusted valuation basis must be used. It is our view that such a valuation approach introduces unnecessary capital volatility. Rather than dictating specific requirements for the BCR and ICS, we believe the IAIS should develop broad based principles for the group capital standards which could be adopted by local jurisdictions based on the specific risks and products in that market. We strongly believe the IAIS needs to re-expose the guidance once it is complete. Commenting on a draft which has many major open items, such as final alpha scalar and discount rates for valuation, it is impossible to provide comprehensive and final feedback. Moving forward without re-exposing the final components and calibration is not transparent and inconsistent with the practices of other international standard setters.
Metropolitan Life Insurance Company (MetLife)	USA	Paragraph 19 - alpha As mentioned in our response to Q2 above, the absence of information on the level of the alpha makes it difficult to understand actual impact of the BCR applied in 2015 and beyond. Paragraph 21 - Valuation Approach Please see comment at Q 5 Paragraph 55 below. Paragraph 23 - Qualifying Capital Resources The assessment of available capital should be such that any fluctuation in the amount of available capital is commensurate with the degree of illiquidity of the insurance liabilities and the risk of a forced sale of the assets backing them. We are very concerned that the proposed market-based standard with the current yield curve formulation will produce significant volatility and anticipate the occurrence of "false positive" failures if the proposal is not changed. Tiering or deductions from capital are not necessary for subordinated capital elements as the risk that they may not be fully available in times of stress or in winding-up is already covered by capital requirements and the risk is mitigated by the long-term and illiquid nature of insurance liabilities. The purpose of capital in a market-adjusted balance sheet is to provide loss absorption. Unlike banks, which have a tiered capital structure designed to cover immediate needs for cash, insurance business models are entirely different and allow resolution over an extended period of time. In the insurer context, tiering is artificial and increases volatility of the capital position with no difference in loss absorption capability.

Organisation	Jurisdiction	Comments	
		See also our response to Q4.1 below. Paragraphs 24 and 25 - Diversification and ALM We believe the IAIS approach to diversification and ALM is appropriate, given the constraint of a simple formula. That being said, the approach relies heavily on calibration of a small number of factors to a wide range of companies, geographies and regulatory requirements. It is possible that the existing calibration may not work properly going forward as business mix, risk profiles and economic situations evolve.	
NAIC	USA	Calibration: The paper's references to calibration (footnote 3, para 24, etc.) are not clear as to intent. An explicit target calibration does not seem possible for the BCR so calibration seems to be used in reference to a target based on either existing jurisdictional capital requirements or relative to capital resources. Thus these references all point back to the alpha (see comments regarding the alpha adjustment). That point should be made more explicit in the document. Consolidated Capital Requirements: The references to consolidated capital requirements vs. group wide capital requirements are unclear (such as in paragraphs 12, 22 and 46). The paper notes that there are three components that comprise the BCR (insurance, banking and other NINB). Further there are references to adjustments to align capital resources with the approach followed for the construction of the BCR capital requirements. While the BCR ratio in the consultation paper appears to measure consolidated capital resources number in the numerator divided by the combination of the three BCR components in the denominator, there are still questions about whether certain non-financial NBNI activities will be subject to specified capital requirements in the BCR or will be addressed through a "framework that includes a qualitative analysis" (see paragraph 43). In that vein it may be that to the extent feasible each component of the BCR should have its own sufficiency ratio to improve assessment of each industry segment's capital adequacy. NAIC supports further discussion and clarity on this point. Factor-Based Approach BCR Factors and results must be further analyzed to establish a meaningful starting point for measurement of the BCR requirements against existing PCRs and against qualifying capital resources: - Data from all G-SIIs should be included - Refinements may be required to the BCR factors based on the full data set; review of volunteer proxy data and segmentation for accuracy and consistency; and a better understanding of the accounting differences.	
Northwestern Mutual Life Insurance Company	USA	In response to the current consultation, we focus our comments on three concerns that remain most problematic: the need for valuation appropriate for insurers, the need to account for constraints on movements of capital among legal entities within the group and the treatment of participating contracts. We also encourage the IAIS to consider these comments as work progresses on the Insurance Capital Standard (ICS) being developed for IAIGs.	

Organisation	Jurisdiction	Comments
The Travelers Companies, Inc.	USA	We believe that BCR should be based on local entity requirements, since they reflect the risk in the products being sold in that jurisdiction. As designed, the BCR is flawed as it will require too much capital for some products and will be insufficient for others since it does not reflect the differences between products sold in the various jurisdictions. Additionally, the design does not appropriately capture diversification which penalizes P&C insurers since asset risk and non-life insurance risk are not correlated. By implicitly incorporating diversification, the charges will inappropriately understate risk for some insurance groups and overstate for others.
2.3 - Comments on Next steps		
Association of Bermuda Insurers and Reinsurers	Bermuda	ABIR remains concerned that the proposed timeline for implementation as projected may be too ambitious given the uncertainty that remains surrounding a yet to be agreed approach to the development of the ICS and the shelf life of the BCR. Other key solvency/capital requirement regimes such as Solvency II and Basel III were progressed over a prolonged development phase made up of several field testing and quantitative impact studies to arrive at appropriate capital measures. In addition, reasonable transitional/implementation phases were granted that would allow firms to adjust to the new requirements. We note that the BCR proposal is to be agreed by the IAIS and FSB in September-October 2014 and that the testing and development of the ICS will be completed by 2016 and then testing and refinement during 2017-2018 with implementation to begin in 2019. It is important that sufficient time be allowed to test and assess the implications of any proposal prior to implementation. The IAIS should consider and review parallel transitional periods granted to other capital standards work both applied internationally (Basel) and regionally (Solvency II).
Canadian Life & Health Insurance Association Inc.	Canada	No Comments.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(26) The timetable appears to be ambitious. In order not to constrain the development of the HLA and the ICS it is important to open the BCR for further refinements. Ideally prior to finalising the BCR but certainly, prior to introduction the BCR, HLA and eventually the ICS, it is vital that potential unintended consequences are considered and the capital requirements are properly tested, not only at one point in time, but also in more extreme/ stressed conditions including a recurrence of 2007/2008 and 2011.

Organisation	Jurisdiction	Comments	
European Insurance and Occupational Pensions Authority	EU	EIOPA is broadly supportive of the Next Steps as proposed by the IAIS. However, there are some areas on which further detail is necessary, namely with regard to the processes that IAIS envisages to: - Refine the BCR calculation methodology, if that is deemed necessary (from the analysis carried out during the period of confidential reporting); and to, - Ensure a consistent application of the BCR across the different jurisdictions and G-SIIs.	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 26: As mentioned in our comments on paragraph 23, the IAIS should provide for an impact assessment once the HLA as the second component of the capital requirements for G-SIIs is adopted. Ambitious deadlines cannot justify the potential detrimental consequences if a new capital framework is implemented untested. Moreover, given that the HLA will be developed after adoption of the BCR, it is important that the BCR will be revisited, if necessary. Paragraph 27: See comments on paragraph 12. Paragraph 28: Clarification is needed whether the reference to risks arising from off-balance sheet items is only explanatory in a sense that these risks are captured by the approach outlined in this consultation paper or further refinements have to be expected in this regard.	
Global Federation of Insurance Associations	International	(comments repeated from above - see Q2) The timeline of the development remains aggressive, and we continue to hope that the IAIS will not sacrifice the quality of the BCR in order to finalise the BCR on time. In line with the BCR principles, it should be expected that the IAIS has done extensive testing of the BCR before finalisation to ensure that it does not produce unintended negative consequences. However, we are concerned that the field testing exercise will not allow sufficient time for the necessary impact assessment and testing, in particular how the BCR works during periods of financial market stress.	
International Actuarial Association	International	We appreciate the tone used throughout as to the evolutionary nature of the BCR requirements. To this end, we think it would accelerate the needed evolution of the BCR if there were a requirement for a company self-assessment of how well the BCR measure risk charges actually reflect the internally calculated risk profile of the company. Averages and approximations used at one point in time for BCR will be less and less relevant over time unless they can be assessed against the dynamic updating that occurs within a firm's own ERM process due to its changing mix of business and risk profile. The report requirements could be worked out through a blend of regulatory requirements and/or actuarial standards.	

Organisation	Jurisdiction	Comments	
The Life Insurance Association of Japan	Japan	This consultation document states that the actual calibration level will be determined after further analysis in July and August of information collected. Although we do understand the tight timeframe for the development of the BCR, we expect the IAIS to provide us with opportunities to input insurers' views in some way. Furthermore, we want the IAIS to keep in mind that only a 30-day comment period is too tight for us. We urge the IAIS to please provide sufficient comment periods for expected public consultations from now on.	
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	In general KNF supports the proposed next steps. However, it is not clear what data should be used to calculate BCR in January 2015. One month from the end of the year (when the reporting day is 31/12) seems to be very short deadline to prepare consolidated balance sheet and calculate e.g. Insurance Liabilities.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
American Council of Life Insurers	United States	We understand that the IAIS is responding to external deadlines, but we are concerned that the timeline for the development of the BCR is too aggressive and will be adopted without a full understanding of how the BCR will interact with the Higher Loss Absorbency (HLA) requirement. We are concerned that the aggressive timeline is inconsistent with BCR Principle 3 (resilience to stress) because in order to meet the deadlines set by the IAIS, it will be adopted without understanding how it will interact with the Higher Loss Absorbency and how both measures will respond over time. We urge the IAIS to modify the timeline to permit an understanding of how the framework will perform under various economic environments, especially in relationship to the various national regimes, before moving forward.	

Organisation	Jurisdiction	Comments
Liberty Mutual Insurance Group	United States	The IAIS cannot achieve its "Key Milestones" if the first phase will end this Fall with the adoption of an unworkable and ineffective BCR. Problems with the BCR will be amplified in the ICS development process, particularly because the IAIS time table does not contain enough time to fully address those problems. Flaws in the BCR were clearly demonstrated by the substantive compromises made during field-testing. The much more ambitious ICS is likely to face even greater obstacles in meeting the proposed time frame set out in Section 2.3.
Property Casualty Insurers Association of America (PCI)	United States	The timetable for development and implementation of the BCR continues to be extremely aggressive. The 2014 deadline for BCR development requires enough haste and shortcuts to make it extremely likely that the BCR will produce significant unintended consequences. Your attention is respectfully drawn to a recent Rookings Institution paper by Robert Lytan entitled: Source of Weakness, Worrisome Trends in Solvency Regulation of Insurance Groups in a Post - Crisis World. (August 2014)
National Association of Mutual Insurance Companies	United States of America	We have significant concerns about the timing and speed of this effort. These are important and complex questions with serious implications for policyholders and the global economy. They require thorough analysis and evaluation. If observers are to provide thoughtful comments that incorporate the varying perspectives and a valid economic analysis, the short comment periods provided to date are grossly inadequate. We propose that time allowed for the development phase needs to be significantly expanded to assure that adequate investigation and understanding of the global impacts are considered before any form of a capital requirement is finalized. The implications of erring in this effort, creating economic distortions in the insurance markets, and incentivizing behaviors not aligned with the sound risk management could be disastrous. 3. Proposed BCR Approach Q5 3 General Comments on Proposed BCR Approach The design proposed has a number of gaps and unknowns that make specific, constructive comment challenging and that will make implementation for insurance groups impossible in the time frame proposed. We have identified the following gaps and missing details in the BCR design: 1. The Calibration Level is unknown. 2. The Capital Resources - Core and/or Additional Capital -- to be applied are not specified. 3. The treatment of the MOCE has not been determined. 4. Diversification, Risk Mitigation and ALM have not been incorporated into the design. 5. There is lack of clarity about the aspects of the Basel III standard that will apply to banking affiliates. 6. There is no clear direction about the treatment of capital for Non-Bank Non-Insurance financial affiliates. 7. There are no details on how Non-Financial activities will be treated except to say they will be incorporated into the qualitative risk assessment. There is no information on how the qualitative risk assessment will fit into the design. 8. There is no clear definition of what comprises the group that is subject to the capital requirement. 9. There is no information about the treatment of non-qualifying reinsurance. 10. There is no consideration of operational risk and liquidity risk except in the context of non-insurance activities. 11. There appears to be no consideration of other legal, regulatory and product insurance differences in particular when a group capital level

Organisation	Jurisdiction	Comments	
		is deficient and how the needed group surplus is to be generated and held. At the same time there is very detailed and specific information about the following: 1. Discount yield curve calculation. 2. Specific segments included and detailed factor mapping. 3. Very specific factor values have been developed to apply to each segment. 4. Very specific information is provided about the items to be included or excluded from core capital and additional capital. The gaps and missing criteria are found in critical components of the formula, so without more information about the definition or treatment of the components it is impossible to opine on the validity of the formula itself. This is, in fact, one of the primary reasons for our concern about a formulaic approach. It requires so much specificity and so many changes in the treatment of capital from the jurisdictions around the world that it is an extremely costly and challenging process. We do not believe that this BCR approach will provide the comparability and specificity desired and do not believe this approach will address systemic risk. Q6 3.1 Comments Application of BCR Q7 3.2 Comments on BCR ratio Several options have been proposed and/or are being designed by various parties that offer meaningful alternatives for consideration. We do not suggest that all of these approaches are feasible, but would like to see options considered and IAIS responses provided as to why each approach is rejected. Some of the concepts discussed include: 1. Supervisory College Assessment Approach - Since there are only nine GSIIs at this time and since we do not envision that number reaching unmanageable proportions, an individualized capital assessment by the supervisors familiar with the GSII including reviews of internal capital models to assess the capital levels would provide a more detailed and accurate analysis of each of these organizations. 2. Principle-Based Approach -- Provision of IAIS capital principles and including a jurisdictional assessment of existing local capital models to assess whether they satisfy the principles and have satisfactory solvency outcomes. This approach was alluded to in paragraph 30 of the ICS memo distributed earlier this summer. The acceptance of a flexible approach to capital standards that considers the outcomes of each jurisdictional capital framework would provide a better lens for evaluation than the prescription of specific formulaic elements and quantitative targets. Such quantitative targets ignore the realities of the regulatory environment and the oversight of the regulator in that jurisdiction. A lower capital standard combined with consistent, thorough and regular oversight may well produce a better outcome related to solvency than a high capital standard. A review of the outcomes related to rate of insolvencies, back-up protections of policyholders in the event of insolvencies, market conduct regulation, financial analysis and examinations to detect hazardous financial conditions. These features of a legal/regulatory system should be part of the analysis in determining whether changes to jurisdictional capital levels are warranted. 3. Basel III Approach to Different Valuation Models - Under the Basel III model for banks, jurisdictions are allowed to use their own accounting valuation and capital models but for comparability they apply different risk weights that provide for international consistency. While we do not	

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Prudential Financial Inc.	United States of America	None	
Metropolitan Life Insurance Company (MetLife)	USA	Paragraph 26 ICS development timeframe As FSB priorities, the BCR and HLA must remain the focus of standard setting work. Furthermore, we propose that two years for the development of a comprehensive and risk-sensitive global capital standard is unrealistic given prior history with similar efforts. If appropriately designed and consistently applied, a global standard such as the ICS could level the playing field and strengthen the industry's role as a provider of key social benefits and as a stabilizer of global markets. If inappropriately designed it could increase costs to policyholders or force insurers to withdraw key products from certain markets altogether. To be effectively implemented, the ICS will have to consider different prudential frameworks in effect around the globe and we strongly recommend that the IAIS be open to new approaches that industry, professional experts and/or industry associations may recommend. Bottom line, we need to proceed carefully with an ICS and not enforce a deadline at the expense of meaningful results.	
NAIC	USA	The consultation paper references refinements during the initial reporting periods of 2015 and 2016. The NAIC supports the notion of continuing refinements, but strongly supports using the maximum opportunity for initial refinement of the BCR and BCR ratio prior to implementation of supervisory reporting. It is important that the BCR go live for reporting purposes with a thoroughly developed and understood basis for its components. If initial revisions result in materially different results than those portrayed in the Paper, it may be necessary to have another round of consultation. The chart on page 10 does not include a reference to further consultation on HLA beyond	

Organisation	Jurisdiction	Comments
		December 2014. NAIC would support including the potential for a 2nd consultation paper in 2015.
The Travelers Companies, Inc.	USA	The timing is too ambitious to develop a product with credibility. The IAIS should inform the FSB that in order to develop a viable capital standard, that more time is needed.
3. - General Comments on Proposed BCR Approach		
Association of Bermuda Insurers and Reinsurers	Bermuda	Given the (targeted) simplicity of the BCR, it should be recognized that a crude BCR+HLA measurement cannot represent a viable replacement for more granular and sophisticated local standards and therefore there is a strong need for the BCR to be replaced in the future by a more sophisticated and risk-sensitive measure which also already exists in several jurisdictional capital regimes.
Canadian Life & Health Insurance Association Inc.	Canada	No Comments.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(28) It is not clear from the text if the current proposal is exhaustive in covering all on- and off-balance sheet items or inclusion of further risks is to be expected in particular relating to any off-balance sheet items. (29) We support that the explicit integration of other risk areas such as operational and liquidity risk are not included within the scope of the BCR.
European Insurance and Occupational Pensions Authority	EU	As previously stated, EIOPA is in general supportive of the Approach currently being proposed by the IAIS for BCR.
Insurance Europe	Europe	28 While we understand that all on- and off-balance-sheet exposures are due to be taken into account, Insurance Europe would like to seek more clarity on how derivatives, securities lending and repurchase agreements will be factored in.

Organisation	Jurisdiction	Comments	
		Insurance Europe would like to see appropriate recognition of rights of set-off in the case of pledged assets.	
North American CRO Council	North America	Common Adjusted Balance Sheet is Not Compatible with Existing Accounting Regimes The IAIS' consultation document and memoranda for the BCR and ICS have outlined the need for a common adjusted balance sheet, suggesting that "market adjusted" accounting of all insurer assets and liabilities is the only option which can provide comparability. This approach disregards the fact that jurisdictional differences in the adoption of either market-consistent or book value (also called amortized cost) accounting have often been proactive policy choices rather than historical accidents. Over the years, many attempts have been made to develop an international common accounting standard, yet all have failed due to the enormous complexities involved. In our opinion, a common adjusted balance sheet is not required for achieving the goal of comparability. The assumption that comparability must be based on a global common balance sheet introduces complexity, risk, and jurisdictional friction in the pursuit of a goal that is not otherwise contentious. The development of any international capital standard should use a valuation basis that is compatible with an insurer's existing models or accounting records in order to avoid unnecessary increases in cost without a corresponding benefit. In addition, the CRO Council believes the current BCR methodology of applying factors to broad categories of a balance sheet can provide a misleading assessment of capital levels. The CRO Council recognizes that the BCR is the foundation that will influence further development of the Higher Loss Absorbency (HLA) and ICS. As such, the BCR should try to accurately reflect the insurance group's underlying risk exposures, and provide a foundation for the development of a useful and comparable ICS.	
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	In general KNF supports the approach currently being proposed by the IAIS for BCR. Nevertheless it is not clear how factor values were determined. In our opinion, the factors calculation methodology should be disclosed to make the BCR requirement more transparent and to have a possibility to assess if the factor values are adequate.	
Allstate Insurance Company, The Chubb	United States	See Q-2 General Comments on Executive Summary	

Organisation	Jurisdiction	Comments	
Corporation, CNA Financial Corporation, Employers Mutual Casualty Company			
American Council of Life Insurers	United States		
Liberty Mutual Insurance Group	United States	As Liberty Mutual has expressed in previous consultations, we remain concerned that the proposed factor-based approach is unrealistic. This approach, although potentially appealing because of its perceived ease of application, is overly simplistic and does not capture meaningful information about a particular insurer's enterprise risk management. For example, and as the IAIS, itself, acknowledges, its factor-based approach has required it to drop consideration of diversification and ALM.	
American Insurance Association	United States of America	Proposed BCR Approach BCR Ratio (3.2.34) Because G-SIIs' portfolios are so complex, and differ from one another, reducing the BCR to a comparative ratio elevates simplicity over utility. We would urge the IAIS to reinforce its use of metrics through renewed reference to the qualitative aspects inherent in overall group capital adequacy assessment. Required Capital (3.3.35) Footnote 7 indicates the initial calibration level will be determined following analysis of additional data from field testing participants in July and August. However, given the important role of the alpha scalar, it would be useful to understand the level of scalar that will be used. As it is an overall multiplier of the BCR required capital formula, information on the actual level of the scalar is critical to understanding the real impact the BCR will have on G-SIIs in 2015. The absence of this information makes it difficult to understand the ultimate outcomes of the BCR formula, and therefore to provide meaningful comment. Segments (3.4.36) As part of AIA's comments on the G-SII Assessment Methodology and the Policy Measures, we have consistently maintained that the IAIS approach to systemic risk assessment of insurers has suffered because of its isolation of the insurance sector from other non-bank financial sectors. In other words, viewing systemic risk only from an insurance lens, rather than through the broader lens of the financial system and its different product sectors, will inevitably result in flawed and mischaracterized views of some insurance lines and activities as presenting risk to global financial stability that does not exist. We continue to believe that the segmentation approach of the BCR illustrates our point. Taking products out of context of the role they play within an overall entity and an overall market do not provide a good proxy for risk. Pulling	

Organisation	Jurisdiction	Comments	
		out a particular type of product and assigning it a factor value independent of how a company uses that product as part of its business, and independent of how that product is used in the local market overall, produces an inaccurate and skewed picture of a company's overall risk exposure. Given the small number of companies involved in the BCR, it might not be too burdensome to allow for a sliding scale with a national factor calibration as a more appropriate proxy for risk. Characterizing products out of context runs the risk of unfairly disincentivizing companies from offering these products, which could have negative effects on consumers and markets. More specifically, we believe that surety, trade credit and political risk insurance should be included in, or at least treated in the same way, as the Traditional Non-Life/Property category; Current Estimate or Notional Value would be inappropriate as an exposure measure. Current Estimates are not forward looking and do not correctly reflect how these risks are underwritten. Volatility in the market would increase by over-emphasising past events. Further, Current Estimates cannot reflect sufficiently the dynamic exposure management of the credit insurance industry as and when it reacts to the economic events involved in trade credit and political risk insurance. Equally important, surety, generates minimal, if any, systemic risk as compared to other types of traditional and non-traditional insurance, since once of its defining characteristics is qualifying the principal for the obligation insured and the ability to repay any losses. Therefore we believe that surety, trade credit insurance and political risk insurance should be categorized within the "Traditional Non-Life /Property" segment, but with the net written premium as proxy for the Exposure Measure instead of the Current Estimate/Notional Value. Since trade credit insurance was not in this segment in the Field Test, we cannot comment if the Factor Value (7.5%) for this sub-segment is a valid one for trade credit insurance.	
National Association of Mutual Insurance Companies	United States of America	The design proposed has a number of gaps and unknowns that make specific, constructive comment challenging and that will make implementation for insurance groups impossible in the time frame proposed. We have identified the following gaps and missing details in the BCR design: 1. The Calibration Level is unknown. 2. The Capital Resources - Core and/or Additional Capital -- to be applied are not specified. 3. The treatment of the MOCE has not been determined. 4. Diversification, Risk Mitigation and ALM have not been incorporated into the design. 5. There is lack of clarity about the aspects of the Basel III standard that will apply to banking affiliates. 6. There is no clear direction about the treatment of capital for Non-Bank Non-Insurance financial affiliates. 7. There are no details on how Non-Financial activities will be treated except to say they will be incorporated into the qualitative risk assessment. There is no information on how the qualitative risk assessment will fit into the design. 8. There is no clear definition of what comprises the group that is subject to the capital requirement. 9. There is no information about the treatment of non-qualifying reinsurance. 10. There is no consideration of operational risk and liquidity risk except in the context of non-insurance activities. 11. There appears to be no consideration of other legal, regulatory and product insurance differences in particular when a group capital level is deficient and how the needed group surplus is to be generated and held. At the same time there is very detailed and specific information about the following: 1. Discount yield curve calculation.	

Organisation	Jurisdiction	Comments	
		2. Specific segments included and detailed factor mapping. 3. Very specific factor values have been developed to apply to each segment. 4. Very specific information is provided about the items to be included or excluded from core capital and additional capital. The gaps and missing criteria are found in critical components of the formula, so without more information about the definition or treatment of the components it is impossible to opine on the validity of the formula itself. This is, in fact, one of the primary reasons for our concern about a formulaic approach. It requires so much specificity and so many changes in the treatment of capital from the jurisdictions around the world that it is an extremely costly and challenging process. We do not believe that this BCR approach will provide the comparability and specificity desired and do not believe this approach will address systemic risk.	
Prudential Financial Inc.	United States of America	None	
American International Group (AIG)	USA	The BCR Field Test, while truncated in time and scope, did illuminate certain particular areas where further work is warranted in advance of adoption. In developing and implementing the BCR and its subsequent iterations, we believe that there are critical objectives that the IAIS should attempt to achieve: - It is essential that the future development of the BCR and related IAIS capital initiatives be designed and administered in a way that will align with the consolidated capital standards that the Federal Reserve is developing for non-bank systemically-important financial institutions (SIFIs) in the United States. - The full inclusion of MOCE (the margin over best estimate liabilities) as a component of Qualifying Capital Resources runs contrary to the BCR's emphasis on simplicity, comparability, and resilience to stress. As an embedded component of a defined reserve, the MOCE, unlike equity capital, is not capable of absorbing losses beyond its defined purpose. - The Field Test clearly demonstrated that the broad segmentation applied within the current draft iteration of the BCR does not provide sufficiently refined categorization of many well-established and traditional insurance products.	
CNA	USA	CNA supports several of the basic components of the BCR design, including using a simplified factor based approach and starting with a group's audited general purpose financial statements. Where we disagree with the design is the mandate that a market adjusted valuation basis must be used. As already stated, such a valuation approach introduces unnecessary capital volatility. Rather then dictating specific requirements for the BCR and ICS, the IAIS should develop broad based principles for the global capital standards which could be adopted by local jurisdictions based on the specific risks and products in their market.	

Organisation	Jurisdiction	Comments
Metropolitan Life Insurance Company (MetLife)	USA	Paragraph 27 Please see our response to Q2.1, Paragraph 12 above.
The Travelers Companies, Inc.	USA	As noted in Q1, all material risks are not included in the BCR proposal.
3.1 - Comments on Application of BCR		
Association of Bermuda Insurers and Reinsurers	Bermuda	We would appreciate clarification that the BCR will not apply to IAIGs. Paragraph 33 states that the ICS (applicable to IAIGs) is to be the basis for calculation of the HLA for GSIIs. Can the IAIS provide the rationale for this proposal?
Canadian Life & Health Insurance Association Inc.	Canada	We appreciate the decision of BCR not applying to IAIGs.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(30-33) See answers to section 2.1.
European Insurance and Occupational Pensions Authority	EU	EIOPA supports the limited application of the BCR to G-SIIs only, given its role to serve as a basis for the calculation of HLA (which is only relevant for G-SIIs), as well as the reassessment of such role once the ICS development is completed by 2019.

Organisation	Jurisdiction	Comments
Insurance Europe	Europe	31 We note that the previous uncertainty whether the current BCR would apply beyond G-SIIs has now been clarified. 32 Insurance Europe welcomes confidentiality in the BCR reporting. 33 Insurance Europe believes that it's too early to decide whether the ICS will be a basis for calculation of HLA for G-SIIs.
Bundesanstalt fr Finanzdienstleistungsaufsicht (BAFIN)	Germany	BaFin supports the application of the BCR to G-SIIs only, as the BCR is intended to be a common basis for HLA which applies to G-SIIs only as well.
The Life Insurance Association of Japan	Japan	In determining regulation for the G-SIIs as well as the level of required capital, we think that policy measures for addressing breaches against the BCR and/or the HLA should also be considered. We believe that the IAIS would not be able to pursue discussions on prudential regulations without presenting an overview on prudential regulations for insurers including these policy measures.
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	As stated in 2.1 KNF supports the application of BCR only to G-SIIs and reassessment of the BCR's role following the development and refinement of the ICS.
Institute and Faculty of Actuaries	United Kingdom	The proposal for the application of the BCR states that the "current BCR' will not apply to IAIGs. We welcome further detail on this, in particular whether this leaves open the prospect that some future version might apply.
Allstate Insurance Company, The	United States	See Q-2 General Comments on Executive Summary

Organisation	Jurisdiction	Comments	
Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company			
Liberty Mutual Insurance Group	United States	Liberty Mutual endorses the decisions to apply the BCR only to G-SIIs and for results to be reported on a confidential basis. Regulatory tools that require insurers to provide information which purports to quantify the risks facing their businesses should clearly be kept confidential.	
Property Casualty Insurers Association of America (PCI)	United States	PCI agrees both that the BCR should apply only to G-SIIs and that reporting of the BCR should, at least initially, be on a confidential basis.	
Prudential Financial Inc.	United States of America	None	
Metropolitan Life Insurance Company (MetLife)	USA	Paragraphs 30 and 31 -- BCR will apply to G-SIIs only We would urge the IAIS to recognize that application of the BCR and HLA to G-SIIs only has the potential for market distorting competition issues. G-SIIs compete with smaller regional and national insurers who often market similar if not identical products and thereby incur similar if not identical risks. The sole differences are size and geographic spread, both well-recognized as risk mitigants. The application of BCR and HLA to G-SIIs alone creates, therefore, an unwarranted disparity with other insurers engaged in the same activities for which G-SIIs will attract an HLA charge. Experience in the US during the global financial crisis would suggest that the insurance firms most in danger of failure are those in the next size layer down from the G-SII's: big enough to write material amounts of risk, but without the diversification across geographies and products to protect them. Paragraph 32 - Confidential Reporting and Refinement Confidential reporting and relevant refinement are positive developments. We believe that reporting should be helpful to the industry and IAIS in determining whether the BCR, including the balance sheet approach, is working as it should. However, it is highly improbable that the 2015 - 2019 window will be adequate time to develop the necessary documentation and consistency the IAIS would hope to achieve.	

Organisation	Jurisdiction	Comments
		Paragraph 33 Information made public by the FSB does not appear to set a timeframe for ICS development. Please see our comments in response to Q2.3 Paragraph 26 above.
NAIC	USA	The NAIC strongly supports the position in the paper that the BCR in its current form will only apply to G-SIIs and solely as the base for a combined BCR + HLA capital standard. Confidential reporting of the BCR ratio should continue until HLA is added. There should be strong disincentives for use of the BCR on its own by G-SIIs as an indicator of financial strength at least until HLA is required in 2019. (Same comment applies to paragraph 66.)
The Travelers Companies, Inc.	USA	We agree that BCR should not apply to IAIG's, we also note that there is no global mechanism to ensure that it will apply to all GSII's, as each jurisdiction can create their own standard if they so choose.
3.2 - Comments on BCR ratio		
Canadian Life & Health Insurance Association Inc.	Canada	Related to our comments in our answers to other Questions related to ensuring the BCR measure is not unduly volatile from period to period, we strongly recommend the IAIS consider the use of a three year moving average for the BCR ratio.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(34) See answers to section 2.2.
European Insurance and Occupational Pensions	EU	EIOPA considers the issue of the BCR ratio is directly linked to the issue of Qualifying Capital Resources. As previously stated, BCR and HLA need to be seen in conjunction, given that only their sum effectively constitutes a capital requirement for G-SIIs. Considering that it is envisaged that HLA is met only by the best quality capital (Core Capital), EIOPA supports the eligibility of both Core and Additional Capital with regard to the BCR.

Organisation	Jurisdiction	Comments	
Authority			
Insurance Europe	Europe	34 Insurance Europe believes that more clarity should be given regarding the target level of the BCR ratio, in order to enable companies to assess interaction between the BCR level and existing local capital measures.	
International Credit Insurance & Surety Association (ICISA)	Global	hier komen onze commentaren	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
Liberty Mutual Insurance Group	United States	The classifications used to distinguish capital are unclear and ill-defined. Until this is resolved, we cannot comment intelligently on whether the proposed approach to "Qualifying Capital Resources" is correct for purposes of calculating the proposed BCR ratio. The classifications used to distinguish capital are unclear and ill-defined. Until this is resolved, we cannot comment intelligently on whether the proposed approach to "Qualifying Capital Resources" is correct for purposes of calculating the proposed BCR ratio.	
American Insurance Association	United States of America	Because G-SIIs' portfolios are so complex, and differ from one another, reducing the BCR to a comparative ratio elevates simplicity over utility. We would urge the IAIS to reinforce its use of metrics through renewed reference to the qualitative aspects inherent in overall group capital adequacy assessment.	

Organisation	Jurisdiction	Comments	
National Association of Mutual Insurance Companies	United States of America	Several options have been proposed and/or are being designed by various parties that offer meaningful alternatives for consideration. We do not suggest that all of these approaches are feasible, but would like to see options considered and IAIS responses provided as to why each approach is rejected. Some of the concepts discussed include: 1. Supervisory College Assessment Approach - Since there are only nine GSIIs at this time and since we do not envision that number reaching unmanageable proportions, an individualized capital assessment by the supervisors familiar with the GSII including reviews of internal capital models to assess the capital levels would provide a more detailed and accurate analysis of each of these organizations. 2. Principle-Based Approach -- Provision of IAIS capital principles and including a jurisdictional assessment of existing local capital models to assess whether they satisfy the principles and have satisfactory solvency outcomes. This approach was alluded to in paragraph 30 of the ICS memo distributed earlier this summer. The acceptance of a flexible approach to capital standards that considers the outcomes of each jurisdictional capital framework would provide a better lens for evaluation than the prescription of specific formulaic elements and quantitative targets. Such quantitative targets ignore the realities of the regulatory environment and the oversight of the regulator in that jurisdiction. A lower capital standard combined with consistent, thorough and regular oversight may well produce a better outcome related to solvency than a high capital standard. A review of the outcomes related to rate of insolvencies, back-up protections of policyholders in the event of insolvencies, market conduct regulation, financial analysis and examinations to detect hazardous financial conditions. These features of a legal/regulatory system should be part of the analysis in determining whether changes to jurisdictional capital levels are warranted. 3. Basel III Approach to Different Valuation Models - Under the Basel III model for banks, jurisdictions are allowed to use their own accounting valuation and capital models but for comparability they apply different risk weights that provide for international consistency. While we do not prefer a bank-centric approach to the formula, this method of addressing differences in valuation models is one that may resolve concerns about a common balance sheet. 4. Cash Flow Stress Testing - Some have proposed the concept of a cash flow stress testing approach that would allow for companies to use different valuation basis but would provide comparability by applying similar stress scenarios to the values. While this does not propose a capital requirement, it offers a more outcome-focused approach for assessing the ability of a group to withstand various market and claim scenarios. While convergence may be an IAIS goal, it should not suppress the testing and evaluation of optional approaches. The IAIS should continue to experiment with alternatives to a capital requirement that will improve the balance between insurance regulatory oversight and insurance capacity to encourage a healthy, efficient, continuously improving global insurance market. Settling on a formulaic approach at this stage in the process will unnecessarily limit investigation into better approaches.	
Prudential Financial Inc.	United States of America	None	
CNA	USA	CNA supports several of the basic components of the BCR design including using a simplified factor based approach. However, commenting on a ratio which has many major open items, such as final alpha scalar and discount rates for valuation, it is impossible to provide	

Organisation	Jurisdiction	Comments
		comprehensive and final feedback. Moving forward without re-exposing the final components and calibration is not transparent and inconsistent with the practices of other international standard setters.
NAIC	USA	Alpha scalar: The Alpha should be determined only after the other BCR components are close to being finalized: - Focusing on the ratio of capital resources to BCR at the beginning of the process is not a sufficient rationale to adjust the alpha at this point and it should remain at 1. - The alpha should be the last component that is addressed. Calibrating via use of the alpha can only be intelligently discussed after we know the impact of a refined BCR; verify jurisdictional PCRs; and have a full picture of what comprises capital resources. That will foster informed discussion and analysis by firms and supervisors as to where the BCR actually sits relative to both jurisdictional PCR and capital resources.
The Travelers Companies, Inc.	USA	No comment.
3.3 - Comments on Required Capital		
Canadian Institute of Actuaries	Canada	The chart under paragraph 44 shows that over 50% of the capital requirements for insurance entities relate to asset risks. However, the table under paragraph 36 shows there are only three asset factors in the BCR formula (two for credit risk, and one for equity risk). We encourage making this component of BCR more granular by expanding the number of asset factors used. For example, we believe that 10 to 15 factors would be sufficient. We also believe this more granular credit and asset class data would be readily available to insurers, so the extra effort required to calculate the BCR formula would be minimal. To expedite the development of these factors for BCR purposes, existing factor-based insurance entity capital frameworks could be used as a source of factors for a wide array of asset classes and qualities. The factors in use in two or three such frameworks could possibly be averaged, after adjusting each source for known underlying differences.
Canadian Life & Health Insurance Association Inc.	Canada	No Comments.
EIOPA Insurance & Reinsurance	EU	(35) See answers to section 2.2.

Organisation	Jurisdiction	Comments	
Stakeholder Group			
European Insurance and Occupational Pensions Authority	EU	As previously stated, EIOPA supports the proposed approach, as well as the streamlining of the formula, by comparison with the 2 layer approach.	
Munich Re Group	Germany	The calibration level of the BCR should be implied by the thorough choice of the specific factors applied to the different exposures and not (a posteriori) by an arbitrarily chosen alpha factor.	
Global Federation of Insurance Associations	International	(comments repeated from above - see Q2) We are also concerned that the principle that "G-SIIs should hold higher levels of capital than would be the case if they were not designated as G-SIIs" could be misunderstood to mean the G-SIIs should automatically hold more than required under their local requirements. The IAIS should clarify that capital charges imposed via national legislation might be above the HLA uplift, in which case there would effectively be no capital increase. Higher capital for G-SIIs is therefore not a valid objective in its own right – rather it should be that the BCR/HLA framework provides additional reassurance that the GSIIs hold enough capital.	
The General Insurance Association of Japan	Japan	Same as Q.3	
The Global Reinsurance Forum	Switzerland	The calibration level of the BCR should be implied by the thorough choice of the specific factors applied to the different exposures and not (a posteriori) by an arbitrarily chosen alpha factor.	
Institute and Faculty of Actuaries	United Kingdom	The inclusion of a separate factor relating to assets within the BCR calculation is different to many standard measures of capital requirements. Given that the "assets factor' contributes to over 50 per cent of the BCR it will be important any unintended consequences are considered and we welcome further information on the detail to evaluate the prospective risks of including a separate factor relating to assets. Valuable additional information might include: - how comparability will be achieved, when the different factors each cover a number of asset classes that G-SIIs may hold in different proportions? - how it is intended to work for lines of business with atypical asset-liability relationships (e.g. UK with-profits). In particular, where movements	

Organisation	Jurisdiction	Comments
		in asset value can (subject to limits) be passed onto the policyholder, and may also affect guarantee costs, which are not passed on. - whether the asset capital charge would apply to "free assets' that do not back liabilities?
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary
American Council of Life Insurers	United States	Footnote 7 indicates the initial calibration level will be determined following analysis of additional data from field testing participants in July and August. However, given the important role of the alpha scalar, it would be useful to understand the level of scalar that will be used. As it is an overall multiplier of the BCR required capital formula, information on the actual level of the scalar is critical to understanding the actual impact the BCR will have on G-SIIs in 2015. The absence of this information makes it difficult to meaningfully comment on the BCR. (paragraph 35)
Liberty Mutual Insurance Group	United States	It is difficult to offer meaningful comments regarding the impact of the BCR on current supervisory standards and the BCR, more broadly, until the IAIS discloses the value of the alpha scaler and how it is determined.
Property Casualty Insurers Association of America (PCI)	United States	We cannot comment on the formula until we know what the effects of the proposed scalar will be. The BCR should be a minimum capital standard, given its imprecision and the possibility of undue interference with a group's capital decisions.
American Insurance Association	United States of America	Footnote 7 indicates the initial calibration level will be determined following analysis of additional data from field testing participants in July and August. However, given the important role of the alpha scalar, it would be useful to understand the level of scalar that will be used. As it is an overall multiplier of the BCR required capital formula, information on the actual level of the scalar is critical to understanding the real impact the BCR will have on G-SIIs in 2015. The absence of this information makes it difficult to understand the ultimate outcomes of the BCR formula, and therefore to provide meaningful comment.

Organisation	Jurisdiction	Comments
Prudential Financial Inc.	United States of America	None
American International Group (AIG)	USA	Treatment of non-regulated banking activities Our comments in this area are informed by our own experience over the past five years. Since the financial crisis, AIG has substantially de-risked our investment portfolio and markedly reduced sub-investment grade securitization-related exposures. This de-risking process, including the ongoing run-off of legacy exposures, is a critical component of our multi-year effort to refocus AIG's energies and financial resources on our core insurance operations. Therefore, AIG expects that the allocation of our BCR regulatory capital to these activities will decline as we continue to reduce these exposures. Given the BCR's intentionally simplistic and transparent methodologies for factor-weighting insurance assets and liabilities, AIG concurs with the IAIS that the application of a Leverage Ratio measure (rather than the more computationally-intensive Basel III risk-weighting approach) is appropriate for addressing non-regulated banking activities.
CNA	USA	Our first suggestion is to eliminate the two tier approach to capital resources for both the BCR and ICS since it is overly complex. In its place, CNA suggests having one tier of capital resources and determine limits on specific financial elements directly. We continue to be concerned with the proposed criteria for core capital which does not contemplate a scenario which is common in the U.S. Approximately 20% of U.S. stock companies' economic capital is derived from senior debt issued by the holding company and invested as a capital contribution into a downstream insurance affiliate. The rationale for inclusion in the group's economic capital is that the capital cannot be removed from the affiliate to repay debt holders without supervisory approval making it structurally subordinated to policyholder claims in the event of insolvency or winding up which is consistent with Insurance Core Principle (ICP) 17 criteria. Specifically ICP 17.11.1 states that: In view of the two objectives of capital resources set out in Guidance 17.2.6, the following questions need to be considered when establishing criteria to determine the suitability of capital resources for regulatory purposes: - To what extent can the capital element be used to absorb losses on a going-concern basis or in run-off? - To what extent can the capital element be used to reduce the loss to policyholders in the event of insolvency or winding-up? Since the scenario outlined meets both of these criteria, CNA respectful requests that the IAIS reconsider instruments which are structurally subordinated as core capital and also consider this form of capital during field testing. Our final concern regarding capital resources relates to excluding net deferred tax assets from core capital which rely on an IAIG being profitable in the future. By ignoring future profitability it implies that deferred taxes on loss carry forwards are indeterminable and provide no economic value to an insurer. We respectfully disagree with this premise, although we understand the supervisory concern that there is significant judgment involved in the determination of a company's deferred tax position and corresponding valuation allowance. We believe this concern with judgment can be addressed with the same checks and balances used for other line items of the statutory balance sheet. As you are aware, a material portion of an insurer's balance sheet is derived from management estimates that require significant professional judgment. Examples of these individual judgments include unpaid losses, reinsurance recoverable and bad debt provisions which are based on standards, guidelines and professional experience. These judgments are then validated for reasonableness by an insurer's external

Organisation	Jurisdiction	Comments	
		auditors and insurance supervisor. In our opinion, deferred taxes is a determinable asset that helps provide a balanced view of an insurers true economic situation and its impacts on its financial and capital position. For example, it is problematic to have an accounting standard that requires fair value presentation for many invested asset categories and technical provisions while ignoring the tax ramifications of this fair value treatment. Unfortunately, this provides the financial statement users with an unrealistic view of the true economics. We recommend that ComFrame include a realizability analysis similar to those mandated under IFRS, Japanese GAAP and U.S. GAAP. These standards allow recognition of a tax benefit from loss carry forwards if it can be demonstrated the asset is realizable based on the facts and circumstances available as of the reporting date. Finally, until such time as a valuation standard is finalized, we believe it to be premature to make a determination on the treatment of deferred tax assets. Valuation issues such as the rate at which liabilities are discounted (if at all) may have a material non-economic impact on deferred tax assets.	
Metropolitan Life Insurance Company (MetLife)	USA	Paragraph 35 Please see our comments on the absence of information on the scalar for the BCR Required Capital formula at Q2.2 Paragraph 19 above.	
The Travelers Companies, Inc.	USA	It is difficult to comment on the formula without having more information, especially on what will be used as the scalar.	
3.4 - Comments on Insurance			
Canadian Institute of Actuaries	Canada	Products in which the policyholder shares in the risk (e.g., traditional dividend-paying participating products, non-par adjustable products, and other so-called risk pass-through products–collectively referred to here as "participating products") typically represent a markedly different and much lower risk to the insurance entity than otherwise similar but fully guaranteed non-par products. Accordingly, we would expect the insurance risk capital requirements for participating products to be markedly lower than for otherwise similar non-par products. For the same reasons, we would expect the asset factors for required capital to be lower for assets supporting participating products than for assets supporting guaranteed non-par products.	
Canadian Life & Health Insurance Association Inc.	Canada	# 36 - We have comments on (i) wealth management products, (ii) securities activities, (iii) participating products, (iv) use of internal bond ratings (i) Wealth management savings products, like the 401(k) pension accounts in the USA, or variable annuities with nonmaterial guarantees, are currently included in the "Life Insurance-Other" segment, attracting a 0.60% risk factor on the Current Estimate of liability, which would be the	

Organisation	Jurisdiction	Comments	
		value of the separate accounts. We suggest that a more appropriate and risk-sensitive segmentation would carve out these account values from the Insurance-Other segment and include them with third party assets under management ("AUM") in the Non-Insurance segment, as economically the risk is very similar (i.e. operational risk only, no insurance risk). (ii) For BCR on securities activities, we prefer the aggregation of existing global capital requirements for such non-bank and non-insurance financial activities to the alternative of "up to 25 bps of AUM". Without credible data to do the calibration, setting the BCR as certain bps of AUM is too arbitrary and may not appropriately reflect the underlying risks of the activities. (iii) Participating products - Although they have their own sub segment, the BCR formula uses the same risk factor of 0.60% as the insurance/other sub segment. Hence it is not clear there is a credit for Par for risk absorbency as there should be. We suggest that a reduced risk factor be applied to the Par sub segment, relative to the other Life-Protection sub segments. For example, the factor of 0.028% of NAR could be applied to Par. To recognize the ability of dividends to absorb investment risk, we suggest that Par assets be carved out of the asset sub segments and half the proposed factors applied (i.e. 0.345% for investment grade, 0.9% for below investment grade, and 4.2% for equity and real estate etc.). Also, in the definition of the Current Estimate of the liability for Par products, it should be assumed that the value of the dividends would be reduced based on investment income at the IAIS prescribed yield curve, so that there would be zero discount rate impact (going from IFRS best estimate to IAIS adjusted balance sheet) on the Par liabilities. (iv) Use of internal bond ratings - Internal ratings assessments should be recognized in deciding if fixed income assets are segmented as investment grade, or below investment grade. # 37 - Although we agree that regulatory arbitrage opportunities between the banking and insurance sectors be "examined", this principle should not be construed to eliminating reflection of economic differences, stemming from the two sectors' business models. As banks have significantly higher liquidity risks, we suggest, in reference to the last sentence, that comparability will be limited to the extent such risk and its mitigants are not suitably reflected for both sectors.	
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(36-37) Comments on the proposed calibration and categorization: - It is unclear how unit linked business should be treated - Clarification is required in the BCR formula on which assets should be excluded from the asset exposure base in particular for participating life insurance business and unit linked business - Further consideration should be given to the recognition of profit sharing - Considering that variable annuities include often substantial embedded derivatives, it does not appear suitable to apply simply the double factor compared with participating products, which might often as well include minimum guarantees, but which are usually only in the money in extreme market scenarios - We question if the non-life classification sufficiently take account of catastrophe elements - The gap between non-investment grade credit and equity looks wide and could have the effect of distorting asset choices. It would be	

Organisation	Jurisdiction	Comments	
		desirable to explore any potential effects on investment markets - With HLA not defined yet, it is difficult to judge the impact of the overall framework i.e. BCR+HLA as the binding capital requirement.	
European Insurance and Occupational Pensions Authority	EU	EIOPA believes the current approach to the Insurance component of the BCR strikes an appropriate balance between the recognition of the specificities of insurance business and the simple and straightforward nature of the BCR calculation. We understand that the relatively low level of overall charges allocated to the NT category is explained by the low amount of exposures to NT activities reported by G-SIIs. In this area more than elsewhere, it will be important, as the document itself recognizes, to improve data coverage and quality during the consultation process in order to ensure more robust outcomes.	
Insurance Europe	Europe	36 Insurance Europe believes that in the assessment of the "investment grade" status for credit-like assets, both external and internal ratings should be allowed. G-SIIs generally rely on a mix of external and internal ratings and have significant expertise and sophisticated techniques for assessing the credit quality of exposures such as mortgage loans and infrastructure debt. Internal ratings of assets should therefore be recognised. Regarding the calibration of the factors, Insurance Europe believes that it should be recognised that these calibrations were based on a specific group of companies, at a single point in time, which, as recognised in the BCR principles, may be not enough to test the resilience of the measures.	
Munich Re Group	Germany	The BCR charge for equity risk is set at 8.4%; according to current specifications this is also to be applied to real estate exposure. Given the Credit-non-investment grade loading of 1.8% (on any bond rated below BBB), this seems to be an inadequately high risk charge. A factor in the order of 3-4% (while including real estate) would be in our view more appropriate. As an alternative, one could consider the exclusion of real estate exposure from "equity risk".	
AIA Group Limited	Hong Kong	Investment Grade Assets: AIA believes that "investment grade" should be determined based on local circumstances and ratings. This is extremely important to companies operating in emerging markets. There are several aspects to this issue. First, sovereign debt denominated in local currency should be treated as risk-free when considered as being held in respect of liabilities in local currency, i.e. no capital charge should be assessed. All local solvency regimes that we are aware of use this approach for matching local liabilities with local sovereign debt. As a practical matter, local sovereign debt is the safest investment available in local currency. Often investments denominated in foreign currency are not available and currencies are not freely exchangeable. Any government is extremely unlikely to default on its own debt in local currency as it can simply print more money if needed and a default would result in a breakdown of the entire financial system.	

Organisation	Jurisdiction	Comments	
		Second, many of the agency and corporate bond investments in emerging markets are not rated by any international rating agency despite their high credit quality in the local market. In such cases AIA believes that the BCR should look to the practice followed by the local regulator. When this is not clear, local ratings or preferably internal ratings should be used. AIA has a robust internal rating process in place that has been reviewed and confirmed as being appropriate by external consultants. We are happy to share the workings of our system with the IAIS.	
International Actuarial Association	International	We have some concerns with the factors due to the uncertainty about what their ultimate impact and usage will be. Will users/viewers of the end results appreciate the approximate nature of the charges and the simplicity of the risk buckets? In some cases, the BCR as currently drafted, will not distinguish well between the levels/diversity of risks within, for example, annuities and non-life insurance and direct vs. reinsured business.	
Financial Services Agency	Japan	We feel that further investigation would be warranted in the risk factor of non-traditional insurance risk category as to whether the level of its risk weight may be relatively too low compared with that employed in the traditional category. In addition, it is important that the segmentation of insurance products should be properly refined to ensure each category would be comparable across jurisdictions.	
The Life Insurance Association of Japan	Japan	We think that the simple structure for the BCR will result in a limited approach in assessing insurers' risks, due to the tight timeframe for developing the BCR, for example, some risks with different characteristics are included in the same segment. We believe that the BCR should be carefully reconsidered in the development of the ICS.	
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	The number of factors is very limited which could cause inadequacy.	
Autorite des marches financiers	Qu 顴 c - Canada	We recommend that the Equity segment be split between two segments: common stock equity and other equity. Given the difference of risks between these two asset classes, we believe that it would be justified to have two distinct segments. We would also like to point out that that the proposed segmentation could lead to products with very different risk profiles that would end up in the same segment. As an example, the variable annuities segment would include both guaranteed minimum maturity benefit (GMMB) products, guaranteed minimum death benefit (GMDB) and guaranteed minimum withdrawal benefit (GMWB) products, all of which have significantly different risk profiles that should lead to different levels of capital.	

Organisation	Jurisdiction	Comments	
The Global Reinsurance Forum	Switzerland	The current BCR does not fully reflect the risk mitigating effects emanating from reinsurance covers. This is especially the case for non-proportional reinsurance. We could imagine an improvement of the formula to differentiate between proportional and non-proportional reinsurance. Regional characteristics and geographical diversification - both determining the reinsurance business model - are totally disregarded. Here we definitely see room for future improvements and expect those in the ICS. GRF would be pleased to provide more technical input on these two points.	
Institute and Faculty of Actuaries	United Kingdom	Several types of life product with different characteristics (e.g. participating products, unit linked, critical illness cover) have both the same measure (current estimate) and factor value (0.6%). This implies that the products are similarly risky, which appears to be inconsistent with similar factor based methods such as the Solvency II MCR. A more granular segmentation of products may help to remedy this potential issue. Much of the risk on with-profits business relates to guarantee costs, but the current estimate and hence the contribution to the BCR, will be dominated by the asset share liability (which is driven by, and hence matched to, the movements in assets backing it). It is the relationship between the level of guarantees offered and amount and type of assets held to back these liabilities that is important in determining level of risk for this class of business. On this basis we would question whether the current proposed estimate is the most appropriate proxy for a risk measure of with-profits business. The number of traditional non-life segments appears small in comparison to the divergent risk profiles of the lines of business that form the segments (e.g. the Solvency II MCR contains 16 types). In particular, we note the inclusion of direct insurance and non-proportional business within the same segments. Although this may not present a material concern in the context of the restricted number of groups to which the current BCR proposal is to be applied, this is likely to lead to a significant lack of risk sensitivity if carried forward to the ICS. Variable annuities can have significantly different risk characteristics depending on the degree to which they include guarantees. This could result in an excessive capital charge and could be avoided by using more granular product segmentation.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation,	United States	See Q-2 General Comments on Executive Summary	

Organisation	Jurisdiction	Comments
Employers Mutual Casualty Company		
American Council of Life Insurers	United States	We are concerned that an identical factor value is assigned to both participating and other life products. In the U.S., management has significant discretion to reduce the exposure or risk caused by participating products and we believe this should be reflected in the assigned factor value for participating products. It would be helpful to have additional information to better understand how the decision to assign factor values was made. We believe that the factor developed for Synthetic GICs is unreasonably high, particularly for a well-matched portfolio. For example, Standard & Poor's requires a 0.20% notional as a risk charge for AA companies, whereas the IAIS is proposing a "basic" charge that is 1.11% of notional. Can the IAIS provide additional insight regarding the development of the factor for Synthetic GICS?
Liberty Mutual Insurance Group	United States	We appreciate that the IAIS has provided Factor Values for each of the insurance segments that will be components of the BCR calculation. However, the explanation in Annex F as to how these Factor Values were determined provides no comfort that the assigned values are reasonable. These values appear to be arbitrarily selected. Annex F says that "the level of factors differed among supervisors," and that "the responses from volunteers did not provide sufficient information on which to base the factors." Given these weaknesses in the data, the IAIS must provide more substantive information and a clearer explanation of how these Factor Values were determined in order for interested parties to evaluate whether the selected factors are reasonable. Additionally, segmentation and contract boundaries are too broad and not sufficiently granular. In particular, the treatment of surety as non-traditional insurance is incorrect and the broad mix of lines included in the traditional non-life casualty segment includes very different coverages (e.g., general liability lines, workers compensation, asbestos & environmental). These products have very different risk characteristics, but will receive the same capital charge. This is illogical and severely limits the use of the BCR in connection with evaluating property and casualty insurers, such as Liberty Mutual.
Property Casualty Insurers Association of America (PCI)	United States	It is very difficult to judge the appropriateness of the non-life factors without release of the aggregate data from field testing that supports the factors. For assets, credit ratings accepted by jurisdictional supervisors should be used to differentiate between investment and non-investment grade holdings, rather than global ratings.

Organisation	Jurisdiction	Comments	
The Surety & Fidelity Association of America	United States	THE SURETY & FIDELITY ASSOCIATION OF AMERICA COMMENTS TO INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS ON THE JULY 9, 2014 PUBLIC CONSULTATION DOCUMENT, "BASIC CAPITAL REQUIREMENTS FOR GLOBAL SYSTEMICALLY IMPORTANT INSURERS" The Surety & Fidelity Association of America (SFAA) is a licensed rating or advisory organization in every state in the United States and files countrywide statistics on the insurance lines of surety and fidelity with state insurance departments. SFAA also acts as a trade association for multinational, national and regional companies on issues related to surety and fidelity. SFAA members write the vast majority of all surety bonds written in the U.S., as well as surety reinsurance. SFAA also has a number of foreign affiliates that write bonds around the world. SFAA is a founding member of the International Surety Association, and has been involved in global surety issues for decades. SFAA appreciates the opportunity to submit comments on the International Association of Insurance Supervisors (IAIS) July 9, 2014 Public Consultation Document, "Basic Capital Requirements for Global Systemically Important Insurers" (the BCR Proposal or Proposal). According to the Proposal, the IAIS intends the Basic Capital Requirement (BCR) to serve as the first step in the development of "group-wide global capital standards." The second step will be development of Higher Loss Absorbency (HLA) requirements for Global Systemically Important Insurers (G-SIIs), followed by "development of a risk based group-wide global insurance capital standard (ICS), due to be completed by the end of 2016, and to be applied to Internationally Active Insurance Groups (IAIGs) from 2019 after refinement and calibration in 2017 and 2018." (1.1.2) SFAA and its members are very concerned with one specific portion of the Proposed BCR Approach, the inclusion of surety in the list of Non-Traditional Non-Life/Property lines, and the application of Current Estimate or Notional Value to surety. Although surety is a unique type of insurance, historic loss ratios show that surety should not be categorized as non-traditional for purposes of this analysis. Rather, surety insurance should be included in, or at least treated in the same way, as the Traditional Non-Life/Property category. Surety is a three party contract, with the principal liable to repay the surety for payments made on its behalf to the obligee (insured). In fact, one of the key factors in underwriting surety is qualifying the principal for the obligation insured and the ability to repay any payments made by the surety on the bond. Instead of providing greater risk to an insurer than other traditional lines of property and casualty insurance, surety poses less risk. Further, Current Estimate and Notional Value are inappropriate and unsuitable exposure measures for surety. They do not reflect correctly how these risks are underwritten. Additionally, Current Estimates cannot reflect sufficiently the dynamic management of potential losses sureties conduct as performance of the obligations of the principal progress. The appropriate exposure should reflect the minimal amount of systematic risk associated with surety, especially relative to the risks of other traditional and non-traditional insurance. In surety, the loss typically is a small fraction of the initial total contractual obligation. As such, net written premium would be an appropriate proxy for surety exposure. SFAA urges the IAIS to modify the current proposal to reflect the risk that surety poses to insurers and categorize it within the "Traditional	

Organisation	Jurisdiction	Comments
		Non-Life /Property" segment, but with the net written premium as proxy for the Exposure Measure instead of the Current Estimate/Notional Value.
American Insurance Association	United States of America	As part of AIA's comments on the G-SII Assessment Methodology and the Policy Measures, we have consistently maintained that the IAIS approach to systemic risk assessment of insurers has suffered because of its isolation of the insurance sector from other non-bank financial sectors. In other words, viewing systemic risk only from an insurance lens, rather than through the broader lens of the financial system and its different product sectors, will inevitably result in flawed and mischaracterized views of some insurance lines and activities as presenting risk to global financial stability that does not exist. We continue to believe that the segmentation approach of the BCR illustrates our point. Taking products out of context of the role they play within an overall entity and an overall market do not provide a good proxy for risk. Pulling out a particular type of product and assigning it a factor value independent of how a company uses that product as part of its business, and independent of how that product is used in the local market overall, produces an inaccurate and skewed picture of a company's overall risk exposure. Given the small number of companies involved in the BCR, it might not be too burdensome to allow for a sliding scale with a national factor calibration as a more appropriate proxy for risk. Characterizing products out of context runs the risk of unfairly disincentivizing companies from offering these products, which could have negative effects on consumers and markets. More specifically, we believe that surety, trade credit and political risk insurance should be included in, or at least treated in the same way, as the Traditional Non-Life/Property category; Current Estimate or Notional Value would be inappropriate as an exposure measure. Current Estimates are not forward looking and do not correctly reflect how these risks are underwritten. Volatility in the market would increase by over-emphasising past events. Further, Current Estimates cannot reflect sufficiently the dynamic exposure management of the credit insurance industry as and when it reacts to the economic events involved in trade credit and political risk insurance. Equally important, surety, generates minimal, if any, systemic risk as compared to other types of traditional and non-traditional insurance, since once of its defining characteristics is qualifying the principal for the obligation insured and the ability to repay any losses. Therefore we believe that surety, trade credit insurance and political risk insurance should be categorized within the "Traditional Non-Life /Property" segment, but with the net written premium as proxy for the Exposure Measure instead of the Current Estimate/Notional Value. Since trade credit insurance was not in this segment in the Field Test, we cannot comment if the Factor Value (7.5%) for this sub-segment is a valid one for trade credit insurance.
Prudential Financial Inc.	United States of America	- Par 36 - Participating products: Charges should be reduced due to their participating nature, where risks are passed through to policyholders. - Par 36 - Categorizing GICs and synthetic GICs / Investment Only Stable Value (IOSV) into the same factor using notional values does not recognize the very different risk profile of IOSV. In addition, notional value for annuities is not a reasonable measure of risk. -Net Amount at Risk (NAR), similar to the exposure basis used for Protection Life, provides a better measure (see Annex F).
American International Group (AIG)	USA	Segmentation The Field Test clearly demonstrated that the broad segmentation required by the Technical Guidance for this draft BCR does not provide

Organisation	Jurisdiction	Comments	
		sufficiently granular categorization of many well-established insurance products. Our own experience in the BCR Field Testing process illustrates the need for more refined and thoughtful segmentation before implementation of the BCR. On a US GAAP basis, the majority of AIG's Property & Casualty insurance liabilities were classified as "Other" according to the specifications of the Field Test, even though this book of business includes well-established and traditional insurance lines (e.g., workers compensation; environmental; general liability; directors & officers). Some of these product groups date back to the late nineteenth century. Others date back multiple decades in the marketplace. While the lines of business have varying risk profiles, they are product lines of long-standing and economic significance in insurance markets and cannot reasonably be segmented in this undifferentiated manner. Enhancing and rethinking the relatively crude existing segmentation is essential to aligning the BCR more closely with insurers' internal product categorizations used for management purposes, and to precluding unintended but marked differential commercial results across the US, European and world markets. Such enhancements would, in our view, also provide the basis for a more refined calibration of factors applied in determining BCR Required Capital.	
CNA	USA	Segmentation - Insurance contracts are developed to address specific risks and conditions present in specific markets. Assuming products written in different jurisdictions contain the same risk profile warranting the same risk charge is a misleading assessment and will not achieve true comparability. Segmentation as proposed will only result in increased system costs as product data will now have to be maintained in a different manner than used for management or jurisdictional regulatory purposes. From our perspective comparability can only be achieved within a jurisdiction where groups write similar products and risks not across jurisdictions. In addition, CNA questions the rationale as to why Surety products are being classified as non-traditional insurance risk. From our perspective Surety business has a significant indemnity component and is priced with that expectation. Therefore it should be classified as a traditional non-life risk.	
Genworth Financial, Inc.	USA	Genworth Financial, Inc. ("Genworth") is an insurance holding company that ranks in the Fortune 500 and is traded on the New York Stock Exchange. Genworth operates primarily in two divisions, including a U.S. Life Insurance Division that will be submitting any comments on the life insurance issues in the consultation through its trade associations, most notably the American Council of Life Insurers. Through Genworth's affiliates in the Global Mortgage Insurance Division, it is a leading provider of mortgage insurance. It has a material mortgage insurance subsidiary in the United States (Genworth Mortgage Insurance Corporation), and material holding company subsidiaries Canada (Genworth MI Canada Inc., which is traded on the Toronto Stock Exchange) and Australia (Genworth Mortgage Insurance Australia Limited, which is traded on the Australian Securities Exchange). It also offers mortgage insurance in select markets in Europe and Latin America. Genworth Financial, Inc. does meet the currently proposed definition of an Internationally Active Insurance Group, but has not been designated a Global Systemically Important Insurer ("G-SII"), nor does it believe it should be considered such. In the chart accompanying paragraph 36, the proxy measure for risk exposure for mortgage insurance is listed as "face amount." In Annex F, paragraph 36, however, the exposure measure is listed as "Risk in force" ("RIF"). Genworth first notes that either of these exposure measures is different from all of the others in section 3.4 since either does not take into account estimation of liability that is directly in "Net Amount At	

Organisation	Jurisdiction	Comments	
		Risk," "Current Estimate" and "Notional Value" or implicitly in "Premium." The Guidance for mortgage insurance indicates that RIF is preferable to Current Estimate, because it "would be backwards-looking and a poor indicator of unexpected loss." The same could be said of the Property segment, and paragraph 32 and the accompanying footnote 15 in Annex F do so. Footnote 15 notes that premium was chosen as the proxy over sums insured because of greater integrity and comparability of premiums. Of the two proxy measures currently in the document, Genworth recommends that the IAIS use "Risk in force." It is a proxy measure used in our public financial disclosures and we consider it an industry standard in the United States. The U.S. is the largest mortgage insurance market globally with the only current G-SII (therefore not Genworth) with a mortgage insurance subsidiary. Choosing RIF would create comparability and utilization of public data, consistent with BCR Principle 6 listed in Annex A. However the IAIS chooses to resolve this discrepancy, there are some practical difficulties in using either proxy measure, but the remainder of this comment will focus on improving the guidance in Annex F. For our businesses in Canada and Australia (which represent the majority of our International Mortgage insurance business), risk in-force ("RIF") is defined as an effective risk in-force, which recognizes that the loss on any particular loan will be reduced by the net proceeds received upon sale of the property. Effective risk in-force has been calculated applying a 35% factor that represents our highest expected average per-claim payment for any one underwriting year over the life of our businesses in Canada and Australia. Genworth Mortgage Insurance Corporation defines RIF as our obligation that is limited under contractual terms to amounts less than 100% of the mortgage loan value. On average, there is a policy limit of 25% of the principal amount of the mortgage loan. These are the definitions that we use in our insurance holding company's public financial disclosures. These definitions of RIF are different from the first sentence of Annex F, paragraph 36, which states: "Mortgage insurance risk-in-force measures the insured outstanding principal of the mortgage loans insured." Adoption of a description of RIF that aligns with currently publicly reported financial data would lead to a simpler definition that is comparable across companies and reduces arbitrage because it matches publicly disclosed data. The current language could lead to anomalies because it does not either include policy coverage limitations or recognize that mortgage insurance is, by definition, made on the credit risk for collateralized loans. In the United States, the European Union (excepting France), Korea and Mexico, the industry standard is that the credit risk is insured to a percentage of the loan. In the U.S. market, the mortgage insurer traditionally offers a first-loss layer of protection, with the insured lender (or loan investor) retaining second loss position. The loss exposure provided by the insurer on a loan is the RIF, which is typically far less than the full current loan balance of an insured loan. For example, on a $100,000 insured loan, and if 30% first-loss coverage is in place, the MI's RIF is $30,000 at time of origination and will proportionately decrease as the loan amount decreases until the loan to value ratio becomes 78 percent, at which time it will terminate as a matter of law. The coverage range is often lower in the other jurisdictions. The challenge for the existing definition of RIF in the consultation is that despite the exposure being explicitly limited in the insurance contract, the capital charge would apply to the whole outstanding balance.	

Organisation	Jurisdiction	Comments	
		In Australia and Canada, the general market practice is for the entire loan balance, net of the proceeds received upon sale of the property, to be covered, with the premium paid in one initial payment. While there is no explicit loss cap, there effectively is a loss cap, because there is recognizable value in the property. That value can be and is actuarially estimated, even for a stress scenario. If the proposed definition were adopted, then excluding the realizable value would create the potential for arbitrage, since assuming a full loss in all instances is much more severe than the Basel framework capital assumptions for banks or for insurance companies holding residential real estate loan investments. Improving the guidance for RIF would assist the IAIS in meeting the following BCR Principles: Comparability of outcomes across jurisdictions (Principle 2); Resilience to stress (Principle 3); Simple Design and presentation (Principle 4); and Optimize transparency and use of public data (Principle 6). Genworth is pleased to have had the opportunity to present these comments and if it would be of assistance to get more information about the preceding, Genworth would be pleased to make its actuarial or accounting experts available for further discussion with the IAIS.	
Metropolitan Life Insurance Company (MetLife)	USA	Paragraph 36 We point out here that we believe that guidance on BEL calculation and segmentation is not sufficiently clear and it is very likely that there is significant deviation between firms in data submitted Please also see our comments at Q Annex F Asset Segmentation below.	
NAIC	USA	Insurance Factors: As supported in our general comments, there should be a strong connection between this section and the data refinement effort described generally in the Paper and that these factors are subject to revision before a final recommendation is adopted by the IAIS. They are not final at this point.	
Northwestern Mutual Life Insurance Company	USA	Participating contract features should be carefully examined before determining which BCR equation factor should be applied to a portfolio of contracts. For example, some participating contracts offered in the EU include government-mandated dividend or bonus levels while that is not a feature of US participating contracts. This gives the participating contracts in those respective jurisdictions a very different risk sharing arrangement between the insurer and the policy owner with significant implications for the measurement of capital strength and loss absorption. A single factor applied to all participating contracts ignores this difference and degrades the precision of the BCR.	
The Travelers Companies, Inc.	USA	For P&C, we question why there isn't a risk charge for premiums for motor, casualty and other non-life business. As currently proposed, new entrants to the market would have significantly lower risk charges than established writers. Additionally, we find it peculiar that non-traditional insurance would carry a risk charge that is significantly less than the risk charges for non-life traditional products.	
3.5 - Comments on Non-insurance			

Organisation	Jurisdiction	Comments
Canadian Life & Health Insurance Association Inc.	Canada	No Comments.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(40) We support the use of Basel III measures for BCR in order to create a level playing field with banking groups. (41) IAIS might wish to consider defining a materiality concept for the inclusion of non-material non-regulated activities in the BCR. (42) It is important that the future global capital requirements agreed for the asset management sector are reflected in the BCR framework to maintain a level playing field.
European Insurance and Occupational Pensions Authority	EU	Concerning regulated banking activities, EIOPA believes the use of the simpler Leverage Ratio calculation would be more appropriate and consistent with the overall calculation of the BCR. Requiring the calculation of the full Basel III capital requirements would be inconsistent with the overall BCR simple and straightforward approach, in particular for the non-regulated banking activities. EIOPA supports a similar treatment for both regulated and non-regulated activities, in the BCR calculation (similar risks should lead to similar capital charges, to avoid the introduction of arbitrage opportunities). Regarding financial activities not subject to banking or insurance regulation, EIOPA supports the application of comparable capital charges to similar activities, irrespective of the jurisdiction where it is being developed. Therefore, an approach relying solely on existing capital charges should be dismissed.
Insurance Europe	Europe	40 Insurance Europe would welcome more guidance on how the Basel III leverage ratio will be used to determine capital requirements. Insurance Europe is also concerned by the proposal to apply the higher of the Basel III leverage ratio and Basel III risk-weighted assets (RWA) in the case of non-insurance (NI), as this could result in a disproportionately high measure for NI activity. 41 Insurance Europe would welcome information on when the IAIS expects to clarify the treatment of non-regulated banking activities. In addition, Insurance Europe believes that materiality and proportionality principles should be taken into account when considering such activities. For example, for groups where the non-regulated banking entities represent non-material exposures, a simplified approach to capital calculations should be considered. 42 Insurance Europe believes that no charge should be imposed on the asset management activity, as this would create an un-level playing field

Organisation	Jurisdiction	Comments	
		with other asset managers. 43 Insurance Europe believes that risks emerging from non-financial activities are marginal and should not be included in the BCR. Insurance Europe agrees that such risks "are difficult to capture in a capital requirement" and also notes that, given the simplicity of the BCR, it would be challenging to include qualitative risk-assessments to address such risks. Before investing too much time and effort into this issue, the IAIS should identify exactly what the risks and worries are and should get a more clear view on why such risks can't be ignored.	
Bundesanstalt fr Finanzdienstleistungsaufsicht (BAFIN)	Germany	Regarding financial activities not subject to banking or insurance regulation, BaFin generally supports comparability in applying capital charges to similar activities. However, existing national sectoral rules should not be completely dismissed. Thus, BaFin proposes to use existing rules where possible and a capital charge as basis points on assets under management where no national sectoral rules exist. Alternatively, where national rules exist, the higher of the two could be applied.	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 40: We support the use of Basel III-requirements. Paragraph 41: We request the IAIS to incorporate the principle of materiality. This should allow G-SIIs either to exclude non-material activities from the BCR or recognize an asset charge within the existing quantities. Paragraph 42: It is very important that NBNI-activities, such as third-party asset management, will be accounted for with their respective sectoral requirements. Any interim solution, such as the approach considered by the IAIS, is prone to contribute to an unlevel playing field compared to other firms not subject to the G-SII-regulation.	
The Central Bank of the Russian Federation	Russia	Requirements to regulated and non-regulated banking activities Current proposal: For regulated banking activities, the IAIS proposes applying the Basel III Leverage Ratio or the Basel III Risk-Weighted Assets requirements (alternatively, the higher of the two measures). For non-regulated banking activities it is recommended to apply the leverage ratio (alternatively - the higher of the RWA and the leverage ratio).	

Organisation	Jurisdiction	Comments	
		Comment: It is reasonable to take identical approaches to the regulated and non-regulated banking activities, including for the purposes of maintaining internal consistency of the BCR (Principle 5). We also suggest the materiality principle should be applied to the non-regulated activities (both banking and non-bank) in order to exclude from the BCR the companies insignificant from the point of view of their size. Alternatively, we propose that the BCR to such companies should be calculated as a percentage of their assets.	
ACE Group	United States	We continue to believe the Surety line of business does not belong in the NTNI definition. Surety insurance has traditionally been sold by P&C insurers in the US and in general is not subject to rapid cash calls that seem to typify NTNI concerns. While the contract provides for a guarantee of performance, there are strong mitigants that make the risk preferential to unsecured bank lenders and bondholders: 1. Surety insurers providing coverage for construction project can "step-in" to finish the task if the general contractor is unable (e.g., due to bankruptcy). In doing so, the surety writer has access to future flow of funds from the contruction customer as the project continues. 2. Surety insurers often receive partial collateralization from the obligor in the form of cash, bank letters of credit or other highly liquid instruments. Bondholders are generally unsecured creditors. 3. Surety insurers often have "indemnification" provisions in their contracts which allow the insurer to unilaterally demand collateral or parental guarantees from the obligor in the event of obligor credit deterioration. Bondholders and banks generally receive no such provision. 4. Surety insurers sometimes have "cancellation" provisions in their contracts which allow the insurer to give 30-120 days' notice to unilaterally cancel a contract in the event of obligor credit deterioration. This provision effectively forces renegotiation of the contract to improve standing or forces the obligor to seek an alternative surety or substitute letter of credit. Bondholders and banks generally have no such provision. 5. In US Chapter 11 bankruptcy proceedings (i.e., corporate reorganizations with intent to re-emerge with a viable liability structure), which represent the vast majority of bankruptcy filings in the US, Surety obligations are generally considered to be part of a necessary vendor relationship to maintain the obligor's status as a viable going concern as it emerges from bankruptcy. Therefore, Surety obligations generally receive preferential treatment in Chapter 11 bankruptcy relative to all unsecured debt. Unsecured debt is generally considered to be part of the capital structure and is generally subject to an average 40-70% haircut as part of US Chapter 11 bankruptcy proceedings. These provisions substantially mitigate credit and liquidity risks associated with traditional contract and commercial surety. In summary, we do not believe that the surety line of business belongs in the NTNI definition as they do not present liquidity, leverage or maturity transformation.	

Organisation	Jurisdiction	Comments	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
American Council of Life Insurers	United States	We respectfully request additional clarification regarding the selection of a 25 basis point charge for assets under management as opposed to the 0.15% that is discussed in Paragraph F48. Paragraph F48 explains the rational of applying a 0.15% capital charge for operational risk as a ratio of assets under management and simply notes that "another jurisdictional approach" is a charge of 0.25%. Despite the explanation of why a 0.15% charge is appropriate, the IAIS has chosen to apply a 0.25% charge. We are not sure why 0.25% is more appropriate than 0.15% and would appreciate additional clarification on the rationale for applying a 25bp charge instead of the 0.15% charge. We respectfully oppose a 25bp charge on all assets under management, particularly for certain activities, like investment management operations. These operations manage capital for third-parties and provide no guarantees and therefore pose little to no solvency risk to the insurer. Mutual funds and linked savings units have similar risk postures to these investment management operations.	
Institute of International Finance - IIF	United States	Section 3.5 Question 10, (Page 14) IAIS suggests in paragraph 42 that a capital charge might apply to "financial activities which are subjected to neither banking nor insurance regulation" by referring to the use of existing capital requirements for NBNI activities. In addition however, the CD proposes the application of a 25bp charge for such activities owned by a G-SII. As long as the level playing field issue referred to in our general comments above is not appropriately addressed, such reference is not acceptable to us and we oppose this alternative proposed by the IAIS. Further, with reference to footnote 9 on page 14, it should be clarified that third party asset management will only be considered to the extent that group-external funds are managed1. In addition, introducing this type of capital charge for comparability purposes among G-SIIs would severely distort competition between G-SIIs and non-G-SIIs, could lead to sales of operations, reducing scale in investments, and an	

Organisation	Jurisdiction	Comments	
		increase in costs to insurance companies and consumers, without any specific benefit to financial stability. Section 3.5 Question 10, (Paragraphs 40 and 41 page 14) We would be concerned with an approach to non-insurance that applies the higher of the Basel III leverage ratio and the Basel III RWA as this could result in a disproportionately high measure for NI activity. The IAIS should provide further guidance on how the Basel III leverage ratio will be used to determine capital requirements for non-regulated banking activities. (Paragraph 41 page 14) When does the IAIS expect to clarify the treatment for non-regulated banking activities? An element of materiality/proportionality should be applied. For groups, where the non-regulated banking entities are not material in the overall context of the Group, capital calculations on simplified bases should be allowed. More widely, it appears to us that assets managed in the insurance operations by captive asset managers are already captured in the asset factor and this would result in a double-counting effect. Comparability with banking rules should also apply when considering the capital requirements for NBNI financial activities (i.e. comparability with capital required for such activities if carried out by banking groups). Section 3.5 Question 10, (Paragraph 43 page 14) In the same vein and for the same reason concerning severe distortion of competition, we are unclear as well on the meaning of paragraph 43 concerning "non-financial activities" and related risks: what are the nature and consequences of the "qualitative risk assessment" referred to in this paragraph and if as stated at the beginning of this paragraph capital requirements do not capture the kind of risks arising from such activities what is the logic for referring to "operational risks" borne by NBNI activities. We would suggest that this category of risks is certainly marginal compared to the major risk categories identified by the IAIS through the field test and should not be accounted for BCR purposes.	

Organisation	Jurisdiction	Comments	
Liberty Mutual Insurance Group	United States	The BCR fails to clearly assess non-insurance activities and disregards how that assessment will intersect with the not yet developed HLA requirements. Non-insurance activities do not appear to be part of the capital standard for G-SIIs or, at most, that analysis is incomplete pending development of the HLA. When this matter is taken up in more detail, we recommend that a materiality threshold for non-insurance activity be established before imposing a capital charge on non-insurance activity.	
Prudential Financial Inc.	United States of America	- Par 40-41 - We request that the IAIS provide further clarification on the reference to the use of leverage ratios to define required capital for non insurance activities as well as greater clarity on the definition of non-regulated banking activities is needed. - Par 42 - We strongly oppose any capital charge that would apply to asset management businesses merely because they are owned by a G-SII. We believe that all participants in any given market should have a level playing field, regardless of their ultimate owner. Application of a capital charge for an asset management business significantly alters the playing field not only between G-SIIs and non-G-SIIs, but also G-SIIs and other participants in asset management businesses. In addition, the Public Consultation Document does not provide sufficient detail or justification of the proposed risk charge methodology or amount. A straight bp charge on AUM as a methodology for calculating a capital charge does not demonstrate an analysis of risk including an appreciation of an asset manager's various client types (institutional, retail, registered fund, private fund) or advised asset classes (fixed income, equity, derivatives). FSB and IOSCO are currently considering regulatory standards in the asset management area. It is premature for the IAIS to make any determinations in this area.	
American International Group (AIG)	USA	Treatment of non-regulated banking activities Our comments in this area are informed by our own experience over the past five years. Since the financial crisis, AIG has substantially de-risked our investment portfolio and markedly reduced sub-investment grade securitization-related exposures. This de-risking process, including the ongoing run-off of legacy exposures, is a critical component of our multi-year effort to refocus AIG's energies and financial resources on our core insurance operations. Therefore, AIG expects that the allocation of our BCR regulatory capital to these activities will decline as we continue to reduce these exposures. Given the BCR's intentionally simplistic and transparent methodologies for factor-weighting insurance assets and liabilities, AIG concurs with the IAIS that the application of a Leverage Ratio measure (rather than the more computationally-intensive Basel III risk-weighting approach) is appropriate for addressing non-regulated banking activities.	
NAIC	USA	Basel III Entities and Basel-Like Activities of Unregulated Entities: NAIC would support the most appropriate measure (e.g. either the Leverage Ratio or Basel Risk Weighted Assets) being applied to Basel III subject activities. That measure could be different for regulated Basel III entities and unregulated entities conducting the activities, but should be consistent for all regulated entities and consistent for all unregulated entities rather than using a "greater of Leverage ratio of full Basel III" option. NINB Financial and non-Financial Activities: Regarding paragraph 42, the alternative approach of 25 basis points on off balance sheet assets for NINB financial activities has not been	

Organisation	Jurisdiction	Comments
		adequately vetted and its rational has not been made clear. Paragraph 43 calls for applying an operational risk charge in the BCR for non-financial activities (as an alternative to a qualitative assessment). This also needs to be considered further, as do the appropriate proxies upon which to base such a charge. NAIC supports further deliberation of options for this component of the BCR. (See also our comment # 4 on consolidated capital requirements)
The Travelers Companies, Inc.	USA	No comment.
3.6 - Comments on Indicative capital allocation		
Canadian Life & Health Insurance Association Inc.	Canada	No Comments.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(44) The proportion attributable to assets looks high. The IAIS should look closely at what is driving this at the level of individual firms, including to what degree ALM risk is addressed implicitly.
European Insurance and Occupational Pensions Authority	EU	The allocation of capital seems consistent with the approach being followed: charging both the Asset and Liability sides of the Balance Sheet.
Insurance Europe	Europe	44 Insurance Europe would welcome more information on how the NTNI assessment was made, in particular on how the category addresses systemic activities and risks.

Organisation	Jurisdiction	Comments	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 44: We are very surprised about the indicative capital allocation resulting from the field test exercise so far. It was not expected that NTNIs (14%) exceed the share of traditional non-life business (12%), especially since the additional charge for NTNI-risks is intended to be included in the HLA-calibration. It would be preferable if the IAIS can disclose details of the calibration as well as their identification criteria for NTNI and give a list of business included in this category.	
Munich Re Group	Germany	44: We would have expected that life insurance risk is lower than nonlife insurance risk. Especially since asset risk typically linked to participating life products is captured separately. We understand, however, that this effect might be partly attributable to the aggregation of the data of the participating companies (8 G-SII's). From a reinsurer's perspective, a ratio of 1 to 2 for life to nonlife insurance risks appear to be more in line with our expectations.	
The Central Bank of the Russian Federation	Russia	Weight of the NTNI component Current proposal: The weight of the indicated component is relatively low - 14% of the BCR. At the same time the Core Qualifying Capital Resources of G-SIIs are significantly higher than the BCR Required capital (376%). Our comment: A relatively low (14%) contribution of the NTNI component to the BCR might be explained by the fact that the value of the NTNI activities is low in the overall business structure of the insurers who participated in the field testing. At the same time, according to the IAIS research , NTNI activities are the key source of the emergence and transmission of systemic risks in the insurance business. Therefore the volume of such activities is considered of crucial importance in the methodology for G-SIIs identification (the weight of this factor is 45%). We suggest analyzing the possibility of the BCR increase through raising the NTNI component.	
The Global Reinsurance Forum	Switzerland	44: Looking at the allocation of capital to the components of the BCR on the basis of the IAIS sample (8 GS-II's), we realize that the insurance risk profiles substantially differ from those of a global reinsurance group. This is of course not surprising, but it indicates that using the same factors also for reinsurers the BCR measure would not appropriately reflect their risk situation.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation,	United States	See Q-2 General Comments on Executive Summary	

Organisation	Jurisdiction	Comments	
Employers Mutual Casualty Company			
Prudential Financial Inc.	United States of America	None	
The Travelers Companies, Inc.	USA	No comment.	
3.7 - Comments on BCR principles			
Canadian Life & Health Insurance Association Inc.	Canada	# 45 - Consistent with our response to Question 2, we are concerned about results being necessarily published after the period of confidential reporting ends. A pre-requisite for such public reporting should be it is firmly established that the BCR substantially meets the objectives of comparability and risk sensitivity.	
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(45) No comments.	
European Insurance and Occupational Pensions Authority	EU	EIOPA is supportive of the Principles defined for the design of BCR as well as the main ideas expressed with regard to their implementation.	
Insurance Europe	Europe	45 We welcome recognition that the current BCR design and calibration have been developed by using a single data point and therefore	

Organisation	Jurisdiction	Comments	
		resilience has not been tested in a wide range of macroeconomic conditions. We look forward to seeing further investigation on resilience to stress and how that can affect the BCR design and calibration.	
The Life Insurance Association of Japan	Japan	In order to ensure that the ICS will reflect the reality of each insurer's risks, it is necessary to achieve an appropriate balance between the use of insurer's internal model and ensuring adequate comparability, without excessively focusing on the comparability. Thus, we would like the IAIS to provide the insurance industry with opportunities to exchange views thoroughly on this matter with the IAIS.	
Autorite des marches financiers	Qu 颢 c - Canada	While we agree with the principle that the BCR design should be relatively simple, we are concerned that an oversimplification may lead to an inadequate measurement of the risks, which could lead to inadequate conclusions. As we mentioned in questions 3 and 9, we believe that a further breakdown of the risk segments would be helpful to better capture the overall risks of an insurance company.	
The Central Bank of the Russian Federation	Russia	Additional analysis of the historical data Current proposal: BCR calibration was carried out on the basis of the current financial reports data received from 33 insurance groups. Our comment: The third BCR Principle (Resilience to stress) prescribes that the BCR should be tested against historical data and should function effectively under various economic circumstances. Therefore, it might be useful to test the BCR against the data of the AIG and other insurance groups affected by the crisis for the period of 2007-2008, and calibrate it taking into account the results.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
Liberty Mutual	United States	As stated elsewhere, Liberty Mutual does not believe that comparability is a useful design principle. We disagree with the conclusion in	

Organisation	Jurisdiction	Comments	
Insurance Group		Section 3.7 that the valuation approach of using "Current Estimates of liabilities and adjustments to GAAP balance sheet" will provide "adequate comparability." The IAIS proposes that a market adjusted valuation approach will be the initially adopted valuation approach for BCR, where insurers will start with their audited, consolidated balance sheet under an IFRS or GAAP basis. However, IFRS and GAAP will remain at very different places in regard to insurance contracts, so the absence of a single accounting standard will prevent comparability due to different valuation methodologies. Even if the IAIS adjustments were used to try to produce comparable balance sheets, these adjustments would have to be adopted in each jurisdiction to be enforceable. We believe this is unlikely to occur.	
American Insurance Association	United States of America	We remain deeply concerned about the lack of explicit credit given to companies for diversification of their products and their investments, including the lack of specificity in the measures that the IAIS plans to use in the BCR to measure diversification. After "further exploration" following the December 2013 BCR proposal, this Proposal states, "[w]hile it would be appropriate to reflect the effect of diversification between major risk drivers in the ICS, the technical complexity of doing so explicitly in the BCR formula is inconsistent with its simple design." (2.2.4.24).	
National Association of Mutual Insurance Companies	United States of America	The BCR principles are valid if one is considering global insurance group capital requirements in isolation. Regardless of the insurance standard considered, the principles and goals established should focus on the basic needs of our customers. Policyholder protection and not creditor/investor protection should be the primary focus of insurance regulatory capital requirements. We urge the IAIS to recognize that it is in the best interests of policyholders if regulatory requirements supplement good management instead of disguising and protecting bad management. Looking at capital requirements in isolation of the entire spectrum of issues that impact customers is short-sighted. Instead of a focus on capital alone we would recommend an approach that recognizes a balance between capital requirements, insurance product availability, and guaranty fund systems for policyholders of companies that fail.	
Prudential Financial Inc.	United States of America	None	
Metropolitan Life Insurance Company (MetLife)	USA	Paragraph 45 - Publication of G-SII BCR calculations We strongly object to publication of G-SII BCR calculations. The BCR is too crude a measure to be the basis for comparison of G-SIIs one to the other - a fact recognized by the IAIS in the BCR Principles (see Annex F, Paragraph 20, p.41) - and we do not anticipate that refinements that may take place will cure this lack of precision sufficiently to make publication fair and meaningful. What is more, if the purpose of BCR is to provide supervisors a means to assess and address risk, particularly systemic risk, there seems to be no need for this to be public.	
The Travelers Companies, Inc.	USA	We agree in part with the principles; however, we believe the proposals are not consistent with the principles as (1) CAT risk is not considered and (2) the proposal does not reflect differences between the G-SIIs in the areas of diversification and ALM mismatch. The focus appears to be on the "average" G-SII, but the diversity of G-SII's will create "winners" and "losers" when the BCR proposal is applied.	
4. -			

Organisation	Jurisdiction	Comments	
General Comments on Qualifying Capital Resources			
Canadian Life & Health Insurance Association Inc.	Canada	No Comments.	
China Insurance Regulatory Commission	China	As mentioned in paragraph 52 of the text, IAIS is considering a method that adds unified standard margin to insurers to simply reflect the risk margin. We believe that the valuation of liability should reflect all the risks of the insurance company, and the risk margin reflects the uncertainty of current estimate. We suggest that the risk margin of companies should be included in technical provisions, and not to adopt a unified standard margin to measure technical provisions of G-SIIs.	
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(46-47) Clarity is needed on what the adjustments are and how sectorial rules may be applied to capital resources for other sectors, which are then added and compared to the total required capital for the group.	
European Insurance and Occupational Pensions Authority	EU	EIOPA considers this is a key factor to ensure comparability of the outcome not only for the BCR but looking ahead for the ICS as well. It is an important area where additional work is still needed to specify, with sufficient clarity and detail, the approach which is intended to be followed by G-SIIs when determining the Qualifying Capital Resources for BCR and HLA purposes. Given the envisaged degree of convergence in this area, it is fundamental that all deductions, exclusions and additions are well justified and understood by insurance groups, beyond any doubts.	
Bundesanstalt fr Finanzdienstleistungsaufsicht (BAFIN)	Germany	BaFin thinks that this is an area where additional work is still needed to specify the approach which is intended to be followed by G-SIIs when determining the Qualifying Capital Resources for BCR+HLA. In our point of view, reinsurance without executed and legally binding contracts should be part of the deduction from core capital which is done for reinsurance assets consisting of non-qualifying insurance. To add some more clarity to the definition of core capital (also in the Annex), we propose to add to the characteristic of availability something like "… are available to fully absorb losses on a going-concern basis and in winding-up". Further, the characteristic of no incentives to redeem should be explicitly incorporated into the definition of core capital.	

Organisation	Jurisdiction	Comments	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 46: The suggested adjustments to the qualifying capital resources calculated at consolidated level are opaque. As a general rule, any adjustments considered must be in line with sectoral rules.	
AIA Group Limited	Hong Kong	Capital Resources: AIA believes that senior debt at the holding company level should be treated as available capital, particularly when considering a basic capital requirement. The primary purpose of any solvency regime is the protection of policyholders. When debt is raised at the holding company level and the proceeds are contributed as capital to an operating company, the security of the policyholders is enhanced. If senior debt is treated as a liability the enhancement in policyholder protection goes unrecognized. This is inconsistent with the primary purpose of the solvency regime itself and is reflected in the ratings and default spreads associated with senior debt.	
Global Federation of Insurance Associations	International	(comments repeated from above - see Q2) The definition of qualifying capital resources is very prescriptive, and should be reconsidered to ensure that it is designed with the insurance industry in mind. Given that the BCR is designed as a going-concern measure, the current design of tiering capital should be reconsidered to be more appropriate for its purpose. We especially disagree with the idea of introducing MOCE as part of the technical provisions - which would in effect be additional provisions for the same risks that the capital requirements are intended to cover.	
The General Insurance Association of Japan	Japan	Please refer to Q.28.	
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	KNF is convinced that Qualifying Capital Resources is crucial to the success of the whole project. Therefore in order to achieve largely harmonized approach in this area it is important to provide further details regarding Qualifying Capital Resources. All deductions, exclusions and additions need to be well justified and understood by insurance groups and their supervisors.	
ACE Group	United States	Paragraph 47 provides that Qualifying Capital Resources will be defined consistent with the proposed ComFrame criteria (included as Annex D). The current ComFrame approach to qualifying capital reflects Basel standards and thereby, appears to exclude senior debt instruments	

Organisation	Jurisdiction	Comments	
		from being treated as a qualifying capital resource, despite the fact that in many jurisdictions it may satisfy the loss absorbing principles outlined by ComFrame. We believe that in those jurisdictions where a capital instrument is consistently considered by the local regulatory system and market practices to be subordinate to policyholder liabilities, ComFrame should not impose a different standard. Concluding otherwise would penalize IAIGs operating in those jurisdictions by requiring higher capital requirements which would ultimately have an adverse impact on pricing and consumers. By way of an example, P&C IAIGs operating in the U.S. typically raise capital via holding companies that are SEC registrants (i.e. SEC filing companies that issue 10K financial statements). These holdings companies have historically tapped the senior debt market to satisfy the capital requirements of their insurance subsidiaries. Since the insurance subsidiaries have no legal responsibility to the bondholders and cannot be sued for payment, U.S. regulators, bondholders and rating agencies have long considered the holding company debt obligations to be structurally subordinate to the policyholder obligation. This structural subordination is reinforced by the U.S. regulatory system which places significant restrictions on a holding company's ability to access capital from its insurance subsidiaries. For these reasons, U.S. IAIGs are permitted to treat senior debt instruments as capital in their respective capital adequacy calculations and ComFrame should treat U.S. senior debt instruments similarly.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
American Council of Life Insurers	United States	The ACLI is deeply concerned about the proposed definitions of Qualifying Capital Resources (core and additional capital). We encourage the IAIS to continue working on the definition of Qualifying Capital Resources to ensure that the characteristics of core capital are suitable for the long-term insurance business model.	
Liberty Mutual Insurance Group	United States	The IAIS purports to explain the difference between "Core" and "Additional" capital, but it does not explain why this difference matters for purposes of determining an insurance group's available capital. The important characteristic of capital for purposes of assessing an insurer's financial condition is whether a particular form is available at the	

Organisation	Jurisdiction	Comments	
		insurance company level to address the practical legal obligation of the company to pay policyholder claims. The IAIS, however, has engaged in an esoteric, academic discussion about nuanced differences in the quality of capital. Such differences are largely immaterial to an insurance group's ability to meet its policy obligations. Therefore, this distinction should be omitted from any type of capital assessment regime. A principles based approach to qualifying capital, rather than attempting to prescribe how capital is assessed would be more effective and rational.	
American Insurance Association	United States of America	Without a set definition of Core Capital, and without a single proposal for a BCR Ratio, it is difficult even to know how to comment. It is critical that the IAIS fully develop these ideas before it presents them, and certainly before it proposes applying them to G-SIIs. It is also important to note that the Core Capital Ratio captures only a single point-in-time estimate of a company's core capital position, and does not therefore demonstrate necessarily the company's resilience to volatility. Specifically, we remain concerned about the exclusion of surplus notes from core capital. Surplus notes have unique equity-like features, and are deeply subordinated to all policyholders and non-regulatory capital creditors. Importantly, payments of both principal and interest require prior regulatory approval. While payments under surplus notes generally cannot be cancelled and are therefore cumulative, the supervisor can withhold approval for payment indefinitely. If payments are not made because the supervisor does not approve, no event of default is triggered under the surplus notes and holders have no legal remedies. Surplus notes are also, by definition, unsecured, and cannot give creditors any right to seize collateral of the issuer in the event of a default. For these reasons, surplus notes are appropriately treated as surplus under U.S. statutory accounting principles and we believe should be categorized as core capital for purposes of the BCR and ComFrame generally. The same logic applies to holding company debt. Holding company debt is repaid through insurance entity dividends, which is subject to regulatory approval for an entity in distress. As a result, holding company debt is clearly subordinated to policyholder liability for a distressed company. We also note that, as drafted, debt issued by the holding company that is contributed to the insurance company subsidiaries meets the definition of capital, but does not meet the definition of core capital or additional capital and therefore would not qualify as capital in this Proposal. This inconsistency appears to be the result of a failure in the Proposal clearly to identify clearly the purpose of capital, and should be addressed before the BCR is finalized. Deferred tax assets also should remain part of core capital and should not be relegated to additional capital. In addition, the IAIS Specified Discount Curves lack the specificity that would allow for useful comment. In particular, the Proposal does not discuss which corporate bonds and which government securities the IAIS chose to build its curve, or why it chose the ones it did. Further, and more importantly, the Proposal does not set forth a rationale as to why this macroeconomic calculation is the correct tool to impose on a microeconomic, individual company basis.	
Prudential Financial Inc.	United States of America	None	

Organisation	Jurisdiction	Comments	
Aflac	USA	Please see our answer to Q 28 for our comments on qualifying capital.	
American International Group (AIG)	USA	Margin over current estimate (MOCE) The full inclusion of MOCE (the margin over best estimate liabilities) as a component of Qualifying Capital Resources would, in AIG's view, tend to undermine the rigor of the BCR framework by virtue of its sensitive dependence on actuarial approaches. Such inclusion runs contrary to the BCR's appropriate emphasis on simplicity, comparability, and resilience to stress. These concerns are amplified by the potentially significant impact that MOCE would have on the BCR ratios; as noted by the IAIS, MOCE would account for about 38% of G-SII Core Capital on average, based on the Field Test results. The MOCE is estimated through a computationally-intensive company-specific actuarial process, which can generate significantly different results based on relatively subtle changes in assumptions. Including MOCE as a component of capital therefore infuses this complexity and variability directly into the BCR capital ratios. During periods of stress, both supervisors and market participants rightly focus on an institution's capital position as defined by the purest, strongest forms of loss absorption, and are unlikely to place significant credence in the MOCE component of reserves. Although the MOCE does provide valuable loss absorbing properties, it is, in our view, unlikely that during a stress period these properties would be accepted by market participants, policyholders, and regulators as tantamount to those of true equity capital. As an embedded component of a defined reserve, the MOCE, unlike equity capital, is not capable of absorbing losses beyond its defined purpose. The IAIS should work to develop an economically appropriate treatment of MOCE that reflects both the benefits and limitations of its loss absorbing properties and that accounts for the likely variability and inherent opacity of individuated calculations in the estimation of MOCE across firms. A thoughtfully designed BCR should not be dependent on MOCE.	
CNA	USA	Our first suggestion is to eliminate the two tier approach to capital resources for both the BCR and ICS since it is overly complex. In its place, CNA suggests having one tier of capital resources and determine limits on specific financial elements directly. We continue to be concerned with the proposed criteria for core capital which does not contemplate a scenario which is common in the U.S. Approximately 20% of U.S. stock companies' economic capital is derived from senior debt issued by the holding company and invested as a capital contribution into a downstream insurance affiliate. The rationale for inclusion in the group's economic capital is that the capital cannot be removed from the affiliate to repay debt holders without supervisory approval making it structurally subordinated to policyholder claims in the event of insolvency or winding up which is consistent with Insurance Core Principle (ICP) 17 criteria. Specifically ICP 17.11.1 states that: In view of the two objectives of capital resources set out in Guidance 17.2.6, the following questions need to be considered when establishing criteria to determine the suitability of capital resources for regulatory purposes: - To what extent can the capital element be used to absorb losses on a going-concern basis or in run-off? - To what extent can the capital element be used to reduce the loss to policyholders in the event of insolvency or winding-up?	

Organisation	Jurisdiction	Comments	
		Since the scenario outlined meets both of these criteria CNA respectful requests that the IAIS reconsider instruments which are structurally subordinated as core capital and also consider this form of capital during field testing. Our final concern regarding capital resources relates to excluding net deferred tax assets from core capital which rely on an IAIG being profitable in the future. By ignoring future profitability it implies that deferred taxes on loss carry forwards are indeterminable and provide no economic value to an insurer. We respectfully disagree with this premise, although we understand the supervisory concern that there is significant judgment involved in the determination of a company's deferred tax position and corresponding valuation allowance. We believe this concern with judgment can be addressed with the same checks and balances used for other line items of the statutory balance sheet. As you are aware, a significant portion of an insurer's balance sheet is derived from management estimates that require professional judgment. Examples of these individual judgments include unpaid losses, reinsurance recoverable and bad debt and are based on standards, guidelines and professional experience. These judgments are then validated for reasonableness by an insurer's external auditors and insurance supervisor. In our opinion, deferred taxes is a determinable asset that helps provide a balanced view of an insurers true economic situation and its impacts on its financial and capital position. For example, it is problematic to have an accounting standard that requires fair value presentation for many invested asset categories and technical provisions while ignoring the tax ramifications of this fair value treatment. Unfortunately, this provides the financial statement users an unrealistic view of the true economics. We recommend that ComFrame include a realizability analysis similar to those mandated under IFRS, Japanese GAAP and U.S. GAAP. These standards allow recognition of a tax benefit from loss carryforwards if it can be demonstrated the asset is realizable based on the facts and circumstances available as of the reporting date. Finally, until such time as a valuation standard exists, we believe it to be premature to make a determination on the treatment of deferred tax assets. Valuation issues such as the rate at which liabilities are discounted (if at all) may have a material non-economic impact on deferred tax assets.	
NAIC	USA	Core and qualifying capital resources numbers must be analyzed and further developed: - The data and values for qualifying and core capital must be reviewed for reasonableness and consistency across firms. - Consideration needs to be given in determining what constitutes core versus additional capital -- it is important to consider supervisory measures which may achieve the same outcome as the criteria established for core capital. For the U.S. in particular, capital that is infused into the insurance company subsidiaries are essentially "trapped" and cannot be repaid without supervisor approval. Because of the strong supervisory approval process, subordinated debt treated as capital is available for the payment of policyholder and creditor obligations and should be treated accordingly. - The level of MOCE should be verified for further discussion of the impact on capital resources and any removal or transfer of MOCE from capital resources should be deferred.	
Northwestern Mutual Life Insurance Company	USA	The failure to account for constraints on the movement of capital among legal entities within the group remains a material weakness of the proposed BCR. As we have stated in prior comments, local insurance regulatory requirements impact the availability of capital. Paragraph 46 states that capital resources are determined on a consolidated basis. This ignores that local capital requirements affect the credibility of a group-level calculation. Specifically, Qualifying Capital is likely to be overstated if, for example, best estimate liabilities that are	

Organisation	Jurisdiction	Comments
		lower than local regulatory levels are used to measure Qualifying Capital. Local jurisdictions will prevent capital flows that would violate local capital requirements. The BCR Ratio may mask emerging risks in more weakly capitalized entities with non-fungible overstated capital from conservative regulatory regimes, thus significantly reducing the utility of a group capital standard. The IAIS intends to avoid this condition in the context of liquidity as the following requirement is found in section 3 on page 5 of the recently published draft of the IAIS Guidance on Liquidity Management and Planning: "In particular, potential legal and economic impediments to inter-affiliate transactions both vertically and horizontally should be considered. The extent to which liquidity is fungible or not within the G-SII (within and across jurisdictions), currently and during times of stress, needs to be considered." We have proposed an alternative approach in our comments to the ICS that would in effect aggregate the available capital of each regulated entity based upon its strength relative to the regulatory threshold for intervention to which it is subject in its jurisdiction - thereby providing a truer assessment of capital that may be available to the wider group. There may be other approaches to the problem. But the utility of the BCR for any purpose will be greatly diminished unless it accounts for constraints on capital movement.
The Travelers Companies, Inc.	USA	We believe that core capital should include any instrument that is subordinate to policyholders in bankruptcy. We do not believe that protecting investors should be an objective of the BCR. We also do not believe that a "going concern" focus is necessary to protect policyholders and is likely to be inconsistent with the regulatory focus in many jurisdictions.
4.1 - Comments on Tiering of Capital Resources		
Canadian Institute of Actuaries	Canada	Available Capital Resources are intended to be split between core capital and additional capital. Without a full testing of the proposed tiering, we are concerned that there may be unintended consequences. We recommend implementing the tiering mechanism only after full testing has been conducted and any ripple effects have been assessed.
Canadian Life & Health Insurance Association Inc.	Canada	#48 - Tiering of capital is not appropriate life insurers, as it is for banks. A life insurer in a gone concern state transitions to that state over a much longer time frame, thus rendering the distinction between Core and Additional capital as far less relevant than for banks. One of the three of objectives of the BCR is simplicity (along with risk sensitivity and comparability). In addition, tiering of capital, as outlined in the IAIS Insurance Core Principle #17, is not the only method for recognizing the quality of capital. The proposed definition of Core capital would narrow capital management solutions to focus almost exclusively on equity, limiting effectiveness in a stress scenario. Also, tiering is an untested construct. All these aspects considered, the BCR should focus on Total Capital only. Hence there should not be an assessment of both Core and Additional capital against the BCR Required Capital, and the ComFrame requirement that Core Capital be at least 50% of the

Organisation	Jurisdiction	Comments	
		capital requirement should not be incorporated into the BCR. Lastly, we believe all capital items (both financial instruments and other than financial instruments) should be eligible for Total capital (and for that matter Core capital if the IAIS does in fact proceed with tiering), as they maintain value in a crisis on a going concern basis	
Manulife Financial	Canada	We are concerned with the heightened focus on a core capital measure to assess insurer's financial strength on an ongoing basis. Insurance liabilities are long term, and we seek to match them with assets of similar duration to the extent feasible. Given this long-term nature of insurance business, we cannot be forced into an accelerated liquidation of the balance sheet under a "run-on-a-bank" type scenario. As a result, the distinction between the "core capital" and "additional capital" is redundant for insurers as our "going concern" and "liquidation" scenarios evolve over many years, in contrast to the banking industry. At the same time, the distinction could be excessively harmful in its introduction of potential pressure on equity ("core") capital. The proposed definition of core capital results in a very narrow range of instruments qualifying as core capital, other than equity. Given the current discussions on accounting for insurance contracts, the reported equity position of insurance companies may become inherently unstable in misalignment with our long-term business model. The current IAIS proposal of using the last observable long-term discount rate for all subsequent durations is also bound to produce excessive volatility in the reported equity. The combination of reported equity volatility and limited choices of capital instruments other than equity would make it challenging to address core capital pressures in an efficient manner on an ongoing basis. Finally, the BCR has not been tested sufficiently to understand its behavior in a variety of economic environments. It was designed to be a simple framework. Capital tiering complicates the metric and the lack of comprehensive testing of BCR poses particular risk of unintended pressures on equity capital. For all these reasons, we strongly encourage the postponement of capital tiering, allowing time for confidential testing of various capital categories.	
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(48) We encourage IAIS to consider the tiering of capital together with the different components that it will apply to: BCR, HLA and upcoming ICS requirements.	
European Insurance and Occupational Pensions	EU	Please refer to our comments to Q 3.2	

Organisation	Jurisdiction	Comments	
Authority			
Insurance Europe	Europe	48 As highlighted in the response to the ComFrame consultation in December 2013, Insurance Europe has strong concerns about using ComFrame's approach to qualifying capital resources for the BCR, which we consider unnecessarily restrictive. For example, a much wider range of financial instruments than is envisaged by ComFrame can be viewed as loss-absorbing capital in protecting policyholders. While we expect ComFrame-Module 2 to be subject of major revisions as a result of the field testing exercise, we are concerned that, given the ambitious BCR timetable, finalisation is unlikely to happen before adoption and implementation of the BCR measure. Insurance Europe believes that the Solvency II approach to capital resources should be considered by the IAIS for the BCR purpose.	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 48: As mentioned in our comments on paragraph 23, we urge the IAIS not to prematurely commit on fragments like cover ratios before all components of the capital measure are known and adopted.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
American Council of Life Insurers	United States	We remain concerned about the exclusion of surplus notes from core capital. Surplus notes have unique equity-like features, are deeply subordinated to all policyholders and non-regulatory capital creditors. Importantly, payments of both principal and interest require prior regulatory approval. While payments under surplus notes generally cannot be cancelled and are therefore cumulative, the supervisor can withhold approval for payment indefinitely. If payments are not made because the supervisor does not approve, no event of default is triggered under the surplus notes and holders have no legal remedies. Surplus notes are also, by definition, unsecured and cannot give	

Organisation	Jurisdiction	Comments	
		creditors any right to seize collateral of the issuer in the event of a default. For these reasons, surplus notes are appropriately treated as surplus under U.S. statutory accounting principles and we believe should be categorized as core capital for purposes of the BCR and ComFrame generally.	
Institute of International Finance - IIF	United States	Section 4.1 Question 14, (Paragraph 48 page 17) Tiering of Capital Resources - The CD is uncertain on the approach to tiering of capital indicating that capital resources may be classified as either core or additional, and that at least 50% of the BCR and 100% of HLA should be made up of core capital. It is unclear what this would mean in respect to the level of total capital. Our assumption would be that the IAIS would envisage that core capital should be no lower than the value of HLA + 50% of BCR. However, the IAIS should clarify their intentions in this respect. We would recommend, however, that BCR capital resource definitions be compatible with existing or emerging national/regional prudential frameworks. We understand that the banking concept of going and gone concern capital and of bailinable instruments is influencing the IAIS's thinking on core and additional capital. We see no relevance of going and gone concern capital for insurers given how the characteristics of insurance differ from banking. Insurers hold technical provisions for their expected liabilities, with assets typically being matched to their expected duration. Capital is held in addition to this against the risk of variation in those future liabilities and the assets backing them. As capital provides a risk margin above technical provisions, the nature of capital is less relevant for insurers than for banks. If a gone concern situation for an insurer equates to breaching the regulatory minimum capital requirement, at this stage the insurer will still be solvent as the MCR is set at a level above the technical provisions. In such situations the long term nature of insurance allows time to address the risk capital shortfall, for example through restructuring the insurers risk profile, sale of business, closure to new business, transfer of portfolios etc. Insurers asset liability matching will ensure that there are liquid assets available to meet policy claims/maturities. Given that banks engage in maturity transformation where there assets are generally long term and their liabilities short/callable on demand, a failing bank is more susceptible to a run that would pose an immediate capital strain as its assets are not immediately available to meet repayments to its	

Organisation	Jurisdiction	Comments	
		creditors. In such a situation "gone concern' capital may have a role to mitigate the risk that governments may be called on to provide support. However, this risk is unlikely to be present in insurance as insurers are able to manage the duration of their assets held as technical provisions against their claims/maturities. Therefore, going concern is of most relevance in an insurance context and insurance financial resources should be considered in this light.	
Liberty Mutual Insurance Group	United States	As proposed in the current BCR, the method by which capital will be classified and the manner in which different forms of capital are to be applied in calculating the BCR Ratios is not logical and, unless clarified, will not contribute anything meaningful to assessing the capital adequacy of insurance groups. The proposed approach may actually cost consumers, by increasing the risk charge on certain types of capital with no obvious benefit in return to policyholders. The proposed method for tiering capital might also affect insurer practices such as asset management and investments. Furthermore, as a practical matter, reasonable distinctions have not been made between core capital and additional capital, or what constitutes qualifying capital. The fact that the IAIS has not stated concise meaningful definitions of these terms, but instead provides lengthy descriptions of them, confirms this point. The impracticality of making these distinctions has led to flaws in the BCR design. For example, our biggest concern is that debt will not be considered "core capital." As we and other commenters have emphasized in previous consultations, holding company debt is an important tool for raising capital in the U.S. The BCR criteria which causes debt to be excluded from core capital is the requirement that core capital must "not have a fixed maturity" and "have no fixed servicing costs (e.g., fixed interest payments and principal repayments)." Debt issued by the holding company is pushed down to the insurance companies where it is recognized as policyholder surplus, thus protecting policyholders. Protecting policyholders should be the focus of the BCR, as opposed to the interest of investors in, or lenders to, the holding company. In addition, the IAIS reports it has not finished assessing whether any additional capital will be assessed against the BCR required capital. This is a very critical determination in the BCR and future HLA, again making it more difficult to comment on the overall BCR design. In short, the IAIS neither adequately explains the purpose of tiering capital in the context of the BCR, nor how it could be done.	
Property Casualty Insurers	United States	The draft ComFrame restrictions on allowable capital instruments, along with the "tiering" concept, are too narrow to be appropriate for the BCR. Capital resources should not be divided into core or additional capital. If they are, both types should be considered to be qualifying capital resources for purposes of the BCR. This should include senior debt of holding companies that has been downstreamed to insurance	

Organisation	Jurisdiction	Comments
Association of America (PCI)		legal entities, as well as surplus notes.
National Association of Mutual Insurance Companies	United States of America	It is uncertain how the two tiers of capital resources will be utilized under this consultation. We do not support the two-tiered approach to capital resources. This tiered approach will create disparate impacts on companies with different organizational structures. The tiering approach to capital is a bank-centric concept that does not recognize the differences in the capital needs between these two industries. Most significantly the liabilities of insurers are generated by the filing of claims by customers and are not subject to "runs on the bank." Insurers use diversification of risks by geography and product to manage their claim liabilities, and these liabilities run off over the long-term. The liabilities are generally supported by duration matching assets and policyholder surplus which limit the need for a high capital buffer. Importantly, these risks are not highly correlated to macroeconomic cycles like banking asset risks. Consequently, sound risk identification and management practices are more critical to an insurance organization than high levels of capital. This is why a very different capital structure is needed in insurance than in banking sectors. The failure to recognize these differences could result in negative impacts to customers. The requirement that core capital must be permanent, available, subordinated, and free of both encumbrances and mandatory distributions that reduce shareholders' equity or members' surplus is an example that illustrates this concern. This does not work for subordinated debt practices that are common in the U.S. In addition, the elimination of deferred tax assets from qualifying capital altogether creates a competitive disadvantage for U.S. companies as well. U.S. mutual insurers will suffer under this treatment of subordinated debt. Mutual companies have limited sources of capital, and they often use surplus notes with long maturity periods. Surplus notes have unique, equity-like features: they are deeply subordinated to all policyholders and non-regulatory capital creditors and require regulatory approval prior to issuance. Supervisory approval is also required before a note is redeemed (payment of principal) or a distribution (payment of interest) is made. The requirement that core capital have no fixed maturity date seems to diverge from Insurance Core Principle 17's criteria for "permanence" in a way that unintentionally places U.S. mutual insurers at a competitive disadvantage. U.S. stock insurance companies also suffer under this treatment of subordinated debt. Nearly 20% of economic capital for U.S. stock companies is comprised of senior debt issued by the holding company and invested in downstream insurance affiliates. Like surplus notes, this senior debt has equity-like features in that it is indirectly subordinated to all policyholders and requires regulatory approval before it can be removed from an affiliate to repay debt holders. This also meets the ICP 17 suitability criteria and should be included in qualifying capital without limitation. Finally, deferred tax assets (DTAs) are excluded from the core capital definition and yet these assets make up a large portion of the assets on the balance sheet for U.S. insurance companies. This treatment ignores the tax reality U.S. insurers face. The capital proposal ignores future profitability in that it finds deferred taxes on loss carry forwards indeterminable. U.S. GAAP, Japanese GAAP and IFRS all allow recognition of

Organisation	Jurisdiction	Comments
		loss carry forwards if the reporting entity can prove that the asset is realizable based on the information available on the reporting date. This same treatment should be allowed under the qualifying capital analysis.
Prudential Financial Inc.	United States of America	None
CNA	USA	Our first suggestion is to eliminate the two tier approach to capital resources for both the BCR and ICS since it is overly complex. In its place, CNA suggests having one tier of capital resources and determine limits on specific financial elements directly.
Metropolitan Life Insurance Company (MetLife)	USA	The IAIS has not clearly identified what purpose tiering of capital would serve. This is important because the resolution of an insurer occurs over a period of time, often long, during which portfolios may be transferred or recoveries secured. We strongly recommend the IAIS carefully consider the loss absorbing capacity of financial instruments for the purpose of determining capital resources. Where instruments are able to absorb losses in the event of stress and bankruptcy, we believe they should count as core capital. Non-equity instruments should not be summarily dismissed as they may have equal loss-absorbing capacity. Any instrument subordinate to policyholders for which non-payment of principal or interest is not an event of default, or does not trigger bankruptcy, should count as core capital. Certain forms of surplus notes and subordinated debt meet this criteria. For example, a debt instrument on which payments are subject to regulatory approval should be core capital. In addition, if a debt instrument has a deferral mechanism with at least five years remaining in effect, the instrument should count as core capital.
The Travelers Companies, Inc.	USA	No comment.
4.2 - Comments on BCR Ratio and HLA requirement		
Canadian Life & Health Insurance Association Inc.	Canada	No Comments.
EIOPA Insurance & Reinsurance Stakeholder	EU	(49) The tiering of capital used within the Solvency II framework could be considered. (51) The fact that the HLA and at least 50% of the BCR has to be covered by core capital is reasonable.

Organisation	Jurisdiction	Comments
Group		
Insurance Europe	Europe	49 It is unclear what the purpose and value of the additional BCR ratios would be. We believe that a total capital approach is the only one needed. 50 Insurance Europe believes that, in line with the FSB mandate and the IAIS policy measures of July 2013, the focus of the HLA development should be on an insurer's NTNI activities that are considered systemic.
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 51: Given the increased security need attributed to systemically risky activities, it is conclusive that HLA is met with core capital, provided the HLA is -as intended- strictly focused on such activities.
Global Federation of Insurance Associations	International	(comments repeated from above - see Q2) In addition, the development of the HLA is separate from the BCR, which means there remains a great deal of uncertainty in what the final BCR+HLA measure will look like. How the BCR and HLA will apply together is still not clear to observers, and any assessment of the BCR will necessarily need to be viewed in the context of what the final measure looks like. While the desire to keep the valuation approach and capital assessment as simple as possible is understood, this is very difficult to achieve while at the same time creating a framework that works as intended across all the G-SIIs and across a range of economic conditions. Particular examples of simplifications that can potentially raise concerns are the exclusion of explicit recognition of risk mitigation techniques such as asset-liability matching, non-proportional reinsurance, profit sharing and diversification, all of which can have a very significant impact on the overall measure. Whether or not such simplifications can result in BCR/HLA measures that will cause problems by e.g. biting too often or forcing pro-cyclical behaviour will depend on the level of calibration of the BCR and design/calibration of the HLA and requires further testing.
The General Insurance Association of Japan	Japan	(Para 51) The required capital to cover the uncertainty of insurance liabilities should be adjusted also by the degree of prudence incorporated in the measurement of insurance liabilities. As such, the proposed requirement that "At least 50% of the BCR should also be met by Core Capital. The minimum percentage … will be at least 50%." should not be decided before the confidence level for capital requirements of the BCR or ComFrame is decided.
The Life Insurance Association of	Japan	We could not determine whether the HLA capacity should be met only by Core Capital at this stage, where policy measures applicable in the breach of the combination of the BCR plus the HLA remain unclear. We believe that the IAIS would not be able to pursue discussions on prudential regulations without presenting an overview on prudential

Organisation	Jurisdiction	Comments	
Japan		regulations for insurers including these policy measures. In doing so, we believe that the IAIS needs to implement some resolution regimes that would avoid insurers being recognized immediately as a failed insurer by establishing a grace period, even if the insurer temporarily breaches the regulatory required level.	
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	BCR and HLA should be assessed jointly as only both of them will at the end constitute a capital requirement for G-SIIs. Bearing in mind the aims of development of BCR (which temporarily will be a basis for HLA calculation until ICS is developed) as well as the fact that only BCR and HLA together may constitute the capital requirement, KNF believes that only Core Capital should cover the capital requirement. Moreover the Field Testing results proved that G-SIIs hold already enough core capital to fulfill such requirement. In any case, decision in this matter ultimately depends on the methodology adopted for the application of the HLA requirement.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
American Council of Life Insurers	United States	If the objective of the BCR is as a "going concern" this would lead us away from tiering of capital resources, asset restriction and contract boundaries. The proposed application of tiering, asset restrictions and the non-economic treatment of contract boundaries is inconsistent with this objective of the BCR as a going concern. We believe that the proposed BCR's approach to those issues is inconsistent and therefore contradicts BCR Principle 5, which requires internal consistency. [Please also see our comment to Annex C, paragraphs 15-17].	
Liberty Mutual Insurance Group	United States	The discussion of potentially using three different ratios in Paragraph 49 is confusing. What is the purpose of having the many combinations of ratios if the IAIS is so focused on what constitutes core capital for purposes of computing each ratio?	
Prudential Financial Inc.	United States of America	- Par 49-51 - HLA: "Non-traditional" products are not inherently systemic. Given the purpose of the BCR as the basis for Higher Loss Absorbency (HLA) requirements which are focused on "systemic" activities, we strongly caution against an overly blunt or broad	

Organisation	Jurisdiction	Comments
		categorization of products into a non-traditional classification in the BCR, and we further strongly caution against equating all non-traditional insurance activities with systemic activities.
Metropolitan Life Insurance Company (MetLife)	USA	Paragraph 51 - HLA capacity composition We seek clarification of the structure of total BCR capital. Specifically, we are assuming that the company needs to have Core Capital equal to at least HLA + 50% of BCR, and the remaining 50% of BCR may be met with a combination of Additional and Core Capital. Please confirm.
NAIC	USA	Since the BCR by itself is not a capital standard without HLA, the BCR ratio without HLA is therefore less meaningful and possibly unnecessary. However if a BCR ratio alone is to be reported it should be based on a numerator that includes all qualifying capital resources consistent with a base capital requirement and a core capital threshold (i.e. 50%) as contemplated in ComFrame. If desired, to prepare for HLA a second ratio based on just core capital ratio could be added for informational and compliance purposes. When finalizing A BCR + HLA ratio, the NAIC supports using a 50% threshold of core capital for the BCR portion and a 100% threshold for the HLA portion of the combined capital standard for G-SIIs.
The Travelers Companies, Inc.	USA	We do not believe that the going concern objective is necessary as a run-off scenario that protects policyholders should generally be sufficient. We also note that the objective for GSII's could create an unlevel playing field under HLA as GSII's would be required to hold more capital.
4.3 - Comments on Further work potentially affecting the current definition of Core Capital		
Canadian Life & Health Insurance Association Inc.	Canada	#52a - We note the IAIS's concern on the significance on BCR Ratios of shifting MOCEs from liabilities to capital resources, and the potential desire to reduce this impact by consideration of the reintroduction of the inclusion of some margins in the Current Estimate on a proportionate basis. We strongly disagree with reintroducing MOCEs as part of Technical Provisions. In principle, MOCEs should be part of Capital Resources. In addition to violating a principle, adding back margins to Technical Provisions has the potential to create substantial distortions to capital positions. For example, given the proposed discount rates for long-term liabilities are too low, and hence the Current Estimates are too high, adding margins, will further exacerbate the distorted view of capital positions. Adding back actual MOCEs should not be contemplated at all as it will impede comparability since different jurisdictions have varying degrees of conservatism (and also the types of risks covered by margins, in particular investment risks) in their "MOCE". The solution to any appearance of excessively high BCR Core and Total capital ratios should rather be to adjust calibration of required capital through the alpha scalar. However, if the IAIS does proceed to explore this issue further, before, and if, it is decided that ratios are be determined with "MOCE" add backs to Technical Provisions, we recommend the IAIS focus on ensuring Current Estimates are robust and comparable among jurisdictions, and then on testing the ratios over multiple time periods to gauge the degree of "unwarranted" volatility under the two approaches. #52b - This section addresses non-qualifying reinsurance. The field test focuses on executed and legally binding contracts. The BCR then

Organisation	Jurisdiction	Comments
		considers expanding the definition of non-qualifying reinsurance to also include agreements with little or no risk transfers, as well as unregistered, unauthorized, etc., reinsurers. We would agree with the concern with agreements that transfer little or no risk. In the case of unregistered/unauthorized reinsurance, it is acceptable in many jurisdictions to secure the reinsurance obligations with various acceptable forms of collateral (and in some cases no collateral is required), which we recommend the IAIS considers including in qualifying reinsurance. As well, if the reinsurer is regulated and subject to meaningful risk-based solvency supervision (including meeting appropriate capital requirements), we strongly recommend that reinsurance with such reinsurers is also included in qualifying reinsurance.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(52) The Margin Over Current Estimate (MOCE) appear to be a type of "risk margin", however it is not stated what the overarching principle is i.e. should the current estimate + the MOCE be equivalent to a market consistent value? General comment for further discussion of the Margin Over Current Estimate (MOCE): What is described here seems to be what is called "risk margin" within the valuation concept of Solvency II as well as in the context of the valuation concept discussed for the final IFRS on insurance contracts. One decisive difference is the fact that no measurement principle is explicitly mentioned as a basis for the MOCE. If the IAIS require the MOCE to be calculated effort should be made to align with other terms used for example within IFRS to avoid creating additional complexity solely caused by wording. The concept of the Margin Over Current Estimate should be clarified, especially its interaction with/how it is embedded in the measurement rules/valuation principles and the treatment of MOCE as qualifying capital resources
European Insurance and Occupational Pensions Authority	EU	EIOPA believes the two issues highlighted in the Consultation Document, in particular the one referring to MOCE, are very relevant and therefore supports the stated intention to further analyze them. The definition of a MOCE as part of Technical Provisions, on top of Current Estimate liabilities, is a central element of most insurance supervisory frameworks around the World. The IAIS has clearly stated from the start of the work that the intention was to exclude all margins from Technical Provisions, for the first Field Testing Exercise, to allow the focus to be on the convergence of the concept of Current Estimates, but the intention was to revisit this approach going forward. The relevance of the MOCE component in Capital Resources reported in Field Testing reinforces the relevance of this issue. EIOPA stands ready to support the work on these areas, going forward.
Insurance Europe	Europe	52 Insurance Europe strongly opposes the proposal to consider introduction of MOCE as part of technical provisions and supports that MOCE (understood as the additional margin over best estimate liabilities (BEL)) recognised under certain regulatory regimes, including Solvency II and generally accepted accounting principles (GAAP) accounts should be part of core capital (as referred to in paragraph 6 of Annex D). Re-consideration of the MOCE purpose would in effect translate into an additional provision for the same risks that the capital requirements are intended to cover.

Organisation	Jurisdiction	Comments	
		We also note that where MOCE exists, it's arrived at in very different ways and it's not comparable. In addition, we believe that the potential extension of non-qualifying reinsurance to agreements that do not include "a sufficient transfer of risk" should not exclude reinsurance agreements where the transfer of risk is legally effective and enforceable. The term "sufficient" is ambiguous and should be replaced with "legally effective and enforceable".	
Bundesanstalt fr Finanzdienstleistungsaufsicht (BAFIN)	Germany	a. BaFin thinks the treatment of the MOCE is very relevant and we therefore support the intention to further analyze this issue. The definition of a MOCE as part of Technical Provisions, on top of Current Estimate liabilities, is a central element of most insurance supervisory frameworks around the World. The exclusion of all margins from Technical Provisions for the first Field Testing Exercise was accepted to allow the focus to be on the convergence of the concept of Current Estimates but should be revisited in the long run. We think that MOCEs belong to the technical provisions as they are liabilities reflecting the inherent uncertainty related to all relevant future cash flows that arise in fulfilling insurance obligations over the full time horizon. As such, they should not be separated from the technical provisions to belong to core capital. Nonetheless, comparability in the calculation of Best Estimates and Risk Margins is essential for this approach to lead to consistent results. b. BaFin supports the extension of the definition of non-qualifying reinsurance to also include agreements with reinsurers which are not licensed, certified, authorized or registered in a jurisdiction. These agreements should as well be deducted from core capital as "non-qualifying reinsurance assets".	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 52: The treatment of MOCE must be decided before required capital, consisting of BCR and HLA, is adopted. A decision to cancel the approval of MOCE as qualified capital after calibration would have a massive impact on the cover ratios and likely trigger the necessity to recalibrate required capital. In technical terms, we are strongly in favor to deal with MOCE as capital instead of considering certain ratios in the current estimate of liabilities. We even believe that the question does not arise at all when applying a current estimate valuation approach for liabilities. If the IAIS nevertheless comes to the conclusion a margin needs to be included in the technical provisions we strongly propose to use a comparable methodology like the risk margin in Solvency II. An approach where this margin relates to the margins that stem from the adjustments made to convert the valuation from general purpose balance sheets to current estimates must almost automatically lead to not comparable results and serious level-playing field problems. With regard to the treatment of non-qualifying reinsurance further clarification is needed which contracts are deemed to fall under this category. In particular, it is unclear what is meant by a "sufficient transfer of risk"	
Munich Re Group	Germany	52 a: The MOCE needs to be explicitly captured and remain part of the available capital. It will vary to a large degree depending on local GAAP rules in each jurisdiction. A simplified approach (percentage of current estimate) would not provide the adequate transparency and	

Organisation	Jurisdiction	Comments	
		would not compensate the differences but rather underline them in the design of the capital. 52 b The (possible) extension of the definition of non-qualifying reinsurance to not licensed, certified or registered reinsurers is quite ambiguous. Further clarification is needed. To our understanding if the home jurisdiction of a reinsurer acting globally fulfills high supervisory and solvency standards, then reinsurance transactions of the same should be "qualifying reinsurance" (according to the IAIS definition) in every other jurisdiction.	
AIA Group Limited	Hong Kong	Margin over Current Estimates (MOCE): We note that the Consultation Paper states that the IAIS is reviewing its approach of determining the policy liability using best estimate cash flows without any margin. Introduction of margins serves no useful purpose since from a solvency point of view it is the total asset requirement (liabilities plus required capital) that is the key requirement that the regulator needs to determine. Introduction of MOCE would logically imply reducing the required capital.	
Financial Services Agency	Japan	We understand that the MOCE basically plays a role to reconcile the gaps between current estimate and each jurisdiction's GAAP to ensure comparability across jurisdictions. If the IAIS were to maintain the current estimate of insurance liabilities as a comparable basis for a global capital standard, the full recognition of the MOCE in core capital resources should be incorporated. Its recognition is essential given the fact that prudence in insurance liabilities has differed among the existing jurisdictional regulatory regimes in order not to discourage insurers from adopting a prudent reserving policy for the sake of policyholder protection. Even though the issue is highlighted by the estimated result that the 38% of the core capital has been accounted for by the MOCE on average, we believe that the IAIS should also explore the issue of accuracy in the estimation under the current estimate approach to assess whether or not it would contain the misestimation in the calculation of current estimate.	
The General Insurance Association of Japan	Japan	- (Para 52 a) It would be important to incorporate some margin in technical provisions, if emphasis is put on the measurement of the exit value of insurance liabilities. However, we are afraid that simply including a certain percentage of Current Estimates (CE) as MOCE in technical provisions would not be a measurement of the exit value, which would result in the mere transfer- in and out of equities and technical provisions. - Also, as became evident by the results of the field testing, CEs could have negative value, which leads to a supposition that mere inclusion of a certain percentage of CE as MOCE in technical provisions would not work effectively. - Therefore, it would be worth considering leaving treatment of insurance liabilities and MOCE, as in the field testing, and adjusting the calibration level for capital requirements under BCR+HLA. - Even if, as stated in paragraph 52, the approach of treating a certain percentage of CE as MOCE is adopted, another approach can be considered where margins consistent with the degree of the fluctuation of CEs of respective product segments are added to technical provisions rather than including a certain percentage of CEs, since the degree of the fluctuation varies widely according to product lines. - (Para 52 b) We do not believe it is appropriate to extend the definition of non-qualifying reinsurance to also include agreements with	

Organisation	Jurisdiction	Comments	
		reinsurers which are not licensed, certified, authorized or registered in a jurisdiction and to agreements which do not include a sufficient transfer of risk, since such extension is potentially a rule-out of the reinsurance effects of legitimate reinsurance contracts.	
The Life Insurance Association of Japan	Japan	Taking into account the nature of life insurance businesses that underwrite risks with ultra-long duration, we think that even if the Margin Over Current Estimate (MOCE) of an insurer accounts for 38% of its Core Capital, the MOCE may not appear excessively high, rather it appears to be at a reasonable level. It is well known that insurers manage risks associated with their assets and liabilities as a whole. For example, even if the MOCE in liabilities decreases in accordance with the increase of other comprehensive income (OCI) in assets in the case of declining interest rates, the impact of changes in interest rates on the net assets of insurers would be mitigated. On the other hand, even if the OCI in assets decreases in accordance with the increase of the MOCE in liabilities in the case of rising interest rates, the impact of changes in interest rates on the net assets would be mitigated as well. We believe that the entire amount of MOCE should be included in Core Capital without distinguishing the treatment of MOCE for insurance liabilities and that of OCI recognized in assets under management, in light of an insurer's risk management profile.	
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	KNF prefers to recognize MOCE as liabilities and not as a capital resources.	
Autorite des marches financiers	Qu 顥 c - Canada	We agree with the reintroduction of the Margin Over Current Estimate (MOCE) as part of Technical Provisions, calculated in a consistent manner. MOCE that is equivalent to the price the market accepts to pay to insurance companies to transfer them the risk should be left with Technical Provisions. Any difference between the revalued Technical Provisions and the corresponding balance sheet liability should be considered in capital resources on an after-tax basis.	
The Global Reinsurance Forum	Switzerland	52,a: The MOCE needs to be explicitly captured and remain part of the available capital. It will vary to a large degree depending on local GAAP rules in each jurisdiction. A simplified approach (percentage of current estimate) would not provide the adequate transparency and would not compensate the differences but rather underline them in the design of the capital. 52 b We understand that risk mitigating effects can be only considered on the basis of executed and legally binding reinsurance contracts but we have serious concerns about the interpretation of the notion "non-qualifying reinsurance" in various jurisdictions. The current wording in this respect is quite ambiguous and needs further clarification. What happens for example to a global reinsurer dealing worldwide from just one jurisdiction (headquarters of the company, licensed, closely supervised with prudent solvency requirements): are reinsurance	

Organisation	Jurisdiction	Comments	
		arrangements of this company in other jurisdictions deemed - according to the IAIS understanding - "qualifying reinsurance"?	
ACE Group	United States	In the context of determining Core Capital and developing an ICS, Paragraph 52 b. provides that the definition of non-qualifying reinsurance could be extended to include agreements with reinsurers which are not licensed, certified, authorized or registered in a jurisdiction. Such reinsurers are routinely referred to as unauthorized reinsurers. We agree with the decision to review the treatment of unauthorized reinsurance and recommend that significant consideration be given to the respective financial strength ratings assigned to the unauthorized reinsurers in addition to the any collateral that may be provided (e.g. letter of credit, trust asset, funds withheld arrangement, etc.). These factors weigh heavily in the determination of how regulators treat unauthorized reinsurance around the globe and should similarly apply for purposes of an ICS.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
American Council of Life Insurers	United States	We do not see the need to extend the definition of non-qualifying reinsurance beyond the existence for an executed and legally binding contract. If the IAIS decides to extend the definition, it should provide clarity in the extended definitions/criteria and the need for such extension.	
Institute of International Finance - IIF	United States	Section 4.3 Question 16, (Paragraph 52 (b)) Consideration of amendment to definition of non-qualifying reinsurance. While not completely clear, the approach suggested is inconsistent with the principles-based approach suggested in Annex C. We would propose instead that as long as there is risk transfer under a legally binding contract with an expectation of performance, the reinsurance agreement should qualify as an asset. If the IAIS decides to extend the definition of non-qualifying reinsurance, it should clearly explain the rationale for such an extension.	

Organisation	Jurisdiction	Comments	
		Section 4.3 Question 16, (Paragraph 53 page 18) MOCE - The IAIS notes in paragraph 52 that consideration is being given to applying a notional percentage uplift to technical provisions as the removal of margin from the liabilities indicates that many of the G-SIIs are well capitalised. We strongly oppose the proposal to consider introduction of MOCE as part of the Technical Provisions. This would be a significant step backwards in comparability. While there is an inherent risk relating to future cash flows, the capital requirements (BCR/HLA) are expected to absorb this risk. Reintroducing a MOCE would in effect be an additional provision for the same risks that the capital requirements are intended to cover. Moreover, this is not consistent with the aim of increasing resilience as a going-concern (as per Para 50). In the context of the development of ICS as a global capital standard, the IAIS may potentially give further consideration to introducing a risk margin over Current Estimate, which had not been contemplated until now in the BCR, and which is conceptually and economically different from MOCE as defined above. We strongly consider that the MOCE as currently defined should be core capital and not be subject to arbitrary adjustment in the context of the BCR. Any other approach retrieving even partially MOCE from core capital would have negative and unintended consequences on current provisioning practices which might in turn weaken policyholders' protection. We would further note that the introduction of MOCE for the BCR would be inconsistent with the principles the IAIS has set out for a comparable approach based on best estimates of insurance liabilities. We support the idea that the concept of MOCE should be part of the core capital as referred to in para 6 of Annex D.	
American Insurance Association	United States of America	Without a set definition of Core Capital, and without a single proposal for a BCR Ratio, it is difficult even to know how to comment. It is critical that the IAIS fully develop these ideas before it presents them, and certainly before it proposes applying them to G-SIIs. It is also important to note that the Core Capital Ratio captures only a single point-in-time estimate of a company's core capital position, and does not therefore demonstrate necessarily the company's resilience to volatility. Specifically, we remain concerned about the exclusion of surplus notes from core capital. Surplus notes have unique equity-like features, and are deeply subordinated to all policyholders and non-regulatory capital creditors. Importantly, payments of both principal and interest require prior regulatory approval. While payments under surplus notes generally cannot be cancelled and are therefore cumulative, the supervisor can withhold approval for payment indefinitely. If payments are not made because the supervisor does not approve, no event of default is	

Organisation	Jurisdiction	Comments	
		triggered under the surplus notes and holders have no legal remedies. Surplus notes are also, by definition, unsecured, and cannot give creditors any right to seize collateral of the issuer in the event of a default. For these reasons, surplus notes are appropriately treated as surplus under U.S. statutory accounting principles and we believe should be categorized as core capital for purposes of the BCR and ComFrame generally. The same logic applies to holding company debt. Holding company debt is repaid through insurance entity dividends, which is subject to regulatory approval for an entity in distress. As a result, holding company debt is clearly subordinated to policyholder liability for a distressed company. We also note that, as drafted, debt issued by the holding company that is contributed to the insurance company subsidiaries meets the definition of capital, but does not meet the definition of core capital or additional capital and therefore would not qualify as capital in this Proposal. This inconsistency appears to be the result of a failure in the Proposal clearly to identify clearly the purpose of capital, and should be addressed before the BCR is finalized. Deferred tax assets also should remain part of core capital and should not be relegated to additional capital. In addition, the IAIS Specified Discount Curves lack the specificity that would allow for useful comment. In particular, the Proposal does not discuss which corporate bonds and which government securities the IAIS chose to build its curve, or why it chose the ones it did. Further, and more importantly, the Proposal does not set forth a rationale as to why this macroeconomic calculation is the correct tool to impose on a microeconomic, individual company basis.	
Prudential Financial Inc.	United States of America	- Par 52 a - Margin Over Current Estimate (MOCE) should count as core available capital in its entirety. The fact that all the G-SIIs have high capital ratios, reflecting strong capital positions, is not a reason to reduce the amount of margin included in capital. Full inclusion of MOCE as core capital is central to the integrity of the BCR as a measure of loss absorbency on a comparable basis, and to its design and calibration. Arbitrary haircuts or prescriptively calculating MOCE as a standard percentage of the Best Estimates of Liabilities ("BEL") could create perverse incentives. - Par 52 b - As previously expressed, the BCR should start with local accounting frameworks and apply adjustments where substantiated by the proportionality principle and as essential for comparability. We argue that for Non-qualifying reinsurance (and most of the detailed adjustments in the BCR) we should rely on local US GAAP or IFRS. Any deviation from US GAAP and IFRS is an impractical and unnecessary attempt to define a global accounting framework. Each deviation should be justified as to why it is necessary. Non-qualifying reinsurance, therefore, should follow the definitions already specified in STAT/US GAAP/IFRS.	
American International Group (AIG)	USA	Margin over current estimate (MOCE) The full inclusion of MOCE (the margin over best estimate liabilities) as a component of Qualifying Capital Resources would, in AIG's view, tend to undermine the rigor of the BCR framework by virtue of its sensitive dependence on actuarial approaches. Such inclusion runs contrary to the BCR's appropriate emphasis on simplicity, comparability, and resilience to stress. These concerns are amplified by the potentially significant impact that MOCE would have on the BCR ratios; as noted by the IAIS, MOCE would account for about 38% of G-SII Core Capital	

Organisation	Jurisdiction	Comments	
		on average, based on the Field Test results. The MOCE is estimated through a computationally-intensive company-specific actuarial process, which can generate significantly different results based on relatively subtle changes in assumptions. Including MOCE as a component of capital therefore infuses this complexity and variability directly into the BCR capital ratios. During periods of stress, both supervisors and market participants rightly focus on an institution's capital position as defined by the purest, strongest forms of loss absorption, and are unlikely to place significant credence in the MOCE component of reserves. Although the MOCE does provide valuable loss absorbing properties, it is, in our view, unlikely that during a stress period these properties would be accepted by market participants, policyholders, and regulators as tantamount to those of true equity capital. As an embedded component of a defined reserve, the MOCE, unlike equity capital, is not capable of absorbing losses beyond its defined purpose. The IAIS should work to develop an economically appropriate treatment of MOCE that reflects both the benefits and limitations of its loss absorbing properties and that accounts for the likely variability and inherent opacity of individuated calculations in the estimation of MOCE across firms. A thoughtfully designed BCR should not be dependent on MOCE. Non-qualifying Reinsurance The proposed deduction from capital of reinsurance assets deemed to be non-qualifying (i.e., reinsurance without an executed and legally binding contract) provides for a 6-month grace period from the effective date of reinsurance coverage, reflecting that reinsurance arrangements in practice can take effect for a period of time before the contract is legally binding. For purposes of this comment, we assume that the term "executed and legally binding contract" refers to a fully finalized and executed contract wording, notwithstanding any existence of a legally binding slip, cover note or other documented evidence of coverage. We recommend that the BCR align its treatment of so called "non-qualifying" reinsurance with US SSAP No. 62R, which provides that certain reinsurance agreements that have not been finalized, reduced to a written form and signed by the parties within nine months after commencement of the effective date of the reinsurance arrangement, will be presumed to be retroactive and should be accounted for as a retroactive reinsurance agreement.	
CNA	USA	CNA agrees that the two tier approach should be considered further prior to including it in the ICS calculation.	
Metropolitan Life Insurance Company (MetLife)	USA	Margin Over Current Estimate (MOCE): Paragraph 52.a While we understand that this decision may be for ICS development, we wish to register our strong disagreement with any movement of MOCE to technical reserves as MOCE are typically counted as capital. This is against the principle of the BCR being based on best estimate liabilities and further creates additional calibration issues, reduces comparability and calls into question whether any real financial principle drives the BCR. What is more, removal of a portion of MOCE from Core Capital is problematic particularly if (as we argue it should not be) tiering is involved as an insurer's capital ratio becomes substantially less stable. MOCE should at a minimum be counted as additional capital.	

Organisation	Jurisdiction	Comments	
		See also comments on impact of moving MOCE to technical reserves on renewable contracts at Q Annex C Contract Boundaries below. Non-qualifying reinsurance Paragraph 52.b Additional guidance on this issue would be appreciated. Appendix C lays out a principles-based paradigm for valuation of insurance liabilities and clearly indicates that reinsurance asset valuation should follow the valuation of related direct liabilities. Qualifying or disqualifying reinsurance based on accreditation of the reinsurer or particular characteristics of the reinsurance contract is inconsistent with a principles-based approach. If there is binding contract and an expectation of performance of the reinsurer, the reinsurance assets should not be deducted from capital. However, it would be appropriate to consider the credit quality of the insurer and security provided. On a related point, the desire to exclude overcollateralization of liabilities from core capital appears to us to be inappropriate and increases systemic risk. We believe that overcollateralization should be included in core capital where it is not available to the counterparty. If this is not the case, any contracts between entities covered by these capital standards would be driven economically to have no overcollateralization and/or have higher costs to cover the increased equity required. This shift in contract terms would reduce funds available to the rest of the financial system in the event of reinsurer failure.	
NAIC	USA	Inclusion of paragraph 52a) is premature and NAIC supports inclusion of 100% of MOCE in capital resources (also note our general comment). We interpret paragraph 60 to mean that both GAAP and IFRS are producing more conservative reserves than a market adjusted approach. The level of relative conservatism between GAAP and IFRS is not clear. The NAIC supports further discussion of potential reasonable standards for inclusion of MOCE in capital resources, but only after the components of BCR requirements have been finalized and a reporting track record established. There are very few jurisdictions implementing a full MOCE at present (and potentially no G-SII jurisdictions), and it should be recognized that the provisions in ICP14 were predictive of what at that time was believed to be imminent global implementation of an accounting regime utilizing current estimates and MOCEs. The failure of the IASB and FASB to finalize (or converge) their insurance accounting - much of which is due to the complexity of calculating MOCEs - implies that care is required in the treatment of MOCEs. A substantial part of MOCE, when based on regulatory requirements, can be considered as additional jurisdictional capital that is embedded in reserves rather than as explicit capital requirements. This is an important consideration when comparing BCR to the jurisdictional PCR. In addition, MOCE is in part reflective of differences in valuation methods across jurisdictions. Those valuation differences are part of the overall solvency framework that yields a jurisdictional capital PCR. As we transition to the ICS discussion, NAIC supports recognition of how these differences contribute to an outcome that can be compared to the ICS framework (also see comment on valuation) rather than necessitating potentially costly and confusing changes to arrive at a single global valuation basis underlying a global capital standard.	

Organisation	Jurisdiction	Comments
The Travelers Companies, Inc.	USA	We do not believe that the Margin Over Current Estimate should be included for P&C insurance liabilities as it is not useful, cannot be calculated in a reliable manner and cannot be back tested. We believe that for P&C insurance liabilities, using the nominal reserve estimate (undiscounted best estimate) is the most reliable and comparable calculation and should be used. We note that U.S. preparers will not be required to determine a risk margin as the Financial Accounting Standards Board rejected the notion to have such a margin as part of the measurement criteria for insurance contracts.
4.4 - Comments on G-SII capital resources		
Canadian Life & Health Insurance Association Inc.	Canada	No Comments.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(53-54) No comments.
European Insurance and Occupational Pensions Authority	EU	Linked to the previous comments with regard to the need for clarity concerning the implementation of the Qualification and Tiering criteria for Capital Resources, EIOPA believes the allocation of capital among Core and Additional needs to be monitored going forward. Furthermore, there are areas still to be developed which may significantly affect the amount and allocation of capital reported in the first Field Testing exercise (e.g. the potential reintroduction of a MOCE in Technical Provisions). Therefore, the levels and composition of Capital Resources reported in the first Field Testing exercise should be interpreted with caution (not necessarily representing the long term position of G-SIIs).
Insurance Europe	Europe	53 The 75% observed rate of GAAP capital resources is derived based on calculations at a single data point and we believe it's important to also note that the core capital ratio can exhibit significant volatility, as a result of, for example, changes in the external environment.
Financial Services Agency	Japan	The description of capital definition in Annex D seems to be somewhat inconsistent with those in the ComFrame document. It is desirable to make those consistent with the description in the ComFrame document that has employed the fundamental concept of tiering of the qualified capital resources that has focused on the degree of loss absorbency.

Organisation	Jurisdiction	Comments	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
American Council of Life Insurers	United States	It is important to note that the core capital ratio can change quickly as a result of changes in the external environment. We are concerned that a single, point-in-time estimate of a company's core capital position is not necessarily valid, in part because a point-in-time estimate is unable to capture volatility or other future events.	
American Insurance Association	United States of America	Without a set definition of Core Capital, and without a single proposal for a BCR Ratio, it is difficult even to know how to comment. It is critical that the IAIS fully develop these ideas before it presents them, and certainly before it proposes applying them to G-SIIs. It is also important to note that the Core Capital Ratio captures only a single point-in-time estimate of a company's core capital position, and does not therefore demonstrate necessarily the company's resilience to volatility. Specifically, we remain concerned about the exclusion of surplus notes from core capital. Surplus notes have unique equity-like features, and are deeply subordinated to all policyholders and non-regulatory capital creditors. Importantly, payments of both principal and interest require prior regulatory approval. While payments under surplus notes generally cannot be cancelled and are therefore cumulative, the supervisor can withhold approval for payment indefinitely. If payments are not made because the supervisor does not approve, no event of default is triggered under the surplus notes and holders have no legal remedies. Surplus notes are also, by definition, unsecured, and cannot give creditors any right to seize collateral of the issuer in the event of a default. For these reasons, surplus notes are appropriately treated as surplus under U.S. statutory accounting principles and we believe should be categorized as core capital for purposes of the BCR and ComFrame generally. The same logic applies to holding company debt. Holding company debt is repaid through insurance entity dividends, which is subject to regulatory approval for an entity in distress. As a result, holding company debt is clearly subordinated to policyholder liability for a distressed company. We also note that, as drafted, debt issued by the holding company that is contributed to the insurance company subsidiaries meets the definition of capital, but does not meet the definition of core capital or additional capital and therefore would not qualify as capital in this Proposal. This inconsistency appears to be the result of a failure in the Proposal clearly to identify clearly the purpose of capital, and should be addressed before the BCR is finalized.	

Organisation	Jurisdiction	Comments
		Deferred tax assets also should remain part of core capital and should not be relegated to additional capital. In addition, the IAIS Specified Discount Curves lack the specificity that would allow for useful comment. In particular, the Proposal does not discuss which corporate bonds and which government securities the IAIS chose to build its curve, or why it chose the ones it did. Further, and more importantly, the Proposal does not set forth a rationale as to why this macroeconomic calculation is the correct tool to impose on a microeconomic, individual company basis.
Prudential Financial Inc.	United States of America	None
The Travelers Companies, Inc.	USA	No comment.
5. - General Comments on Market Adjusted Valuation Approach		
Association of Bermuda Insurers and Reinsurers	Bermuda	
Canadian Life & Health Insurance Association Inc.	Canada	#55 - We are concerned about the Market Adjusted Valuation Approach. For example, we believe the proposed discount rates are too low for longer tenors. For companies with long-term liabilities, this is a crucial parameter in the whole framework. The current approach is prejudicial to companies with a long-term business model by keeping rates flat beyond the last observable market data. There are no markets past year 30. The rate selected should therefore be aligned with our asset-liability management strategies and risks. In those long-term durations, there are no or very limited fixed income instruments. Accordingly, the selected rate should recognize the asset mix held, including non-fixed income. The rate should represent a long-term view, consistent with the duration of those liabilities and to prevent unwarranted volatility of short-term market fluctuations. This is of key concern to the Canadian companies as it materially impacts the level of Current Estimates of liabilities and hence the amount of equity. We highly recommend the IAIS carefully consider emerging views on setting discount rates by various stakeholders, such as regulators (e.g. our regulator OSFI, Solvency II), the International Actuarial Association, and how discount rates will be derived under IFRS4 Phase II. Fundamentally, the proposal in the BCR to, per paragraph 46, "use curves that are flat after 30 years" (i.e. spot rates in all years from duration 30 onward are the same) is highly inappropriate for the long term insurance business model and disconnected with current and emerging

Organisation	Jurisdiction	Comments	
		practice. In Canada, both actuarial standards of practice for policy liabilities and OSFI's Quantitative Impact Studies for capital purposes are using a stable forward rate in the ultimate period. The Solvency II Long Term Guarantee Assessment project utilizes a flat Ultimate Forward Rate derived from long term macroeconomic assumptions. And finally, the IASB has made decisions (per June 2014 Paper 2A) to amend provisions in their (2013) Re-Exposure Draft to recognize the importance of the use of "appropriate discount rates" through adjustments to rates for tenors in which markets are less, or not at all, active. Liquidity in the markets drops at 10 years, and periods beyond year 30 are certainly far from active and hence the inappropriateness of the BCR proposal, particularly in recognition of the resulting very low discount rates in our current environment. In addition to exacerbating the absolute levels of the BCR calculations, it also limits comparability of the results to shorter term business, as the proposed discount rates are incompatible with the long term business models. Finally, the use of IAIS discount rates that are disconnected from discount rates used for external reporting and/or local regulatory reporting will create the unintended consequence of conflicting internal risk management practices.	
Manulife Financial	Canada	We are concerned how the discount rates have been defined for the initial field testing, and encourage the IAIS to continue to investigate alternate approaches to define the curves. We believe that discount rates that more appropriately reflect the long term nature of the business will provide a more robust calculation of the current estimate of liabilities leading to enhanced comparability. Specifically, we believe the discount rates can be improved in two respects: the definition of the long term discount rate, and the relative difference between the Canadian and USA discount rates. First, we consider it inappropriate to extend one market observation point at year 30 to all durations thereafter, as the resulting discount rates will be more volatile than an approach that defines the ultimate discount rate based on long term view of the markets: a) Reported equity will be volatile as the current estimate for liabilities beyond year 30 will be tied directly to the market rate at year 30. The liquidity in the market starts to decrease around year 10, and by year 30 the market is quite thin. As a result, the observable data will be less than credible due a lack of depth, and potentially susceptible to irrational movements. In the absence of reliable market information, the long term discount rate should be more stable and reflect historical trends in the investment performance of the asset portfolios typically used by insurers to back these long term liabilities. To maintain comparability, a representative portfolio of real estate, infrastructure and other non-fixed income assets could be combined with the longest bonds to develop a historical based view of the long term discount rate. b) Volatility of current estimate of liability will also pro-cyclically impact the required capital. Since the risk exposure measure for many insurance segments is the current estimate of liabilities, under the current discount rate approach, a material component of the required capital will be directly impacted by the last observable market rate on the day of valuation. For example, an increase in discount rates will increase the available capital at the same time as it decreases the required capital. This excessive sensitivity to current market rates will lead to inappropriate conclusions of capital strength or weakness whenever the current market rates move quickly. Second, in the current environment, the approach for defining long term discount rates results in inappropriately low rates. Conversely, the methodology would prescribed inappropriately high rates in high interest rate environments (for example, the market rates of the early 1980s	

Organisation	Jurisdiction	Comments	
		would predict long term discount rates well in excess of 12%). In both environments, the discount rate approach is disconnected from the long term nature of many insurance business models. Limiting the basis of the long term discount rate to the longest tenor of bonds ignores the proven investment strategy of insurers using non-fixed income assets to back the long term liabilities. Market related data can be used for short term cashflows where liabilities can be matched by fixed income assets, resulting in a reasonable and comparable balance sheet, with both the liability and asset side of the balance sheet are based on the same market rates. However, long term liabilities cannot be matched with fixed income assets where the markets either don't exist (>30 years), or where the markets become illiquid and insufficiently deep (11-30 years). In these situations, the discount rate for these long term cashflows needs to reflect the use of asset strategies incorporating other than fixed income assets. Recent developments in other regimes suggest viable solutions to both the volatility concern, and the current low interest environment. In the latest IFRS 4 Phase II discussions, the IASB is now segmenting their view of discount rates into three buckets based on the reliability of market data at different tenors. Observable market data is considered useful for discounting the shorter cashflows of the first bucket. However, the market data is considered less reliable for the middle bucket, and the last market point is not deemed to be credible for the cashflows in the longest tenor bucket. Alternative approaches are being explored to define the long term discount rates. The Actuarial Standards Board in Canada moved to using a stable prescribed ultimate reinvestment rate, to be promulgated every 5 years. We suggest that similar structures be tested for use in the BCR and for development of the ICS. Applying the IASB approach based on liquidity of the market, we propose the discount rates could be developed at each tenor to fit the liquidity of markets in each jurisdiction, blending current market data with an ultimate discount rate, with proportions varying as the liquidity level of the observable market data decreases. The ultimate discount rate could be defined periodically for each jurisdiction based on a long run view of a typical insurance portfolio's expected returns in that jurisdiction. For example, the yield curves for Canada and the USA could start grading in a long term market view from year 11 onwards, gradually for the first 20 years, then quickly to an ultimate discount rate by year 40, with this ultimate discount rate to be periodically updated based on long run historical experience. This would produce more comparable current estimates of liabilities as each company's liabilities would be measured relative to the asset strategy and market in their jurisdiction. Last, we suggest that long term discount rates for Canada should not be lower than the USA. The IAIS defined spot rates for field testing has a rate of 4.9% for the USA, compared to 4.2% for Canada starting in year 30. This further illustrates the inappropriateness of locking the long term discount rate to a single point of market data. Canadian government bonds have typically had higher yields than the US treasuries, and from a historical perspective the current inversion is an anomaly. In the last 60 years, the Canadian long term risk free yield has been on average 0.72% above the US 30 year treasury. On a monthly basis, the Canadian rate has been above the USA equivalent more than 80% of the time. Taking a long run historical view would suggest in the future the Canadian discount rate should be higher than the USA discount rate. Alternatively, if we take a more short term historical view to incorporate the trend in recent years, then considering the two economies are closely tied with the central banks assuming the same inflation going forward, we would expect that based on a current market view, at the very least, the Canadian discount rate should be increased to be par with the long term discount rates of the USA.	

Organisation	Jurisdiction	Comments	
China Insurance Regulatory Commission	China	1.The valuation of insurance liabilities and major categories of assets should further consider the comparability. Since there is no unified global standard to measure insurance liability, there are certain differences in the valuations of major asset categories. The consultation paper adopts market adjusted valuation approach which will adjust major items of the audited consolidated balance sheet. But because of the differences of the markets and accountingstandards in various countries, we suggest that the valuation approach be further adjusted on the basis of field testing. 2.As mentioned in paragraph 57 of the text, all the financial instruments should be based on their balance sheet value, and be obtained through fair value adjustment. For emerging markets like China, there are many investment assets (e.g. deposit agreements) that have no fair market value. We suggest that the emerging markets be allowed to reduce the scope of fair value adjustment, such assets could be measured by local accounting standards or other proper valuation approach.	
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(55) We support the comparability principle across jurisdictions and between the capital requirements and the capital resources. This implies that the valuation rules must be prescribed uniformly as part of the framework.	
European Insurance and Occupational Pensions Authority	EU	EIOPA believes that a comparable solvency assessment framework, across jurisdictions around the World, can only be developed on the basis of comparable definitions of both Capital Requirements and Capital Resources. Even the application of the same accounting principles cannot ensure comparability between undertakings when options (e.g. amortised cost and fair value) are allowed. Therefore, a common valuation basis, from which Capital Resources are determined and many of the volume measures for the calculation of Capital Requirements are computed, is of paramount importance for the success of the entire project. EIOPA is therefore strongly supportive of the introduction of the Market Adjusted Valuation Approach in general, and the Fair Value concept for Assets and Current Estimate concept for insurance liabilities, in particular, to be used as the basis for IAIS Global Insurance Capital Standards. We recognize, however, that following the first Field Testing exercise it is necessary to continue refining the Market Adjusted Valuation Approach to better reflect the long-term nature of insurance business.	
Insurance Europe	Europe	55 Insurance Europe welcomes recognition that both available and required capital need to be comparable. Insurance Europe agrees that comparable valuation is vital for achieving comparability of BCR outcomes.	
Bundesanstalt fr Finanzdienstleistungsaufsich	Germany	In our point of view, a common valuation basis is of paramount importance to reach comparability which is the goal of the project. Thus, we strongly support the introduction of the Market Adjusted Valuation Approach in general, and the Fair Value concept for Assets and Current Estimate concept for insurance liabilities, in particular, to be used. We also encourage the IAIS not to change this approach when designing further capital standards such as the ICS as comparability will otherwise be compromised.	

Organisation	Jurisdiction	Comments	
t (BAFIN)			
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 55: We strongly agree with the assumption that comparable valuation is an indispensable precondition for ensuring comparability of BCR outcomes across jurisdictions.	
Global Federation of Insurance Associations	International	(comments repeated from above - see Q2) The current approach to valuation of liabilities leaves a lot of room for refinements to better reflect the long-term nature of the insurance business. We understand that the current approach was used for timing and simplification reasons, but future developments should consider how to improve this.	
Financial Services Agency	Japan	As stated in our comment on the question 1, we would like to voice our concern over the proposed current estimate approach based on our internal assessment of the results, which could create excessive fluctuations in the balance sheet of insurers, especially for those with long-term liabilities of insurance products due to its assumption employed in the discount rate curve. When the liability position would be fluctuated according to the assumption embedded in the discount rate curve, supervisors could not appropriately validate the proper level of insurance liabilities to be held by insurers under the proposed approach. In this context, further assessments such as a time series analysis will be needed especially in light of the long-term nature of insurance products through the process of field testing, which would be warranted to ensure that the BCR framework should be implementable to the insurers with long-term liabilities.	
The Life Insurance Association of Japan	Japan	In order to reduce excessive volatility of the financial soundness of insurers due to short-term market fluctuations, we believe that some measures need to be considered. For example decreasing market risk factors for the purpose of mitigating impacts on insurers in situations where they are under stressed financial markets.	
North American CRO Council	North America	Proposed Market Adjusted Valuation is Problematic for Regulating an Insurer's Solvency More specifically, the market adjusted valuation approach proposed by the IAIS introduces significant volatility to an insurer's capital management structure and creates the likelihood for procyclicality, potentially impacting the availability of certain long-term insurance products in the market and ultimately harming consumers. The CRO Council believes that a market adjusted approach can be informative for internal risk management, but introduces procyclical balance sheet volatility that is problematic for regulating the solvency of insurers. For example, in periods of strong bond valuations, market adjusted valuation may overstate an insurer's capital resources, potentially masking solvency issues and incenting management to	

Organisation	Jurisdiction	Comments	
		inappropriately extract capital from the business. In periods of weak bond valuations, such as the recent financial crisis, market adjusted valuation may understate the capital resources an insurer has to satisfy its long-term obligations and might result in a company raising capital in a difficult and costly environment when such capital is not truly needed to satisfy any immediate or long term liability demands. A market adjusted approach that values assets and liabilities without regard to policyholders' ability to demand payments and without consideration of market recovery over the duration of the liabilities is not appropriate for the business of insurance. Regardless of whether the proposed market adjusted balance sheet is intended to replace public or jurisdictional financial reporting, such an approach will have a profound impact on the risks insurers are willing to assume and therefore the products offered to consumers in certain jurisdictions.	
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	In many places in the document IAIS refers to the comparability of the results, however in KNF's opinion we can talk about the comparability only when the definitions of both Capital Requirements and Capital Resources are unified. Therefore, a common valuation basis (with limited amount of options), from which Capital Resources are determined and many of the volume measures for the calculation of Capital Requirements are computed, is needed. Following the first Field Testing exercise, IAIS need to continue refining the Valuation Approach to better reflect the long term nature of insurance liabilities and long term horizon of investments held by (re)insurers.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
American Council of Life Insurers	United States	It is very important that the IAIS adopts mechanisms and standards that recognize the important role long-term liabilities and products have in society. - Life insurers play an important role in helping consumers create financial security for themselves and their families by providing financial protection for the risk of dying prematurely, living longer than expected, or becoming disabled. - Financially secure consumers are desirable from a public policy standpoint because they invest and consume thereby creating economic	

Organisation	Jurisdiction	Comments	
		activity that adds to the stability and growth of economies and, by extension, society in general. - The long-term nature of the obligations means that insurers can be, and to achieve optimum results need to be, long-term investors through economic cycles. This provides stability to capital markets as insurers tend to be buyers of long-term debt and other investments even when values are depressed. It also means that in order for life insurers to provide the most economic value to consumers they must invest in long duration assets with commensurate returns. Given the long-term nature of life insurers' liabilities, a long-term investment strategy is also vital to managing insurers' duration matching risk. In order to be effective, valuation of life insurer assets and liabilities used to assess regulatory solvency must reflect these characteristics of the life insurance business.	
Institute of International Finance - IIF	United States	Section 5, Question 19, (Paragraph 57) Basis for the market adjusted balance sheet: The use of readily available information should be encouraged where relevant for valuation purposes. For instance, companies should be allowed to use readily available financial statements including statutory accounts for the purpose of arriving at the BCR balance sheet.	
American Insurance Association	United States of America	The Proposal states that "[a] Market Adjusted Valuation Approach is the valuation approach to be initially adopted for the BCR . . . with the amount as reported on its audited, consolidated, general-purpose balance sheet, whether that be on an IFRS or GAAP basis." (5.1.56) We support the deference given to local jurisdictional accounting rules throughout the Proposal, but question the absence of any references to statutory accounting (STAT) as used by many insurance entities in the U.S. Additionally, there appears to be a disconnect among the many prescribed adjustments and the desire to respect local jurisdictional accounting rules. We urge the IAIS to avoid such a high level of prescription that runs the risk of favoring one type of accounting regime over another.	
National Association of Mutual Insurance Companies	United States of America	The requirement for discounting of reserve estimates (under a current estimate, best estimate or management's best estimate approach) set forth in this section is inconsistent with the nominal reserve valuation standards used in the United States for property-casualty companies. We would argue that liabilities valued on an incurred, nominal basis are more conservative than those valued on an expected present value basis. An option to allow companies to report nominal reserves should be considered.	
Prudential Financial Inc.	United States of America	- Par 55 - The use of balance sheet measures such as Current Estimates as the proxy measure for risk exposure is crude and produces non-intuitive results. This could be especially problematic as it pertains to comparability - one of the primary goals of the BCR - in that results will be difficult to compare across companies and over time. While the current BCR design applies factors to balance sheet measures, we feel that the BCR will eventually need to migrate to economic drivers following the initial adoption of the BCR (also see paragraphs 36 and 55). We strongly suggest that consideration be given to risk factors and drivers which do not depend on the balance sheet in the ongoing testing of	

Organisation	Jurisdiction	Comments	
		the BCR. - A disconnect between the valuation of insurance liabilities and the assets backing them creates non-economic breakage on the balance sheet. The true economic risk associated with breakage between assets and liabilities should be captured in required capital, through interest rate stresses, discussed in the ALM section. Substantial comparability can be achieved, with lower volatility, without using a common balance sheet, provided that assets and liabilities are treated consistently.	
American International Group (AIG)	USA	Alignment with prospective US and European requirements We consider that it is essential that the BCR and related IAIS capital initiatives be designed and administered in a way that allows them to accommodate and align with the consolidated capital standards that the Federal Reserve is developing for non-bank SIFIs in the United States, as well as with those developed for Solvency II in Europe. We believe that regulatory harmonization of the evolving consolidated capital standards applicable to the insurance industry should be one of the paramount goals of the IAIS project. AIG believes that it is important for policymakers and other stakeholders in the BCR process to achieve similar and comparable conservatism in capital standards, when existing national regulatory regimes and accounting standards differ both technically and conceptually. The use of a market-adjusted valuation (MAV) balance sheet to bridge these jurisdictional differences, despite its drawbacks, provides a temporary expedient to promoting a more consistent valuation basis for calculating an interim BCR across insurers globally, until the promulgation of the ICS. It is important to bear in mind that a MAV balance sheet is not consistent with how AIG or the other U.S. carriers manage their businesses, risk profile, and reporting to stakeholders (whether shareholders or policyholders). A MAV balance sheet cannot be audited by our accountants. A MAV balance sheet diverges materially from the extensive financial reporting mandated by law by our numerous sovereign regulators and the public securities markets. While such a synthetic balance sheet can, in our view, be a useful regulatory tool, it is not a substitute for the native and auditable financial disciplines imposed by existing accounting and regulatory conventions.	
CNA	USA	Valuation - It is our belief that a market adjusted valuation basis does not appropriately reflect the economic realities of our business and introduces significant volatility to our capital management structure for no other reason than a desire for unachievable precision with hopes of having true comparability. From our prospective this precision is unnecessary and exceedingly costly to implement and maintain. We would suggest that for both the BCR and ICS the IAIS make only high level adjustments to the group's audited GAAP or statutory financials statements which would achieve comparability at a high level. It is our belief that such comparability should be sufficient to identify groups operating outside the norms.	
Metropolitan Life Insurance	USA	Paragraph 55 Market Adjusted Valuation Approach	

Organisation	Jurisdiction	Comments	
Company (MetLife)		Given the long-term nature of life insurance liabilities, the move from book value to mark-to-market for insurance business will have a profound impact on the stability of a life insurer's balance sheet. For this reason, we would highlight the need for reconsideration of this issue over the next few years and would propose an approach based on assumptions that would permit use of a stable discount rate for periods beyond the observable period of market inputs to avoid excessive balance sheet volatility. The current proposal for a market adjusted approach with the long term rate pegged to the last observable rate is premised on data that is not appropriate for the proposed purpose and will therefore produce inappropriate results.	
Northwestern Mutual Life Insurance Company	USA	In general - As we have said most recently concerning the ICS; the BCR approach of using fair value for assets and a best estimate for liabilities is not properly suited for insurers like us whose primary business is the issuance of long term life insurance products. We also disagree with the premise that establishing a common balance sheet for international groups is needed in order for the IAIS to achieve comparability and other objectives. Other alternatives should be tested and we have proposed one in the comments we delivered on ICS in June 2014. In our view, aspects of the proposed approach to valuation (fair value of assets and best estimate liabilities), will give regulators and other stakeholders a distorted view of the financial strength of an insurer writing long term products. The distortion primarily takes the form of an under or overstatement of the insurer's financial strength. This is because significant changes in asset or liability values are only meaningful from a solvency standpoint if they signify an inability on the part of the insurer to meet its obligations as they come due. Short or near term changes in valuation due to changes in market interest rates, if allowed to enter the financial strength measurement, will obscure an otherwise clearer view of the insurer's ability to meet its long term liabilities. A basic capital requirement that fails to address these concerns will raise the insurer's cost of capital, require the allocation of capital to manage the lack of precision and distortions in capital strength measurement, harm the economics of in-force contracts for consumers and make it highly unlikely prudent insurers would sell certain long term products that provide much - needed consumer financial security.	
The Travelers Companies, Inc.	USA	It was demonstrated during the Great Depression and the recent Global Financial Crisis that a market adjusted valuation approach is not always the best solvency base. For liabilities with no call risk and where assets are performing and the business model supports a "hold to maturity" approach, attempts to produce "market consistent" valuations adds significant noise to the evaluation and does not help the forecast of future cash flows. Instead it can create false volatility. Additionally, it is inconsistent with a going concern objective where insurers have the ability to hold assets until the market dislocation diminishes or until the contractual cash flows are collected. It would be more relevant with a liquidation objective and where liabilities have significant call risk (P&C liabilities do not).	
5.1 - Comments on Valuation principles			
Canadian Institute of	Canada	The measure of "current estimate" of insurance liabilities is meant to be unbiased. There is mention, however, of potentially reintroducing the Margins on Current Estimates (MOCE), or some portion thereof, into the technical provisions.	

Organisation	Jurisdiction	Comments	
Actuaries		The decision to include MOCE or risk margins is not an important concern to us, but consistency is. From that perspective, we suggest that: (1) All entities in all geographies should be subject to the same requirements. This would likely be easier to accomplish if MOCE was not included in the current estimate of liabilities; (2) The measurement of Qualifying Capital Resources should be consistent with the measurement of the current estimate of liability; and (3) The calibration of Required Capital should consider that the liability is a current estimate. The treatment of MOCE should also be reviewed in the context of the development of the ICS. We expect that the revaluation discussed in paragraph 57 has a consequent impact on the amount of Capital Resources available to meet capital requirements; e.g., if a revaluation lowers a liability relative to its balance sheet value, then Capital Resources would ordinarily increase by the decrease in the liability.	
Canadian Life & Health Insurance Association Inc.	Canada	No Comments.	
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(56-60) The valuation principles and framework should be finalised as soon as possible given it provides the basis for determining exposure measures for the BCR as well as the qualifying capital resources against which the capital requirement is measured. Any subsequent change in the valuation framework would require a recalibration of the capital requirement. For further comments see answers to section 2.2.	
European Insurance and Occupational Pensions Authority	EU	EIOPA is broadly supportive of the approach followed for the first Field Testing exercise, although recognizing that many aspects of the proposed methodology still require further development and refining (e.g. the interest rate term structures used to discount liability cash-flows.	

Organisation	Jurisdiction	Comments	
Insurance Europe	Europe	57 Insurance Europe agrees upon the use of fair values for investment assets. 60 Insurance Europe believes that, from a solvency standpoint, the sensitivity and volatility of the balance sheet is at least as important (or even more important) than the difference between the GAAP/market adjusted approach to valuing liabilities. We think that the IAIS should focus on any balance sheet volatility concerns.	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 56: Given the essential meaning of the valuation framework both for the BCR and the qualifying capital resources, subsequent changes to valuation parameters must be avoided. Any later refinement would inevitable trigger the need for a recalibration of the BCR. Furthermore, we again question the approach to derive market values and current estimates from the general-purpose balance sheet. Given the variety of different accounting procedures, we have serious concerns that this approach can contribute to a comparable and sustained valuation framework.	
AIA Group Limited	Hong Kong	Liability Discount Rate: The use of IAIS-specified discount rates creates an inconsistency between the way we and other insurers manage our products and the BCR valuation approach. In particular, for products whose cash flows depend on the underlying assets ("participating" in a broad sense), the discount rates should be company-specific and tied to the underlying assets. Using IAIS-specified discount rates requires that the asset-dependent cash flows be re-determined to be consistent with the discount rates. We feel the balance sheet liability should reflect actual anticipated cash flows, not artificial cash flows determined solely for the purpose of the valuation. For products whose cash flows are independent of the underlying assets uniform discount rates are appropriate, but recognition of only 40% of the corporate spread substantially understates the illiquidity premium. For example for US dollar denominated liabilities we feel that a factor in the range of 65% - 75% is appropriate. AIA has done substantial research in this area to back up this assertion and would be happy to share it with the IAIS.	
The General Insurance Association of Japan	Japan	The contents of Annex C are for field-testing purposes and we understand that it has not yet been agreed internationally to assess insurance liabilities/reinsurance assets according to the contents. As for approaches to the valuation of insurance liabilities (Current Estimates), we believe it is necessary to utilize professionals groups, etc. to examine the approaches further instead of considering them only within the context of BCR development.	

Organisation	Jurisdiction	Comments	
The Life Insurance Association of Japan	Japan	We believe that the valuation approach should be principle based, rather than being an excessively prescriptive approach. With regard to the contract boundaries, even if an insurer has a unilateral right to terminate the contract or amend the premiums under the contract in such a way that the premiums fully reflect the risks, the insurer must carefully consider the likelihood of exercising such a right, in light of maintaining good relationships with its policyholders, management's standpoint of prioritising its reputation, and because of the nature of its products and competitive environment. We are concerned that the substance of contracts might not be appropriately reflected, if contract boundaries are set judging from the legal form of contracts only, despite the negligible likelihood of exercising such a right by the insurer. Therefore, we would like to suggest that the following condition should be added in setting contract boundaries: "a contract shall be within the boundaries if the likelihood of exercising the right by the insurer to terminate the contract or amend the premiums under the contract in such a way that the premiums fully reflect the risks appears to be low." In the valuation of insurance liabilities with ultra-long duration, we believe that potential measures for mitigating the impact on such liabilities are needed (also in the BCR). This should include additional adjustments on interest rates or extrapolation measures, in order to reduce excessive volatility due to short-term changes in interest rates.	
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	Taking into account that starting point is IFRS or GAAP valuation and then it is required to make adjustment only for some items (including Insurance liabilities), it could cause some inconsistency between both sides of balance sheet. Moreover, the KNF acknowledges that exclusion of margin could be very problematic and complex for technical provisions calculated based on some GAAP reporting standards (technical provisions are not always calculated as a simple sum of best estimate and risk margin). This will result in necessity to recalculate Insurance Liabilities in a way proposed by IAIS which will increase significantly the complexity of BCR calculation.	
Institute and Faculty of Actuaries	United Kingdom	Comments are given in the Appendix C section below.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty	United States	See Q-2 General Comments on Executive Summary	

Organisation	Jurisdiction	Comments	
Company			
American Council of Life Insurers	United States	The move from book value to mark-to-market is a fundamental shift for life insurers that should be reconsidered over the period of BCR refinement. We strongly recommend that the IAIS continue to investigate alternatives, such as an approach based on assumptions that permit the use of a stable discount rate for the unobservable period of market inputs to avoid excessive balance sheet volatility.	
Liberty Mutual Insurance Group	United States	The selected best estimate approach is a very rough approximation of valuation. The BCR design is less able to satisfy its purported goal of comparability by using this approach to try to bridge the differences in accounting standards. The greater the number of proposed adjustments or accounting methods used, the less chance the BCR will satisfy the principle of comparability.	
Property Casualty Insurers Association of America (PCI)	United States	We agree with the provision in Annex C, paragraph 42, that for non-life insurers current GAAP valuations for insurance liabilities may be used, although discounting is not appropriate.	
National Association of Mutual Insurance Companies	United States of America	We urge further flexibility in the accounting model utilized for valuation purposes. After all since the BCR is a regulatory capital requirement the more conservative regulatory capital valuation basis should be allowed. This is especially important for companies that are organized under a mutual structure and other non-public companies. There are major differences among jurisdictions in accounting systems used in capital valuation of assets and liabilities. The BCR, HLA and ICS should account for these differences and allow the use of regulatory, GAAP or IFRS accounting systems. Since this BCR may apply beyond the nine G-SIIs currently designated and may be instructive in the development of the ICS, it is important to recognize the need for flexible accounting basis. All insurers in the United States file financial statements with their state regulators consistent with the U.S. Statutory Accounting Principles. Most mutual insurance groups that do not have a publically-traded affiliate file only statutory financial statements. Capital requirements prescribing a valuation approach that is inconsistent with the Statutory Accounting Principles would create an undue burden, and competitive disadvantage for U.S. mutual insurers found subject to the BCR or ultimately the ICS.	
Prudential Financial Inc.	United States of America	- The following language should be inserted between the current paragraphs 56 and 57: "As the BCR starts with the amounts reported in a G-SII's audited, consolidated, general purpose balance sheet, whether that be on a GAAP or IFRS basis, Current Estimates for purposes of the BCR balance sheet may follow the Current Estimate / best estimate standards established by these same accounting frameworks, to the extent the local measure results in comparable results, as determined in consultation with the G-SII's group-wide supervisor. In GAAP and IFRS, the standards for calculating best estimate liabilities are established by Loss Recognition Testing (LRT) and Liability Adequacy Testing (LAT) requirements, respectively. These and other best estimate liability	

Organisation	Jurisdiction	Comments	
		constructs established within existing accounting / solvency regimes are permissible for purposes of constructing the BCR balance sheet, to the extent the measure results in comparable results, as determined in consultation with the G-SII's group-wide supervisor. For companies which do not produce GAAP/IFRS financial statements or otherwise do not have a framework under which to produce best estimates, the standards below define the calculation requirements." - Par 56-59 - While the narrative in these sections is constructive, it breaks down in the description of how to calculate the Current Estimates (particularly paragraph 43 in Annex C). We agree G-SIIs should start with reported, audited, consolidated, general-purpose balance sheet, whether IFRS or US GAAP. We support adjustments from these standards for comparability where such adjustments are reasonable and justified, considering proportionality. We continue to have concerns regarding specific aspects of the Market Adjusted balance sheet in terms of their unnecessary and subjective departure from GAAP/IFRS. - Par 56-60 - Use of a Market Adjusted Valuation Approach, and in particular the construction of the IAIS discount curve for liabilities, combined with market values for assets, will lead to significant volatility and pro-cyclicality in BCR ratios. We note that there is only a partial adjustment for volatility, through an overly conservative spread incorporation into the discount curve used to value Current Estimates of insurance liabilities. In most cases it is these Current Estimates which serve as the basis for the required capital factors for insurance liabilities in the BCR. Further, 55% of the capital charge (based on the preliminary calibration) is due to assets which are fair valued. As previously mentioned, this could produce non-intuitive and problematic results. - Par 57a - Valuation consistency: As described above, invested assets backing BEL should be valued consistently with BEL. This reduces the risk of large temporary/non-economic swings in available capital. - Par 60 - We thank the IAIS for recognizing that "the key difference in the IFRS or GAAP valuation and the market adjusted valuation of insurance liabilities is due to the recognition of the margin over Current Estimate in equity." It follows then, that much of the detail prescription in the BCR, to the extent that it deviates from US GAAP or IFRS, is immaterial and could be ignored under the IAIS's "proportionality principle." This includes guidance pertaining to technical details such as non-qualifying reinsurance, contract boundaries, expenses to include in Current Estimate valuation, data quality and assumptions, etc.). Even the differences due to liability discounting are dwarfed by the impact of MOCE and could be considered under the proportionality principle.	
CNA	USA	Valuation - It is our belief that a market adjusted valuation basis does not appropriately reflect the economic realities of our business and introduces significant volatility to our capital management structure for no other reason than a desire for unachievable precision with hopes of having true comparability. From our prospective this precision is unnecessary and exceedingly costly to implement and maintain. We would suggest that for both the BCR and ICS the IAIS make only high level adjustments to the group's audited GAAP or statutory financials statements which would achieve comparability at a high level. It is our belief that such comparability should be sufficient to identify groups operating outside the norms.	

Organisation	Jurisdiction	Comments	
Metropolitan Life Insurance Company (MetLife)	USA	Paragraphs 51 - 60 Valuation Principles See comments at Q5 above	
NAIC	USA	The NAIC understands using the Market Adjusted Valuation Approach for expediency during the initial testing of the BCR. However, it remains extremely unclear as to whether this metric will in fact be widely utilized globally for insurance liabilities; at present, there are very few countries using it, and even after the implementation of Europe's Solvency II, greater than 50% of the world market (by premium) is not currently scheduled to use it. Consequently, this qualified use of the market adjusted approach should not extend to the ICS, or indeed to any longer term implementation or expanded application of the BCR. (See our related comments on Annex C). Additionally, applying market consistent approaches to long term insurance portfolios creates a situation where small mis-estimates in yield curves decades into the future can cause material and significant volatility that will likely disincent long term insurers from providing the types of long duration guarantee business that ageing populations need for retirement security. The market adjusted approach is therefore particularly inappropriate for use for insurers with significant long term business portfolios."	
Northwestern Mutual Life Insurance Company	USA	Currently, insurers in the US avoid the harmful distortions previously noted because our regulatory valuation provides for a consistent approach to asset and liability valuation using a proper combination of the measurement techniques reflected in the IAIS Insurance Core Principle (ICP) 14 - Valuation. We've reached the conclusions noted above because we have monitored, tested and evaluated this issue for many years. Part of that work involved identifying refinements intended to make a market consistent approach less damaging than it would otherwise be. In our view, even with the following refinements, the approach the IAIS is taking with BCR valuation will be unnecessarily harmful to consumers and issuers of long term life insurance contracts in jurisdictions like ours. Discount rate tailoring increases precision and lessens distortion - As we noted in our comment and example for the ICS, the valuation of long-term liabilities (to be settled decades into the future) is very sensitive to small movements in discount rates derived from the yield curve, particularly the longer end. A modest error in the choice of rates can materially overstate or understate the capital strength of the insurer from period - to - period. A capital standard which is not flexible enough to allow the liability valuation to be tailored to an insurer's diverse array of insurance business lines, market places, legal regimes and organizational structures will drive them to withdraw some products, raise prices on others, conform their investment approaches thus increasing concentrations while constraining capital market participation and discourage the evolution of products to meet changing consumer demands, putting long duration products used for consumer financial security, in particular, at risk.	

Organisation	Jurisdiction	Comments	
		Participating contracts - To properly value the liabilities for contracts with discretionary and participating features, a principle should be added which allows the use of a discount rate that fully reflects the asset and other risk dependency of such features (similar to the IASB Exposure Draft on insurance contracts). Paragraphs 35 and 36 of Annex C appear to require the inclusion of discretionary cash flows in the liability valuation. Paragraphs 44 through 58 of Annex C require IAIS-specified discount curves and states "the main objective of applying IAIS specified discount curves is to improve comparability." Many insurance contracts include provisions for the policy owner to participate in the investment, underwriting and expense performance of the company through dividends (also known as bonuses) or crediting rates that depend significantly on the investment performance of assets supporting the contracts. When participating contracts have significant discretionary payments, and those payments are included in the projection of cash flows, the liability takes on characteristics of the assets backing the liability and the discount rate must reflect that dependence to obtain a proper valuation. Paragraphs 44 through 58 do not appear to make provision for such an adjustment. As a consequence, the liabilities for many participating contracts will be significantly overstated and Qualifying Capital Resources will be significantly understated thus significantly understating the BCR Ratio. We understand that regulators are tempted to stipulate the discount rates used by companies in an attempt to better control the valuation outcomes and satisfy a goal of comparability. However, without the principle and resulting adjustments noted above, which would be unique to each company offering participating contracts, the valuation of these participating contracts will be materially misstated, along with the resultant BCR capital ratio. Outliers and Extrapolation - Care must be taken when requiring market base rates in markets that are not deep or liquid. Use of outlier discount rates observed from isolated transactions at certain points on the yield curve can result in misleading volatility and questionable liability valuation. In these cases, the outlier should be ignored in favour of a longer term average for that part of the yield curve. Care must also be taken when extrapolating rates for points beyond the observable yield curve, generally 30+ years. As long-term rates are generally mean reverting, it is accepted practice to grade to a long-term average for points beyond the yield curve. Any regulatory capital standard that relies upon best estimate liabilities should preserve such a practice.	
The Travelers Companies, Inc.	USA	We believe that the market adjusted valuation for P&C insurance liabilities is not relevant to insurer solvency and cannot be calculated in a reliable manner. Additionally, there is no reliable mechanism to back test the market valuation given there that is no market to trade insurance liabilities. We note the Financial Accounting Standards Board has decided to not require discounting and risk margins as investors deemed the information to not be relevant given the current disclosures. In general, we believe that the BCR proposal is too reliant on a hypothetical market-consistent balance sheet and should be more focused on	

Organisation	Jurisdiction	Comments	
		cash flows and the stresses that can impact those cash flows.	
6. - General Comments on Impact on G-SIIs and potential G-SIIs			
Canadian Life & Health Insurance Association Inc.	Canada	No Comments.	
European Insurance and Occupational Pensions Authority	EU	EIOPA is supportive of the general target as specified by the IAIS (BCR targeting between the upper and lower thresholds for supervisory intervention). Given its very simple and straightforward nature, the BCR is prone to material errors by not entirely capturing the risk components or the risk mitigation elements used by insurance groups. To minimize the potential wrong incentives provided by the BCR measure, it should not be calibrated at a very high level. Currently, the primary focus should be on the refinement of the valuation basis and determination of qualifying capital resources before a well informed decision of the final calibration of the BCR could be taken ahead of its entry into force by 2019.	
Bundesanstalt fr Finanzdienstleistungsaufsicht (BAFIN)	Germany	Generally, BaFin thinks that BCR+HLA only makes sense if it results in some kind of additional requirement for G-SIIs due to their systemicness.	
The Life Insurance Association of Japan	Japan	We think it is difficult for us to understand the impact on G-SIIs and potential G-SIIs at this stage, where policy measures applicable in the breach of the combination of the BCR plus the HLA remain unclear. Please refer to our views at this stage stated in the response to Q 21.	
Allstate Insurance Company, The Chubb Corporation,	United States	See Q-2 General Comments on Executive Summary	

Organisation	Jurisdiction	Comments
CNA Financial Corporation, Employers Mutual Casualty Company		
Prudential Financial Inc.	United States of America	None
6.1 - Comments on Calibration Level and Capital Resources		
Association of Bermuda Insurers and Reinsurers	Bermuda	We note that the actual calibration level will initially be determined after further analysis in July and August of information collected from field testing volunteers and may be further modified depending on the HLA requirements. We note paragraphs 61-65 which discuss calibration levels. Paragraph 62 suggests that by targeting the BCR for GSIIs between the upper and lower thresholds for supervisory intervention (e.g. typically between the PCR and MCR), frequent breaches are not expected assuming normal business conditions. In relation to an earlier proposal by the IAIS to have IAIGs ICS pegged to the PCR level (higher than for GSIIs) we note that this would make the ICS set at a higher level and this is not consistent with a simple, minimum base line capital requirement and the key principle as stated in paragraph 3 states that "the key principle is that GSIIs should be required by their group-wide supervisors to hold higher levels of regulatory capital than would be the case if they were not designated as GSIIs". We find the paper to be inconsistent and not clear given the stated principles and the proposal. As stated previously, the IAIS should clarify that capital charges imposed via national legislation might already suffice and therefore would not effect a capital increase. Again, the paper does not present a clear and consistent approach vis-□is regulatory objectives and capital standards. We would support creation of an ICS at the minimum capital level. In the development of a group capital assessment we would support a simple, minimum, base-line risk based capital measurement that can provide an illustration of a group's minimum regulatory capital needs, affords a basis of comparison amongst international groups and focuses on a minimum or floor capital requirement that if breached would be the basis for regulatory discussion. Paragraph 3 states that "when finalized, the ICS will replace the BCR in its role for the foundation for HLA. " If the BCR is to be replaced by the ICS then it would make sense to follow the same IAIS BCR principles for the development of the BCR which include: major risk categories; comparability of outcomes across jurisdictions, resilience to stress; simple design and presentation; internal consistency and optimize transparency and use of public data.
Canadian Life & Health Insurance	Canada	#62 - We believe more clarity is needed on the calibration target for stakeholders to meaningfully comment on the BCR in the absence of information on the actual level of the alpha scalar.

Organisation	Jurisdiction	Comments	
Association Inc.			
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(62) The calibration level should be carefully considered in order to avoid interference with sound risk management principles and unfairly discriminate against G-SIIs with substantial operations in both life and non-life insurance. (62, 64) It would be desirable to understand the degree of dispersion about the averages quoted and what might be the reason for such dispersion.	
European Insurance and Occupational Pensions Authority	EU	Overall, the current calibration level of the BCR seems appropriate, subject to further development and refinement until its final implementation. Please refer also to the comments to Q. 3.1. Concerning the calibration level against Capital Resources, EIOPA would like to reinforce the comments made previously, namely in Q.4.4. Given the simplification adopted for the first field testing exercise and the significant areas which still require further work by the IAIS (e.g. the issue of MOCE), the capital position reported by G-SIIs in the first Field Testing exercise is not necessarily representative of their long term position. Furthermore, insurance business is traditionally well capitalized, which means that insurers will usually hold more capital than the minimum required by the supervisory frameworks. This should not be perceived as implying that the level of capital requirements is necessarily low, but rather as a characteristic of the insurance business model and the way insurance companies are normally managed.	
Insurance Europe	Europe	62 Insurance Europe notes that the conclusions put forward by the IAIS regarding, for example, the ratio between BCR and prescribed capital requirement (PCR) are based on a (fixed) 100% alpha scalar. However, we understand that alpha is subject to change and will be further assessed, including during the development of the HLA. The lack of clarity on the precise role, methodology and variability of the alpha scalar makes assessment of results difficult. Insurance Europe would welcome more details on how the PCR and the minimum capital requirement (MCR) were mapped to the various measures in the local regimes.	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 62: We urge the IAIS not to calibrate the BCR to a level which is higher than the mentioned 73% of the G-SII-PCR. As a consequence, we believe that the alpha scalar, which has no scientific foundation and is apparently incorporated to preserve some leverage on the calibration, should be abandoned. Higher levels are not appropriate for simple and less sophisticated model such as the BCR and could lead to adverse incentives regarding the risk-management and capital allocation.	
The Life	Japan	We understand that G-SIIs are required to have HLA. This public consultation provides an opportunity for comments on the BCR proposal	

Organisation	Jurisdiction	Comments	
Insurance Association of Japan		which serves as a basis for the application of the proposed HLA. Thus, given that the development of the ICS will be informed by the BCR, if the levels of the basis including the ICS were set at excessively conservative levels, we are concerned that insurers' capital efficiency might be decreased, and that insurers' management might pursue risk-averse behavior, leading to negative impacts such that the interests of policyholders and investors would be significantly reduced. Therefore, we would very much appreciate if the IAIS will take this into account in future discussions. In addition to our concerns stated above, we think that the BCR will result in a limited approach in closely assessing insurers' risks, due to its simple structure. Therefore, we believe that care should be taken in setting the required capital at excessively conservative levels.	
The Central Bank of the Russian Federation	Russia	BCR Calibration Current proposal: BCR is targeted between the Minimum capital requirement (MCR) and the Prescribed capital requirement (PCR). For volunteers which are G-SIIs, the reported total Qualifying Capital Resources represent 427% of the proposed BCR for those volunteers and the core Qualifying Capital Resources represent 376%. Our comment: We believe that at this point it is not appropriate to assess the calibration of the BCR for the following reasons: 1. HLA requirements, which are supposed to be applied together with the BCR, are only under development; 2. Assets and liabilities valuation principles have not been finalized yet; 3. Final decision on the qualifying capital resources to be assessed against the BCR required capital as not been made. At the same time we consider that the BCR should dominate within the structure of the capital requirements, and the HLA should not be too high (it should not be multiple of BCR). Therefore, in our opinion, the suggested BCR level (which is approximately four times less than the capitalization of the insurers having participated in the field testing) is too low to be an international regulatory standard. Capital requirements to insurance companies should be comparable with capital requirements to banks. When the requirements are lower, there are possibilities for the regulatory arbitrage. As well, we suggest applying discounted cash flow method to the valuation of assets and liabilities where applicable.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers	United States	See Q-2 General Comments on Executive Summary	

Organisation	Jurisdiction	Comments	
Mutual Casualty Company			
Institute of International Finance - IIF	United States	Section 6.1, Question 21, (Paragraph 62 page 20) Paragraph 62 sets the example of the average percentage of PCR that the BCR will be where the alpha scalar of 100% is applied, but does not indicate how certain this level is, whether this may change, or the circumstances in which it may change. The lack of clarity on these points makes meaningful impact assessment impossible. It is noted in paragraph 10 that the alpha scalar in the formula can be adjusted to target a specified confidence level. Given that the factor values for the proxy measures of risk exposures have been calibrated to achieve a certain level, and presumably may be adjusted in arriving at final recommendations, or subsequently depending on HLA requirements as indicated in paragraph 4, it is unclear what purpose alpha scalar serves. We would recommend that the alpha scalar is removed from the formula once the calibration of the initial factor values has been concluded.	
Liberty Mutual Insurance Group	United States	The information in Paragraph 64 is particularly illuminating. Field testing volunteers have capital that is over 400% of the proposed BCR. This proves the point that insufficient capital is simply not an issue in the insurance industry, as many observers have said of the IAIS' decision to develop capital standards. Supervisors should reflect on these findings and reconsider whether the time and expense of developing a quantitative global capital standard is a worthwhile use of supervisory resources.	
Property Casualty Insurers Association of America (PCI)	United States	We appreciate the discussion of the impact of the BCR on G-SIIs and other field testing volunteers. The amount of the scalar is obviously important here, and also the size of HLA factors and the additional capital load they will require. We continue to urge that the BCR be a minimum capital standard (or MCR), given its imprecision and potential for interference with a group's capital decisions.	
Prudential Financial Inc.	United States of America	- Par 62 - Pro-forma industry BCR ratios quoted appear to be favorable, but this assumes that the IAIS would use a scalar of 100%. Since the level of the Alpha (scalar) factor level is unknown and perhaps subjective BCR might become binding (especially with HLA added). Using a higher scalar or moving MOCE from Available Resources to Technical Provisions could lead to the BCR being binding, in which case the volatility and pro-cyclicality issues noted above would become that much more significant. We have concerns with the subjectivity that is implied within the Alpha factor. It appears that from year to year or period to period that the scalar factor will be decided in a non-transparent	

Organisation	Jurisdiction	Comments	
		and will not be known by the G-SIIs until after the supervisor completes the calculation.	
American International Group (AIG)	USA	Margin over current estimate (MOCE) The full inclusion of MOCE (the margin over best estimate liabilities) as a component of Qualifying Capital Resources would, in AIG's view, tend to undermine the rigor of the BCR framework by virtue of its sensitive dependence on actuarial approaches. Such inclusion runs contrary to the BCR's appropriate emphasis on simplicity, comparability, and resilience to stress. These concerns are amplified by the potentially significant impact that MOCE would have on the BCR ratios; as noted by the IAIS, MOCE would account for about 38% of G-SII Core Capital on average, based on the Field Test results. The MOCE is estimated through a computationally-intensive company-specific actuarial process, which can generate significantly different results based on relatively subtle changes in assumptions. Including MOCE as a component of capital therefore infuses this complexity and variability directly into the BCR capital ratios. During periods of stress, both supervisors and market participants rightly focus on an institution's capital position as defined by the purest, strongest forms of loss absorption, and are unlikely to place significant credence in the MOCE component of reserves. Although the MOCE does provide valuable loss absorbing properties, it is, in our view, unlikely that during a stress period these properties would be accepted by market participants, policyholders, and regulators as tantamount to those of true equity capital. As an embedded component of a defined reserve, the MOCE, unlike equity capital, is not capable of absorbing losses beyond its defined purpose. The IAIS should work to develop an economically appropriate treatment of MOCE that reflects both the benefits and limitations of its loss absorbing properties and that accounts for the likely variability and inherent opacity of individuated calculations in the estimation of MOCE across firms. A thoughtfully designed BCR should not be dependent on MOCE.	
NAIC	USA	Annex F, Paragraph 13 includes the following goal for rough calibration of the BCR: "Calibration was then carried out consistent with the objective of the targeting the BCR between the upper and lower thresholds for supervisory intervention (e.g. typically between PCR and MCR)." This is reinforced in the opening to paragraph 62. Given that the goal was a BCR that is frequently below jurisdictional PCRs, it appears that the rough initial BCR falls exactly where it was targeted using an alpha of 1. In addition, the average BCR/ PCR ratio is not indicative of the range of results and it is suggested that information on the range be provided after all initial refinements are made. Therefore, NAIC reiterates its support for maintaining the alpha at no more than 1 (also see our general comments regarding the alpha). Jurisdictional PCRs must be normalized to reflect consistent measure of loss absorbency: - Consistency in whether jurisdictional PCR is provided pre or post diversification benefits must be established.	

Organisation	Jurisdiction	Comments
		- In addition to moving reserve conservatism (e.g. MOCE) to capital resources, MOCE could also be recognized as an element of jurisdictional PCR in order to reflect the excess loss absorbency that is locked in insurance liabilities proxies (this is related to the accuracy of the current estimate) presented in developing and applying the BCR factors.
The Travelers Companies, Inc.	USA	It is difficult to comment on the calibration, since the proposal lacks a clear rationale linked to solvency for the calibration.
6.2 - Comments on Reporting and Applicability		
Canadian Life & Health Insurance Association Inc.	Canada	We wish to reiterate our comments in our answers to other Questions, of the importance of confidentiality and our recommendation that the IAIS consider the use of a three year moving average for the BCR ratio.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(66) We welcome the intention for confidential reporting although it is expected that there likely will be pressures on the G-SIIs to disclose their BCR coverage ratio in due course. We support that the IAIS will review the suitability of the BCR factors over time. Clear governance and targets for the recalibration should be communicated to avoid arbitrary update and unpredictability for the G-SIIs which would make capital management difficult.
European Insurance and Occupational Pensions Authority	EU	As previously stated, EIOPA believes further detail is necessary to understand how the envisaged refinement process of the BCR is intended to be developed.
Insurance Europe	Europe	66 Insurance Europe welcomes confidential reporting of results for individual companies in the transitional period. Insurance Europe would also appreciate more clarity regarding the purpose of such reporting (given that the BCR without the HLA does not provide meaningful information) and also more clarity on which aspects on the BCR are expected to be revised over time.

Organisation	Jurisdiction	Comments	
		We believe that the IAIS should recognise that there may be other aspects, apart from the BCR factors, that may need to be changed over time. We reiterate the need to understand how the proposed measures work under stress conditions and we believe that it cannot be assumed that the next few years will provide a fully appropriate basis for testing.	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 66: Although we appreciate that confidentiality of BCR-reporting is ensured, we still fail to see which purpose this information should serve given that the BCR has no independent function. If the group wide supervisor envisages a recalibration due to changed market conditions or alterations in the G-SII-population, clear goals should be communicated and adequate involvement of the G-SII needs to be ensured.	
The General Insurance Association of Japan	Japan	Taking the workload into consideration, we would like to propose that the frequency of BCR reporting be limited to once a year at the end of each fiscal year.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
Institute of International Finance - IIF	United States	Section 6.2 Question 22, (Page 20) BCR reporting - We welcome the confirmation that BCR will remain confidential reporting to supervisors until 2019 and would strongly suggest this is made clear in the final proposals to manage market expectations in this regard. We would suggest an annual frequency of	

Organisation	Jurisdiction	Comments
		BCR reporting. We would also note that a full bottom-up implementation of the BCR proposals would not be possible for Q2 2015 for all insurers even if the requirements were already finalized. Thus, to make future field testing meaningful, we would request that discussions regarding the specifications for next year begin as soon as possible.
Liberty Mutual Insurance Group	United States	Again, Liberty Mutual agrees information related to capital standards should be reported on a confidential basis.
Property Casualty Insurers Association of America (PCI)	United States	We agree that the BCR should be reported on a confidential basis, at least initially and on an ongoing basis until the formula is subject to much more field testing and adjustment.
American Insurance Association	United States of America	Some aspects of the BCR Proposal also raise confidentiality concerns. For example, while the IAIS proposes that the BCR will be reported to supervisors on a confidential basis, it will be "subject to access by the IAIS for refinement purposes (if relevant)." (6.2.66). We are troubled by the idea that the IAIS, which is not itself a regulator, will have access to confidential BCR reports, and concerned by the lack of clarity about who would determine the "relevancy" of IAIS access. The Proposal must also clearly state that the IAIS must never store any confidential information that may be shared. Further, the IAIS promises that it will maintain "appropriate governance and security arrangements to protect the confidentiality of the information collected." (6.2.66). Again, there is no clarity about what "appropriate" might mean, and who is responsible for determining whether the definition is met. Considering the value of the BCR information to the companies providing it, the IAIS must provide a more robust and well-explained confidentiality regime, perhaps by demonstrating to the relevant group supervisor that it has appropriate security protocols in place before the group supervisor passes along any supervisory information. We agree with BCR Principle 6, which calls for optimizing the use of publicly available data. (Annex A). The more BCR development can rely on publicly-available data, the easier it will be for companies to comply, and the more transparent, and therefore legitimate, the development process will be to those non-G-SII stakeholders not directly affected by the BCR. This principle, however, is in some ways at odds with a proposed revision of the BCR Principles in another part of this Proposal. Section 3.7.45 states, "…transparency would be improved if all G-SIIs were required to publish the specified components of the BCR calculation, after the period of confidential reporting ends." Requiring G-SIIs to publish information is not the same as relying on "publicly available" information. It is the creation of a new data reporting burden. For that reason, we oppose any plan to require the G-SIIs to publish information beyond that which they are already required to make public by their functional supervisors.

Organisation	Jurisdiction	Comments
Prudential Financial Inc.	United States of America	- Par 66 - Both company and aggregate G-SII BCR results should remain confidential, especially since the IAIS expects to replace it with a more finely calibrated ICS. Since the BCR is crude, annual reporting should suffice. The IAIS must clearly and definitively state that confidential reporting and applicability will last until at least 2019. Group supervisors, the IAIS and G-SIIs should use the "confidential consultation" period as a time to refine and further clarify the BCR and understand its interactions with existing or evolving regimes.
NAIC	USA	It seems unlikely that the BCR alone would require implementing since the NAIC does not view BCR as a capital standard on its own. It is only a standard for G-SIIs in combination with HLA. This paragraph will be more appropriate when the HLA Paper is issued. In any case, it is suggested that the word "legislative" be removed from the paragraph.
The Travelers Companies, Inc.	USA	We believe that if this is required, it should be confidential. There could be serious consequences to companies if the results were made public since those not involved in the process might not understand how the BCR was calculated and would not be familiar with its limitations.
6.3 - Comments on Implementation of the BCR		
Canadian Life & Health Insurance Association Inc.	Canada	Although we recognize the ability of the IAIS to control the timing of implementation of the BCR in various jurisdictions, we do recommend the IAIS take actions to try to influence such result. One means we recommend is to extend the period of confidentiality of results until all relevant jurisdictions adopt the BCR.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(67) Attention should be made on the enforcement to ensure a level playing field for the G-SIIs.
European Insurance and Occupational Pensions Authority	EU	As previously stated, EIOPA believes further detail is necessary to understand how the IAIS envisages to ensure a consistent application of the BCR across jurisdictions.
Insurance Europe	Europe	67 The paper notes that implementation of the BCR is the responsibility of each jurisdiction. Insurance Europe would welcome clarification as to

Organisation	Jurisdiction	Comments	
		whether the IAIS will play a role in ensuring the BCR is implemented and applied consistently across jurisdictions. Insurance Europe believes it's very important that any new regulation covering G-SIIs is implemented consistently across the globe. Only a consistent application of requirements can ensure an appropriate implementation of the FSB proposed measures for addressing systemic risks. At the same time Insurance Europe realises that implementation of BCR/HLA could require changes in national laws, which would trigger political scrutiny. It would therefore be important to know whether the IAIS has sought political agreement on the implementation of the proposals and whether it has agreed a coordinated implementation timetable with the G-SIIs' jurisdictions.	
Bundesanstalt fr Finanzdienstleistungsaufsicht (BAFIN)	Germany	Further details are needed on how the IAIS envisages to ensure a consistent implementation of the BCR+HLA requirement across jurisdictions.	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 67: Consistent and uniform implementation of the BCR across jurisdictions is paramount. However, neither the FSB nor the IAIS have the legal means to ensure this. Therefore, thought should be given to provide incentives to jurisdictions. Moreover, there should be a concept how to maintain proper implementation under scrutiny and how to proceed of certain jurisdictions are reluctant to implement.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	

Organisation	Jurisdiction	Comments	
Institute of International Finance - IIF	United States	Section 6.3 Question 23, (page 20) A primary objective for the BCR is to provide a basis for comparability among G-SIIs and across jurisdictions. We support comparability to the extent it can be achieved and contributes to a level playing field. However, we would suggest that one key element to achievement is consistent implementation across the globe and would further suggest that this key objective be referred to in any final standard issued by the IAIS. What is more, we believe it is important to recognize that the BCR must be implemented by competent authorities in relevant jurisdictions, and that to the extent the BCR differs from existing prudential frameworks, changes in law that require legislative action and which would thereby draw political scrutiny may be required. A further competitive issue is that introducing new rules specific to G-SIIs (e.g. capital charge on financial and non-financial services referred to para 42 and 43 of the consultation) might severely distort competition with non-G-SIIs who will not be subject to the same rules. If the intention is for the BCR to be incorporated into national prudential regimes through legislative amendments, it would be helpful if the IAIS could further clarify: - Whether it has sought political agreement, at least in the jurisdictions of the nine G-SIIs on the implementation of the proposals; and - Whether it has agreed a coordinated implementation timetable has been agreed amongst the regulators of the 9 G-SIIs to ensure a comparable and level playing field We recognise the challenges of developing a globally aligned capital standard and the fact that this cannot realistically be achieved in a single step.	
Liberty Mutual Insurance Group	United States	The IAIS assumes the BCR will be approved by the FSB and endorsed by the G20 Leaders Summit. Given the serious design flaws in the current BCR this view may be unrealistic. The IAIS correctly states that the "responsibility for implementation of the BCR will be held by the relevant legislative authorities in each jurisdiction." There is no indication that the IAIS has given any critical thought as to how that will be achieved. Consequently, little attention is currently being paid to ensuring that development of the BCR, much less any future ICS, will occur in a way that will attract broad support from legislative policymakers.	

Organisation	Jurisdiction	Comments	
Prudential Financial Inc.	United States of America	- Par 67 - It is important for the IAIS to acknowledge that the BCR (and all other G-SII policy measures) are global standards; not binding regulations. For any global regulatory standard to be credible it must be implemented across all impacted jurisdictions. BCR, HLA and ultimately ICS must include the flexibility for national policy makers and supervisors to apply jurisdictional official/supervisory discretion to make certain that the standards meet local requirements and market specificities. As such paragraph 67 should be amended to read: "Once the BCR has been approved by the FSB and endorsed by the G20 Leader Summit, responsibility for implementation will be held by the relevant legislative and/or supervisory authorities in each jurisdiction. Jurisdictional authorities have the discretion to implement the BCR in such a manner that avoids conflict with or duplication of requirements in national regimes, competitive imbalances, and/or negative impact on the provision of socially important products/services. Such discretionary decisions must however not materially alter the level of comparability sought by the underlying BCR standard."	
American International Group (AIG)	USA	Alignment with prospective US and European requirements We consider that it is essential that the BCR and related IAIS capital initiatives be designed and administered in a way that allows them to accommodate and align with the consolidated capital standards that the Federal Reserve is developing for non-bank SIFIs in the United States, as well as with those developed for Solvency II in Europe. We believe that regulatory harmonization of the evolving consolidated capital standards applicable to the insurance industry should be one of the paramount goals of the IAIS project. AIG believes that it is important for policymakers and other stakeholders in the BCR process to achieve similar and comparable conservatism in capital standards, when existing national regulatory regimes and accounting standards differ both technically and conceptually. The use of a market-adjusted valuation (MAV) balance sheet to bridge these jurisdictional differences, despite its drawbacks, provides a temporary expedient to promoting a more consistent valuation basis for calculating an interim BCR across insurers globally, until the promulgation of the ICS. It is important to bear in mind that a MAV balance sheet is not consistent with how AIG or the other U.S. carriers manage their businesses, risk profile, and reporting to stakeholders (whether shareholders or policyholders). A MAV balance sheet cannot be audited by our accountants. A MAV balance sheet diverges materially from the extensive financial reporting mandated by law by our numerous sovereign regulators and the public securities markets. While such a synthetic balance sheet can, in our view, be a useful regulatory tool, it is not a substitute for the native and auditable financial disciplines imposed by existing accounting and regulatory conventions.	
The Travelers Companies, Inc.	USA	We believe that implementation will be a significant issue since it is unlikely to be adopted in all jurisdictions if it is deemed to have no predictive value, and if a jurisdiction's current regulatory standards are effective or superior to the proposed standard.	

Organisation	Jurisdiction	Comments
7. - General Comments on Communication plans and next steps		
Association of Bermuda Insurers and Reinsurers	Bermuda	Given the nature of the BCR Paper, does the IAIS intend to publish the finalized BCR proposal in advance of it being sent to the G-20 Leaders Summit. Will we know the details of the IAIS and FSB agreement of the details of the BCR? Paragraph 69 suggests that the BCR will be published FOLLOWING endorsement by the G-20 in November.
Canadian Life & Health Insurance Association Inc.	Canada	We wish to reiterate our comments in our answers to other Questions about the importance of confidentiality and our recommendation that the IAIS consider the use of a three year moving average for the BCR ratio.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	(68-71) The timetable appears to be ambitious. In order not to constrain the development of the HLA it is important to open the BCR for further refinements.
European Insurance and Occupational Pensions Authority	EU	EIOPA supports the publication of the Field Testing documentation and Summary Results, for the reasons highlighted in the Consultation Document. Please refer also to our comments to Q.2.3.
Insurance Europe	Europe	68 Insurance Europe believes that the following points are worth noting in order to improve data quality in future field testing exercises: i) specifications should be provided much earlier than was the case for the BCR field testing; ii) reporting should be only on an annual basis, and iii) there should be a commitment for increased consistency between data calls for G-SIIs designation and ICS /BCR field testing.
The Life Insurance Association of	Japan	This consultation document states that the actual calibration level will be determined after further analysis in July and August of information collected. Although we do understand the tight timeframe for the development of the BCR, we expect the IAIS to provide us with opportunities to input insurers' views in some way.

Organisation	Jurisdiction	Comments	
Japan		Furthermore, we want the IAIS to keep in mind that a 30-day comment period is too tight for us. We urge the IAIS to please provide sufficient comment periods for expected public consultations from now on.	
North American CRO Council	North America	The CRO Council Urges the IAIS to Evaluate Alternatives as the Global ICS is Developed The CRO Council believes that alternative approaches to the current market adjusted valuation should be evaluated for the ICS. The CRO Council is developing alternative approaches to the current constructs proposed by the IAIS, which address our concerns around market adjusted valuation, and which more appropriately reflect the underlying risks of the insurance group. In the coming weeks, the CRO Council intends to provide the IAIS with further details about one or more alternative approaches and how they can work in practice. The CRO Council recognizes the BCR is intended to be of limited scope and only applicable for those companies assessed to be G-SIIs, but it will be an important step in developing the ICS and it will impact the industry. The CRO Council believes the BCR Consultation Paper contains certain elements that can be used in the development of the global ICS. As an example, Annex C contains many sound principles on cash flow modeling that can be leveraged in developing alternative approaches to the ICS in instances where existing regimes do not already provide sound principles for valuing insurance liabilities on a best estimate basis. In addition, the CRO Council strongly agrees with the IAIS' recognition of the importance of incorporating diversification and asset liability management explicitly within the ICS. The CRO Council also appreciates the emphasis the IAIS places on policyholder protection, and believes the ultimate goal of a global capital standard should focus on policyholders.	
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	It is not clear what data should be used to calculate BCR in January 2015. One month from the end of the year (when the reporting day is 31/12) seems to be very short deadline to prepare consolidated balance sheet and calculate e.g. Insurance Liabilities.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers	United States	See Q-2 General Comments on Executive Summary	

Organisation	Jurisdiction	Comments	
Mutual Casualty Company			
Institute of International Finance - IIF	United States	Section 7 Question 24, (Page 21) a) In light of the compressed timetable even for the HLA, we wonder whether the IAIS has already given some thought to the overall calibration of the BCR+HLA. We have a question mark with the understanding of the statement in paragraph 4 of section 1.1 of the consultation: "From 2019, G-SIIs will be required to hold capital in excess of the BCR plus HLA". We would appreciate that IAIS confirms that this sentence merely states that the Available Resources are not under the BCR+HLA threshold. b) We fundamentally disagree with the statement in paragraph 3 of section 1.1: "The key principle is that G-SIIs should be required by their group wide supervisor to hold higher levels of regulatory capital than would be the case if they were not designated G-SIIs". We continue to maintain that our industry is well capitalised and that the addition of capital is purely punitive of size and geographical scope and affords little if any additional protection to markets or policyholders. Our thoughts on this are well-documented. c) While we appreciate that the design of the HLA might still require some work and that the consultation scheduled by year-end will provide additional insight, we were expecting some preliminary views from the IAIS on the consequences of the classification of the liabilities or certain off balance sheet items in "traditional" and "non-traditional" clusters. For example, the CD is silent on derivatives, repurchase agreements and securities lending. To the extent they are considered as traditional, will they be taken into account implicitly in the calibration of the BCR? We also note that the stated aim of HLA referred to in paragraph 50 (page 17) of the CD seems to put emphasis on only part of the purpose of HLA, (i.e. focus on reduction of probability of failure) as set out in the policy measures paper of 2013. We are concerned that other aims should not be over-looked, in particular the primary focus to apply HLA to surgically identified systemic activities not to traditional insurance business (i.e. link between HLA and NTNI).	

Organisation	Jurisdiction	Comments	
Liberty Mutual Insurance Group	United States	The proposed time frame for the development of the ICS is not realistic, particularly given the complexity of the issues, as shown by the compromises the IAIS has made in designing the BCR. The resolution of those issues will be an even sterner challenge to the development of an effective ICS that is likely to be adopted and enforced in local jurisdictions around the world. Indeed, even if these issues could be resolved, the established goal that implementation of ComFrame, including an ICS, is "to commence" in 2019 ignores the practical legislative and political reality that implementation will face in each jurisdiction around the world. Liberty Mutual recommends that the development of the BCR, HLA, and ICS be slowed significantly and that the IAIS recommit itself to a collaborative process in which input from the industry is given appropriate consideration, even if that input is sometimes inconsistent with preconceived notions by some about how a new capital adequacy regime should be designed.	
Property Casualty Insurers Association of America (PCI)	United States	We appreciate the IAIS's plans to disclose the documents used for field testing data collection, and strongly urge release of aggregate summary results at the earliest possible time. We agree that individual company data must not be disclosed and that its confidentiality must be given the strongest possible protection. Early disclosure of key aggregate information, however, will help the IAIS establish whether the BCR is supported by the data provided in field testing.	
Prudential Financial Inc.	United States of America	- Par 68 - From the beginning, ComFrame Field Test Volunteers were advised that the entire exercise would be conducted on a confidential basis. Releasing field test materials including the confidential specifications and data templates is a contradiction of earlier guidance. In addition, since it is clear that the IAIS is still in the process of refining and adjusting data submitted on May 31, we believe that public release of the materials will create confusion and further misconceptions. While we do understand the need for transparency, we strongly urge the IAIS to prepare summary documents based upon the field test materials that offer the public and non field test stakeholders with the most pertinent information.	
Metropolitan Life Insurance Company (MetLife)	USA	Paragraph 68 Publication of Field Testing Documents and Aggregate Data The IAIS have made the argument that the current BCR provides sufficient context for release of this information and we would respectfully disagree. While we understand and fully appreciate the need for transparency of process, we would argue that releasing documents used for field testing data at this point is premature. Only one phase of an on-going field test is complete and it is quite conceivable that amendments to the field test documents will be made as subsequent data reveal adjustments to be necessary. For these reasons, release of documents at this point could be confusing to the public and result in unnecessary and inaccurate speculation on G-SII BCR ratios. Furthermore, we were advised that participation in this exercise would be on a confidential basis and we strongly object on principle to the release of even aggregate data.	

Organisation	Jurisdiction	Comments	
The Travelers Companies, Inc.	USA	We are concerned that the process is moving too quickly to produce a quality product.	
Comments on Annex A - BCR Principles			
Canadian Life & Health Insurance Association Inc.	Canada	In our submission to the first consultation on BCR, we provided suggestions for the Principles. We repeat our comments below verbatim and request again that the IAIS consider them. Elaboration would be useful regarding the meaning of the BCR "resilience to stress". In the extreme, if BCR does not move in response to shocks, it could be viewed as highly resilient but we do not think that this is the interpretation intended by "resilience". As we outline in more detail in our answers to subsequent paragraphs, we recommend ("Substantive") Principle 1 should be expanded to include the effects of risk mitigation, and secondly, we recommend establishing a fourth ("Substantive") Principle - BCR results should not be unduly volatile and pro-cyclical from period to period.	
EIOPA Insurance & Reinsurance Stakeholder Group	EU	No comments.	
International Actuarial Association	International	Principle 5 states a desire for internal consistency over time. If the Current Estimate is meant to have no margins, then looking forward to the ICS, the major challenge will be how to reflect changes in the volatility of the risks over time and across jurisdictions through the capital charge. A factor only based approach will be hard pressed to capture these.	
The General Insurance Association of Japan	Japan	(Para 3) It is stated that "The level of discretions that may be applied or introduced should be minimised across jurisdictions and over time", but it should be noted that each regulating authority should take leadership in directing how to apply the BCR principles to the jurisdiction-specific transactions or accounting treatments, provided that such methods can be reasonably explainable.	
The Life Insurance Association of Japan	Japan	In order to ensure that the ICS will reflect the reality of each insurer's risk, it is necessary to achieve an appropriate balance between the use of an insurer's internal model and ensuring adequate comparability. Thus, we would like the IAIS to provide the insurance industry with opportunities to exchange views thoroughly on this matter with the IAIS.	

Organisation	Jurisdiction	Comments	
The Central Bank of the Russian Federation	Russia	BCR should account for country differences so that its application does not have unintended consequences for particular groups of countries (EMDEs). As well, see answer to Q-2.2.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
American Council of Life Insurers	United States	With respect to BCR Principle #2, Comparability Across Jurisdictions: Solvency requirements create incentives and disincentives that drive behavior. In our opinion, the Market Adjusted Valuation Approach can achieve comparability only if all companies will be managing to optimize such a balance sheet, and we think this is unlikely to occur, as companies will continue to manage to jurisdictional and/or rating standards (Annex A, paragraph 3). We are concerned that the aggressive timeline is inconsistent with BCR Principle 3 (resilience to stress) because in order to meet the deadlines set by the IAIS, it will be adopted without understanding how it will interact with the Higher Loss Absorbency and how both measures will respond over time. We urge the IAIS to modify the timeline to permit an understanding of how the framework will perform under various economic environments, especially in relationship to the various national regimes, before moving forward (Annex A, paragraph 4).	
National Association of Mutual Insurance Companies	United States of America	The BCR principles are valid if one is considering global insurance group capital requirements in isolation of all other requirements. However, we would suggest that regardless of the insurance standard considered, the principles and goals established should focus on the basic needs of our customers. Policyholder protection and not creditor/investor protection should be the primary focus of insurance regulatory capital requirements. We urge the IAIS to recognize that it is in the best interests of policyholders if regulatory requirements supplement good management instead of disguising and protecting bad management. Looking at capital requirements in isolation of the entire spectrum of issues that impact customers is short-sighted. Instead of a focus on capital alone we would recommend an approach that recognizes a balance between capital requirements, insurance product availability, and guaranty fund systems for policyholders of companies that fail.	

Organisation	Jurisdiction	Comments
		The regulatory focus on insurance group instead of the insurance legal entity will impact policyholder and this should be addressed. In the U.S., obligations to policyholders, insurance experience rating, as well as capital and financial reporting requirements are all focused on the boundaries of the legal entity. A group capital requirement needs to be designed to prevent fungibility of capital that would allow movement away from the customers the legal entity insures. After all, the legal entity is underwriting and rating the individual policy based on its experience and financial position. The sanctity of the legal entity should be protected from risks arising both from the holding company level above the legal entity and the affiliate and subsidiary level below the legal entity. We believe it is important not to blur the lines between capital held by the legal entities within a group to avoid a loss of certainty for policyholders, regulators and companies.
Prudential Financial Inc.	United States of America	None
The Travelers Companies, Inc.	USA	If we assume that a global capital standard is useful, then we would not disagree with the principles. However, we do not believe that the principles have been met for P&C insurance since certain key risks are not addressed in the proposal, it is not comparable and the stresses were not relevant to the risks faced by P&C insurers.
Comments on Annex B - Glossary		
Canadian Life & Health Insurance Association Inc.	Canada	No Comments.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	No comments.
The General Insurance Association of Japan	Japan	As for "Basic (or Backstop) Capital Requirements', the official name should be decided.
Allstate	United States	See Q-2 General Comments on Executive Summary

Organisation	Jurisdiction	Comments
Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company		
Prudential Financial Inc.	United States of America	None
The Travelers Companies, Inc.	USA	No comments.
Comments on Annex C - Insurance Liabilities and Reinsurance Recoverables		
Canadian Institute of Actuaries	Canada	Our most significant concern with the consultation document is the prescription that the discount spot curve be flat after 30 years (paragraph 46 of annex C). Our understanding is that the prescribed discount curves have a direct impact on the valuation of insurance liabilities, and hence on the value of Capital Resources available to meet capital requirements. There is also a second-order impact on capital requirements, which are a factor applied against the current estimate of liabilities calculated in this manner. Our concern is that the discount rates used for years 30+ will, for several insurance entities, have a very material effect both on the available Capital Resources and on the capital requirements (i.e., both the numerator and the denominator, and in opposite directions, exacerbating the impact on the capital ratio). We would strongly encourage that the discount rates only be linked to the current market data for durations where the market is deep and liquid and in sufficient volume to be credible. Discount rates used for the period beyond the last liquid point of the observable spot curve should be graded (over a reasonably short period of time) to an ultimate discount rate at a duration that is prescribed. The ultimate discount rate should be developed giving more weight to long-term estimates than to short-term fluctuations. The ultimate discount rate would only be promulgated from time to time based on an updated long-term estimate. This would replace the proposal of a simple flat extension of the current 30-year spot rate.

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		As an example, assume that the current 20-year spot rate is the last liquid point observable with a rate of 3.5%, and that the long-term estimate is a rate of 5%. We would then suggest that the discount rates for the period beyond the last liquid duration of the observable term structure be prescribed to grade from the longest observable rate (3.5% at year 20) to a rate of 5% by year 30 or 40, for example, and then be level for all subsequent years. This seems to us consistent with the principle of calculating an unbiased current estimate of the liability, and simultaneously mitigates the undue volatility in the capital ratios. The Canadian Institute of Actuaries would be happy to support the development of long-term discount rate assumptions consistent with this approach. In addition, in paragraph 48, the meaning of the term "investment grade corporate bond" should be clarified. A possibility would be to refer to a specific rating category (or an average across two or more rating categories). This assumes that the discount rates will be derived by the insurance entities themselves, as opposed to being supplied by the IAIS indefinitely.	
Canadian Life & Health Insurance Association Inc.	Canada	#4 to #7 - As introduced in our answer to Question 1, it is crucial to ensure there is reasonable consistency in setting Current Estimates to achieve the goal of comparability. The principle of "probability-weighted average" is prone to disparate interpretations and judgments such as, referencing paragraph 7, how many scenarios are necessary to meet the standard of "all possible" scenarios, circumstances under which it is not necessary or even possible to explicitly incorporate all possible scenarios, use of "risk-neutral" vs "real world" scenarios, and whether one deterministic set of best estimate assumptions, which are derived in consideration of any asymmetries, should be acceptable (and will in practice be used as an expedient). We strongly suggest the IAIS provide more direction in this regard. #15 to #17 Given the wording in the BCR, it is possible that contract boundaries could be different across numerous reporting bases: Solvency II, IFRS 4, BCR, local statutory. Administratively, the costs of complexity exceed any benefits given the role of the BCR. We suggest the BCR merely states that the basis for contract boundaries in the GSIIs GAAP reporting be used. #44 - Consistent with our response to Question #18, we recommend the IAIS carefully consider emerging views on setting discount rates by various stakeholders, such regulators (e.g. our regulator OSFI), the International Actuarial Association, and how discount rates will be derived under IFRS4 Phase II. Furthermore, we suggest the IAIS include a principle as the basis for setting the specifics of the discount rate curves, such as the curves are representative of yields from actual or reference portfolios of assets supporting the liabilities.	
China Insurance Regulatory Commission	China	1. As mentioned in paragraph 40 of Appendix C "Where existing approaches (GAAP or economic valuation) provide a reasonably close approximation to the valuation principles outlined above for the market adjusted valuation approach, it is acceptable to use these valuation frameworks as starting points and apply adjustments", we suggest that IAIS clarifies whether the starting point of valuation frameworks contains risk margin, when valuations of insurance liability measured by GAAP or economic valuation contains risk margin. 2.As mentioned in Appendix C, IAIS uses Smith Wilson technique to calculate the BCR discount curve, namely using spot rates of zero coupon bonds to make a price curve of financial instruments, then making adjustments to the curves in different currencies (areas). IAIS will publish the discount curves in various currencies (areas). But IAIS doesn't publish the principles and methods to adjust curves. We believe	

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		that the discount curve will have a significant impact on the valuation of assets and liabilities of G-SIIs, as well as the calculation of BCR, and also has regional characteristics and local feathers. We suggest that IAIS improve the transparency of the process of discount curve setting, disclose the specific calculation methods of discount curve to the home country regulators and solicit opinions. Meanwhile, in order to reduce volatility, we suggest IAIS adopt methods with less volatility (such as moving average, weighted average) to make the discount curve.	
Office of the Commissioner of Insurance	China, Hong Kong	Section 10 on Page 25 of Public Consultation Document - It is stated that the current estimate should be calculated gross of reinsurance and special purpose vehicles, and recoverable from reinsurance or special purpose vehicles should be separately calculated and recognized as an asset. That said, first bullet of section 26 (Page 43) mentions that the current estimate is net of reinsurance recoverable to allow for the risk mitigating effect of outwards reinsurance. Not sure whether there is any contradiction between these two paragraphs.	
EIOPA Insurance & Reinsurance Stakeholder Group	EU	We agree with the "substance over form" approach. This is a good summary of the principles which should be associated with the calculation of a sound current estimate. The title "Methodology for calculation of current estimate' could be slightly misleading as it is the principles/ concepts that are described rather than the actual calculation method itself. We would encourage a consideration of the naming convention to avoid a risk that the "current estimate' is misinterpreted as current practice whereas it is actually reflecting an unbiased best estimate. Comments re recognition: To recognize an insurance contract when the insurer "becomes party to" it causes a sizeable technical burden as insurers need to investigate when the contract has formally been concluded. The provision differs from the future IFRS Insurance Contracts and may also be different according to local laws. The definitions of contract boundaries may lead to counterintuitive results for life insurance contracts as they are in principle the same as in Solvency II, however lacking detail and as a consequence different in impact. We would welcome an alignment between the frameworks. IAIS specified discount curves: The valuation concept described here is not that far away from what is required for the purpose of the Solvency II balance sheet. The question arises why some parameters for the calculation of the current estimate of insurance liabilities are drafted differently, e.g. the discount rates by currency is based on curves (for swaps and government bonds) which are flat after 30 years rather than applying a Ultimate Forward Rate. We would encourage IAIS to use Solvency II, as guidance to the development. We would encourage the IAIS to analyse the impact of the choice of discount curves on the expected volatility in the balance-sheet and the overall stability of the BCR ratio.	

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Insurance Europe	Europe	4 This section seems to indicate that both "real world" and "risk neutral" cash flows can be used as part of the current estimate. However, it should be recognised that there is an important difference between the two approaches which can potentially create material differences in the current estimate for certain products. The IAIS should therefore ensure the application of a consistent approach in this respect. The IAIS should be aware of and appropriately assess any such differences emerging between participants in the field testing exercise and create a clear basis for comparability in future field testing and/or implementation of the BCR. 43 While Insurance Europe understands that, for simplicity and timing reasons, the BCR uses standard yield curves to achieve comparability, future developments in this area should consider refinements to better reflect the long-term nature of insurance liabilities. In addition, Insurance Europe believes that, instead of using pre-specified yield curves, it is more important for the yield curves to reflect the nature of the assets and liabilities and therefore it may be more appropriate for liabilities across insurers to be valued at different yield curves. In order to achieve consistency, the IAIS should lay down principles (eg the discounting curves should be based on observable yield curves at the valuation date). Insurance Europe would also note that, in addition to yield curve adjustments, a number of ways aimed at mitigating pro-cyclicality could be considered, based on flexibility of supervisory intervention, eg commitment that in event of whole industry ratio 44 The proposed valuation approach for liabilities avoids complexity but, as acknowledged in the consultation document, will not correctly reflect the long-term nature of the insurer's business and makes the link between the valuation of assets and the valuation of liabilities very poor. While assets are measured at fair value, the valuation of liabilities risks creating significant balance sheet volatility for (at least) the following reasons: i) the spread adjustments do not reflect the actual portfolios of companies, but rather average allocation weights of G-SIIs, and ii) the adjustment for corporate bonds is fixed at the 10-year maturity and applied to all the points of the discount rate curve This approach for measuring liabilities can potentially lead to a significant exaggeration of the volatility of the balance sheet, and therefore own funds, especially during periods of financial stress. Whether or not this will cause problems by resulting in BCR/HLA measures that bite too often or force pro-cyclical behaviour will depend on the level of calibration of the BCR and design/calibration of the HLA. 49 Insurance Europe believes that an adjustment of only 40% of the actual corporate bond spread insufficiently reflects the illiquidity of many products and also creates significant balance sheet volatility, which can potentially lead to pro-cyclical actions during periods of financial	

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		markets stress. In addition, an approach based on 10-year spreads creates basis risk between assets and liabilities, as the value of assets reflects changes in spreads at different points on the curve, while the value of liabilities would not. The focus on the 10-year spread unfortunately reflects no link between an insurer's liabilities and the actual spread the insurer earns on the actual bond portfolio. 55 While Insurance Europe understands the objective of simplicity, the use of the proposed replication approach would, in principle, be inconsistent with the "current estimate" approach to liability valuation: the former would include the impact of a risk margin, while the latter would not, unless interpreting the risk margin as zero in such cases.	
AIA Group Limited	Hong Kong	Contract Boundaries: The definition of contract boundaries adopted in the Consultation Paper is non-economic, based on the legal form of contract rather than the substance of the actual economics as reflected in the expected cash flows. AIA believes the IAIS should reconsider this approach and use instead a definition based on expected cash flows in light of economic realities and best estimates of expected behaviour in various circumstances.	
International Actuarial Association	International	We see some needed refinement to get a Current Estimate that meets the purposes of the BCR with a consistent set of principles. We see a focus on specific granularity that leads to the following kinds of compromises from the goal of having an unbiased Current Estimate so that the desired risk margin can be captured in the capital charge. These include: 1. Contract boundaries limited to premiums that can only be forced to be paid. This introduces a conservatism/margin most of the time and also ignores a systemic risk of companies getting substantial levels of voluntary premiums when guarantees are too high. The contract boundary definition mirrors that of the IASB, but that boundary was purely driven by accounting considerations as to the accounting definition of an asset. For capital requirement purposes on a "going concern" basis it would be more consistent if all expected premiums can be considered from existing agreements with the policyholders. 2. Using a 40% corporate bond spread for discounting for assets that are marked at market values ends up introducing a margin into the balance sheet when those same assets are generating higher liability cash flows based on a higher earned rate. We appreciate the need to haircut the full asset earnings rate and to assess the exposure to a stress of earning less than the corporate rate. But this is not the same thing as producing a current estimate of the likely outcomes. For example, different sections imply that both real world and risk-neutral cash flows are the "right" cash flows to discount when current estimates should not include a risk adjustment. For example, from P24 Annex C paragraph 4, it is not clear whether the probabilities (and/or term structures) are meant to be risk-neutral or historical. The example cited on page 30 says that "For non-discretionary amounts such as bonuses or crediting rates, the Current Estimate should recognize the amounts expected to be paid consistent with the expected future	

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		experience and economic scenarios for which the liability valuation is based. For example, if a reference group of assets is expected to earn a greater amount than the contractual crediting rate and discretionary additional credit rates can be declared, the expected discretionary crediting rate should be taken into account. This projection should be consistent with the yield curve that is used to discount the cash flows for the contract" Let's assume the current asset yield is 5%, there are expected defaults of 25 basis points, a credited rate of 2% guaranteed, an excess credited rate of 150 basis points and a risk free rate of 2.5%. Which cash flows should form the basis for the "current estimate"? a. Asset yield is 4.75% and liability cashflows grow at 3.5% (the expected set of cashflows seen in the real world). b. Asset yield is 3.5% and credited rate is 2% (40% corporate bond factor impact so "projection is consistent with the yield curve used to discount the cash flows"). Part of the challenge here is distinguishing between products where the policyholder shares some of the asset risk as well as whether the method is meant to portray estimates under "reasonable expectations" or is also meant to capture a value for the cost of any guarantees which may come into play under less "reasonable" (but certainly possible) futures. While this may well be a manageable issue for a BCR structure, it (along with handling currency related complexities) will be key issue to work out for HLA and ICS purposes. 3. Since there is only one discount curve, the current estimate produced via this method for long duration products will most certainly not be the average present value of the cash flows. The "IAIS specified discount curves" needs further development, as implied on P31 of the consultation document. (Note that the recently produced IAA discount rates monograph may be of assistance). 4. The use of the phrase "probability weighted set of cash flows (p. 24 C4-8) misunderstands the intent (as we have understood it) of a current estimate. Such a reference applied by the IASB turned out to be misleading since many believed that the calculated expected value had to be estimated that way. The phrase implies that there is a known distribution when all we really have is an estimated distribution and the number reported is an estimate of the expected value which can only be estimated. This estimated distribution has its own level of uncertainty about whether that estimate is correct so there is fuzziness even around what the actual distribution might be. This topic is being actively discussed within the actuarial profession and is why we would want to have the important principles and definitions in a standard. 5. If participating products include future policyholder dividends as "equity" then they are not using a central estimate approach for the future expected cashflows to be paid by the company and the equity is being used, not for a going concern purpose but to settle liabilities other than those incurred for the participating business (or, similarly, for non-guaranteed elements of stock company business as well). For this reason, it will be important to understand whether current estimates are to be done based on a going concern vs. wind up basis. For example, the Protection business recommends using a net amount at risk measure because technical reserves in early years will be negative. There may be other reasons to use NAAR, but the stated reason (Section F, par 26) introduces conservatism by not using the actual expected cashflows (due to concerns about what may be relevant to wind up an insolvent company). Thus, it makes sense to not allow negative technical reserves if the guiding principle is a wind up basis. But on a going concern basis (as referenced in 4.2 paragraphs 50 & 51), the actual cashflows as they unfold would be more appropriate. A similar issue would hold for the inclusion/exclusion of overhead expenses, the impact of new business and the impact of deferred tax assets. In conclusion, we would hope that many of these issues could be reconciled through the use of an actuarial standard to provide some guiding principles on the objectives of a current estimate as defined by the IAIS.	

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The General Insurance Association of Japan	Japan	(Para 53, 54) It is stated that "The IAIS will not provide discount curves for all currencies and countries where G-SIIs operate", but we believe that the IAIS should prepare them all. If it is difficult to do so, the IAIS could consider sharing detailed specifications to create yield curves with respective supervisors, and pull together and provide the discount curves prepared by them for all currencies and countries where G-SIIs operate in light of ensuring comparability.	
The Life Insurance Association of Japan	Japan	We believe that the valuation approach should be principle based, rather than being an excessively prescriptive approach. Even if an insurer has a unilateral right to terminate the contract or amend the premiums under the contract in such a way that the premiums fully reflect the risks, the insurer must carefully consider the likelihood of exercising such a right, in light of maintaining good relationships with its policyholders, management's standpoint of prioritising its reputation, and because of the nature of its products and competitive environment. We are concerned that the substance of contracts might not be appropriately reflected, if contract boundaries are set judging from the legal form of contracts only, despite the negligible likelihood of exercising such a right by the insurer. Therefore, we would like to suggest that the following condition should be added in setting contract boundaries: "a contract shall be within the boundaries if the likelihood of exercising the right by the insurer to terminate the contract or amend the premiums under the contract in such a way that the premiums fully reflect the risks appears to be low." In the valuation of insurance liabilities with ultra-long duration, we believe that potential measures for mitigating the impact on such liabilities are needed (also in the BCR). This should include additional adjustments on interest rates or extrapolation measures, in order to reduce excessive volatility due to short-term changes in interest rates.	
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	1) Para 16 of the annex seems to be not clear. In KNF's opinion the sentence should be: "However, future premiums (and claims and expenses associated with these future premiums) relating to an existing and recognised contract beyond the following dates should not be considered in insurance liabilities.". The aim of this change is to unequivocally specify that only claims and expenses related to future premiums, not to all premiums, should be considered. 2) Additionally KNF proposes to add the following 3rd point in par. 16: "The valuation date for the contract which does not provide compensation for a specified uncertain event that adversely affects the insured person or which does not include a financial guarantee of benefits". Without this point, (re)insurance undertakings will recognize day one profit for investment products without (or with very small) insurance or investment coverage/protection, like pure unit-linked or index-linked contracts. And therefore (re)insurance undertakings would recognize as core capital (best quality capital) future profits, which are uncertain because policyholder may not pay future premiums. 3) In par. 13 KNF proposes to add 2nd case to recognize (re)insurance liability by adding at the end "or as the G-SII starts to provide (re)insurance coverage, without any possibility to amend or cancel it, even though the contract has not be signed yet." There are some (re)insurance products (rare cases) where (re)insurance coverage starts before contract is signed (compulsory insurance with automatic continuance option, reinsurance agreements/arrangements). 4) Par. 49-50 of the annex seems to be not clear on how to calculate spread. Interest rate spread is a difference between two interest rates, however par. 49-50 provide information on one financial instrument (one interest rate) and do not specify the second financial instrument (interest rate). 5) Par. 54 point 3: this algorithm should be carefully used as CDS may measure different risk than required. For example interest rate for PLN	

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		is calculated based on government bonds issued in PLN. CDS on Polish government bonds are available, but they are on bonds issued in EUR and not in PLN. This CDS additionally measure risk connected with buying EUR to fulfill its obligations in EUR and therefore CDS cannot be automatically applied to Polish government bonds issued in PLN (to measure credit risk). 6) Par. 11 points 2, 3 and 5: there should be "to be incurred", "to be received" and "to be made" instead of "incurred", "received" and "made" since these are future expected events and not past events. 7) Par. 11 points 2: future acquisition expenses are missing, these expenses might be significant especially if (re)insurance broker of agent receives commission when policyholder pays premium. 8) Par. 33: KNF proposes to replace "of financial markets" by "from financial markets". 9) Par. 36: KNF proposes to replace "are usually connected" by "should be usually included" which better reflects calculation of technical provisions	
Autorite des marches financiers	Qu 蘱 c - Canada	The definition of the IAIS Specified Discount Curves could have a large impact on the Current Estimate of the liability and on the capital requirement, especially for insurance companies that have long term liabilities. In fact, the proposed extrapolation of the curve beyond 30 years could lead to inappropriate volatility of the results. We recommend that the discount curves be derived as follow: a) use the current observable rates under a deep an liquid market (e.g. for a period of 20 to 30 years) b) determine an ultimate rate (e.g. at duration 50 years) that would be based on historical information for a representative asset portfolio generally held by an insurance company c) determine the discount curve by grading the last observable rate defined in a) to the ultimate rate. In paragraph 48, it is mentioned that the basis for this adjustment is defined as an investment grade corporate bond or broad market index, where these are available. It would be preferable to provide a more precise definition of the term "investment grade corporate bond", such as providing a specific credit rating.	
The Central Bank of the Russian Federation	Russia	Current estimate calculation procedure Current proposal: Current estimate is the probability-weighted average of the present values of the future cash flows associated with insurance liabilities. Our comment: It is not explained how the set of scenarios used for the calculation of the current estimate should be selected, how the probabilities for such scenarios should be calculated, and what is the limit for the extreme scenarios.	
The Global Reinsurance Forum	Switzerland	15. Contract boundaries: For the purpose of BCR calculation, firms' existing approaches should be used. Contract boundaries used by firms give an economic view of the business, are based on realistic, observable data and are regulated in national laws.	

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Institute and Faculty of Actuaries	United Kingdom	We have identified a number of areas in Annex C where further clarification would be welcome: - The contract boundaries definition closely reflects some, but not all of, the contract boundaries wording from Solvency II. Further explanation of why the decision was made to harmonise some elements and not others would be useful, as would further discussion around the potential consequences of this decision. - It may be possible to incorporate IFRS definitions and we would welcome feedback on whether this option has, or will be, considered. - Clarification on whether the BCR has been designed to view "Present Value of In Force' as an asset or negative technical provision would be valuable as the contribution to the BCR could be different depending on which it is. - Expert judgment is not mentioned as a possible valid data source. We would suggest that expert judgment be permitted, where it can be justified.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
American Council of Life Insurers	United States	Annex C, paragraph 10: The BCR exposure is inconsistent with regards to the treatment of reinsurance. Annex C indicates that calculations are to be gross of reinsurance (C10), with the calculation of a reinsurance asset being secondary. Annex F indicates that calculations are to be net of reinsurance. We'd suggest that a consistent approach be adopted throughout the paper, such as all calculations being net of reinsurance. Annex C, paragraph 15-17: We are concerned that the proposed BCR will apply a non-economic approach to contract boundaries. This is inconsistent with other elements of the proposed valuation approach and creates disparate impacts (i.e. embedded prudence) in different products. It is also inconsistent with the BCR's "going-concern objective," as stated in paragraph 51. With respect to contract boundaries, paragraphs 15-16 in Annex C suggest that an insurer cannot use projected future premiums outside of the contract boundary unless the insurer can demonstrate the ability to compel payment from a policyholder. This approach appears to conflict with the instructions (annex C28-34) for insurers to consider policyholder behavior in expected cash flows. The proposed approach to contract boundaries also contradicts Insurance Core Principle 14.8. The BCR should use an economic approach to contract boundaries that is consistent with ICP 14.8.	

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		Annex C, paragraph 43-52: In our view, the proposed discount rates for long-term liabilities are too low, and therefore the Current Estimate is too high. Adding margins as a percent of that Current Estimate will further exacerbate the distorted view of a company's capital position. Annex C, paragraph 43: If the IAIS curves provided are materially different than IFRS/GAAP or regulatory curves, this will create risk management issues. It creates the potential for the IAIS to arbitrarily define the risk profile of the industry through the creation of artificially designed discount curves. The BCR's reliance on discount rates mandated by the IAIS will result in the errant valuation of insurer liabilities. This is mainly because such discount rates won't accurately reflect the insurer-specific variability in contractual cash flows or the connection to asset earnings. We hope that the IAIS will reconsider this approach. Annex C, paragraph 44: The consultation states that the current estimate/factor-based approach embodied in the BCR will inform the basis of the Insurance Capital Standard. We believe that a factor-based current estimate approach, based on a "Market Adjusted Valuation" is an inappropriate basis for the BCR and the ICS. Such an approach could have serious adverse consequences for insurers in many jurisdictions, including the US, and does not appropriately reflect differences in local markets, products, and regulatory regimes. We strongly urge the IAIS to seriously consider alternative methodologies for the BCR and ICS that are not dependent on any particular accounting or valuation basis, such as a cash-flow stress testing approach or an approach based on assumptions that permit the use of a stable discount rate for the unobservable period of market inputs to avoid excessive balance sheet volatility. Annex C, paragraph 49: We believe that a factor of only 40% insufficiently reflects the illiquidity of many products. Moreover, it would produce significant balance sheet volatility, leading the industry to take procyclical actions during economic crises. Annex C, paragraph 4 & 55: The BCR consultation is unclear about whether the Current Estimate is calculated using "risk-neutral" cash flows or "real world" cash flows. In Paragraph 20, the BCR consultation appears to suggest that the BCR is asking for "real world" cash flows, but language in Annex C55 refers to replicating portfolios, which suggests that the IAIS is contemplating a risk-neutral approach to cash flows. The use of the proposed replication approach would be inconsistent with the "current estimate" approach to liability valuation. The replication approach would include the impact of a risk margin, while the latter (the Current Estimate) would not. It was not clear from the consultation whether field testing participants were using "real world" or "risk neutral" cash flows. The choice of either option is highly material for certain products. We prefer the use of real world cash flows in the context of the BCR.	
Institute of International Finance - IIF	United States	Annex C Question 27, (Paragraph 16 page 26) Application of Contract Boundaries to Renewable Products. The application of a strict legal definition of the contract boundaries to renewable products is a major deviation from the BCR approach and Basic Principle 5 - Internal consistency.	

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		Applying the strict legal interpretation of a contract boundary to renewable products will result in assumptions that all short-term, renewable business (1 - 3 years usually) lapses at the next policy anniversary/renewal date. We maintain that this requirement results in assumptions that are: - Extremely unlikely to ever occur in practice. - Inconsistent with an economic view of insurers business. - Inconsistent with best estimate assumptions and observable data. - Inherently conservative, with substantial implicit margin. - Consistent with the legal form of the contracts in question, but inconsistent with the substance. Conservatism in a prudential context is appropriate. However, in this economic view it is inappropriate and introduces more conservatism on some businesses (e.g. renewable contracts) than on others (long term contracts). Annex C Question 27, (Paragraph 44 page 31) IAIS Specified Discount Curves are based on risk adjusted liquid interest rate swaps or government bonds and some adjustment on corporate bond indices. Paragraph 49 notes that only 40% of the actual corporate bond spread is used for the adjustment. This is not necessarily representative of an insurer's portfolio of assets. We welcome the recognition by the IAIS of the importance of developing yield curves to mitigate volatility and pro-cyclicality. However, we are particularly concerned if spreads were to widen considerably. We believe it may not allow for sufficient dampening effect of exaggerations of bond spreads. It would also be helpful if the IAIS could provide more clarity on how volatility may be addressed in the calculation of the yield curves going forward. The CD also notes in respect to the yield curve that future development of alternative comparable approaches that better reflect the long term nature of insurance liabilities could eventually be used. We believe the basis for valuation should be objective, transparent, and give materially comparable results between undertakings. As such, it is important for the yield curves for	

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		liability valuation to reflect the nature of the liabilities. Therefore, it may be more appropriate for liabilities across insurers to be valued at different yield curves in order to capture differences in the nature of liabilities even within a single currency. We note that reference to yield curves for "discounting" may lead to confusion. As previously discussed with the IAIS, to avoid creating implied arbitrage opportunities, there should be a consistency between the yield curves used both for projecting and discounting cash flows. To mitigate the risk of confusion, it may be simpler to refer to "spot rates for valuation". We support the steps that the IAIS has taken to achieve consistency by establishing principles for yield curves, although we would suggest there is more work to be done in this regard. It would be helpful if the IAIS could further clarify how the approach to yield curves for valuation may develop in the run up to 2019. We also believe that the current method of applying adjustments based on the 10 year spread is artificial. This would create a basis risk between asset and liability values as asset values will reflect changes in spreads at different term periods. The implication of using the prescribed curves in different market conditions is currently unclear, and may result in inappropriate volatility. IAIS should clarify how it intends to address volatility in this respect. This is even more important when considering how to extend the yield curve beyond the tenor of information available from deep and liquid markets. In particular we would propose that as a general principle of valuation, in the absence of relevant and credible market data, long term assumptions should be kept stable, and as such the ultimate forward rate used for the Smith-Wilson technique should be kept relatively stable over time. A consideration in setting the ultimate forward rate for each currency should be the expected investment performance of a representative asset portfolio that insurers use to match long duration liabilities.	
Liberty Mutual Insurance Group	United States	Paragraph 1 of Annex C states that segmentation (i.e., the allocation of insurance liabilities to the lines of business) "should follow the principle of substance over form." This will prevent comparability due to the individual (and likely different) assumptions that each company must make in grouping insurance liabilities in order to determine a best estimate. The contract boundaries methodology selected for recognizing insurance liabilities discussed in Paragraph 13 of Annex C is not workable and	

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		does not reflect the reality of how most insurance company internal accounting systems work. Specifically, Liberty Mutual's systems are not capable of recognizing a liability as soon as the company becomes party to a contract. Significant modifications to our accounting systems, and we believe those of many other insurers, are required to recognize liabilities upon the effective date of a policy.	
Prudential Financial Inc.	United States of America	Market Adjusted Valuation Approach - Methodology for calculation of Current Estimate Basis for Calculation - The prescriptive nature of this section runs contrary to the determination of Current Estimates under local GAAP. The group-wide supervisor should look at the guidelines that already exist in GAAP, IFRS, or other accounting/solvency regimes to ensure reasonable comparability in calculation of Current Estimates. If there are concerns regarding conservatism, these can be addressed by setting the level of the BCR. If assets are determined on the same basis of the liabilities, comparability should be achieved despite the lack of consistency. Therefore, the following language should be inserted at the beginning of Annex C: "As the BCR starts with the amounts reported in a G-SII's audited, consolidated, general purpose balance sheet, whether that be on a GAAP or IFRS basis, Current Estimates for purposes of the BCR balance sheet may follow the Current Estimate / best estimate standards established by these same accounting frameworks, to the extent the local measure results in comparable results, as determined in consultation with the G-SII's group-wide supervisor. In GAAP and IFRS, the standards for calculating best estimate liabilities are established by Loss Recognition Testing (LRT) and Liability Adequacy Testing (LAT) requirements, respectively. These and other best estimate liability constructs established within existing accounting / solvency regimes are permissible for purposes of constructing the BCR balance sheet, to the extent the measure results in comparable results, as determined in consultation with the G-SII's group-wide supervisor. For companies which do not produce GAAP/IFRS financial statements or otherwise do not have a framework under which to produce best estimates, the standards below define the calculation requirements." - In addition, For each item in the valuation specifications outlined in Annex C, it should be acceptable to use either US GAAP or IFRS, rather than the IAIS BCR balance sheet rules, except for a limited number of specific adjustments that need to be justified by IAIS. Perhaps these rules could be an alternative for companies that do not already produce US GAAP or IFRS statements, or for liabilities not subject to loss recognition or IFRS liability adequacy testing. - For example, start with US GAAP: 1) For contracts subject to loss recognition testing, replace liability with best estimate liability as used in loss recognition testing. Perhaps make a topside adjustment or two in order to reflect a book to market adjustment or to reflect the IAIS curve (which we do not think makes sense). 2) For contracts subject to FAS 157 (embedded derivatives), revalue without explicit margins in insurance assumptions and without NPR but with the IAIS discount curve instead of a risk free rate. 3) Specific adjustments for explicit margins and own credit risk are reasonable and appropriate exclusions for determining best estimate	

Organisation	Jurisdiction	Comments	
		liabilities. 4) Items such as expenses, contract boundaries, time horizon, data quality and setting assumptions, and currency conversion should rely on jurisdictional GAAP. - Par C43-49 - We disagree with using IAIS discount curve. The IAIS proposed approach of a flat yield curve beyond 30 years would be overly punitive to long tailed liabilities. The arbitrarily low spreads is unnecessarily conservative and does not reflect how insurance companies invest. Using a flat IAIS discount curve beyond the first 30 years, and treating both long and short-term cash flows equally for the purpose of the capital charge gives inappropriate weight to long-term liabilities, both creating incentives to increase asset concentration at the 30-year tenor (which leads to increased rather than reduced risks, distorts long-dated bond markets, reducing yields (which, in turn, weakens insurers' capital base and/ or leads to higher costs for policyholders over the long-term) and reducing the supply of long-dated protection to consumers. - Par C55-57 - The restrictions against using replicating portfolios seem strict, indicating that replicating portfolios cannot be used if there is any insurance risk. This would rule out the ability to use replicating portfolios for most insurance liabilities. The use of replicating portfolios is a valuable tool for measuring the market risk sensitivity of insurance liabilities, even when there are other risks present. The use of replicating portfolios should not be subject to wholesale disregard simply because insurance risk is present.	
Aflac	USA	Discounting and IAIS Specified Discount Curves (Paragraphs 43-52) As we explained in our comments on the December 16, 2014 BCR Consultation Paper, we believe that a principle-based approach should be considered for using discount curves in order to reflect the characteristics of insurance liabilities. Specifically, because currency and liquidity can have a huge effect on the discount curve, it is our view that companies should have the flexibility to specify the discount curve(s) that are being used to discount their insurance liabilities and document and disclose how the curve was derived. Having said that, should the IAIS remain determined to specify discount curves for major currencies in order to "improve comparability," the best approach would be to construct the yield curve based on the assets (or the referenced asset portfolio) backing the liabilities. In theory, the discount rate using the characteristics of the insurance contract will generate a present value similar to that of fair measurement, reflecting the amount at which the liability could be transferred in the market. Therefore, we believe the asset yield rate or the asset yield rate of referenced asset portfolio will be most relevant and observable in considering the fair value of the insurance liability. Since life insurance companies with long-duration liabilities focus on matching their assets with their insurance liabilities, the asset yield rate should reflect the currency associated with the liabilities. In light of the complexity involved with specifying discount curves as well as the significant impacts on each firm of any approach adopted, we would like to reiterate our view that a principle-based approach should be allowed with respect to discount curves.	

Organisation	Jurisdiction	Comments	
American International Group (AIG)	USA	Segmentation The Field Test clearly demonstrated that the broad segmentation required by the Technical Guidance for this draft BCR does not provide sufficiently granular categorization of many well-established insurance products. Our own experience in the BCR Field Testing process illustrates the need for more refined and thoughtful segmentation before implementation of the BCR. On a US GAAP basis, the majority of AIG's Property & Casualty insurance liabilities were classified as "Other" according to the specifications of the Field Test, even though this book of business includes well-established and traditional insurance lines (e.g., workers compensation; environmental; general liability; directors & officers). Some of these product groups date back to the late nineteenth century. Others date back multiple decades in the marketplace. While the lines of business have varying risk profiles, they are product lines of long-standing and economic significance in insurance markets and cannot reasonably be segmented in this undifferentiated manner. Enhancing and rethinking the relatively crude existing segmentation is essential to aligning the BCR more closely with insurers' internal product categorizations used for management purposes, and to precluding unintended but marked differential commercial results across the US, European and world markets. Such enhancements would, in our view, also provide the basis for a more refined calibration of factors applied in determining BCR Required Capital. Yield curve The determination of the yield curve for purposes of revaluing reserves for the MAV balance sheet is an important consideration that requires further specification before the finalization of the BCR. Differences in the yield curve generate differences in the MAV liabilities and, in turn, in reported equity. Disparities in yield curve assumptions across G-SIIs would introduce a potential source of variability and, in turn, reduce the comparability of insurers' MAV results. To promote consistency and comparability in BCR calculations, it is our view that the same yield curves should be applied across all G-SIIs for the purposes of deriving the MAV balance sheet. The yield curve selected by supervisors for calculating the BCR should be realistic, be based on available market and historical inputs, and reflect the long tenor of insurance liabilities which, in many cases, exceeds 30 years. Moreover, the yield curves should be relatively stable over time. Significant shifts in yield curve assumptions could introduce potential volatility and pro-cyclicality into the capital standards, as yield curve changes that affect the value of equity but do not affect underlying cash flows could force insurance companies to deleverage in a period of stress, exacerbating risks rather than absorbing shocks. Non-qualifying Reinsurance The proposed deduction from capital of reinsurance assets deemed to be non-qualifying (i.e., reinsurance without an executed and legally binding contract) provides for a 6-month grace period from the effective date of reinsurance coverage, reflecting that reinsurance arrangements in practice can take effect for a period of time before the contract is legally binding. For purposes of this comment, we assume	

Organisation	Jurisdiction	Comments	
		that the term "executed and legally binding contract" refers to a fully finalized and executed contract wording, notwithstanding any existence of a legally binding slip, cover note or other documented evidence of coverage. We recommend that the BCR align its treatment of so called "non-qualifying" reinsurance with US SSAP No. 62R, which provides that certain reinsurance agreements that have not been finalized, reduced to a written form and signed by the parties within nine months after commencement of the effective date of the reinsurance arrangement, will be presumed to be retroactive and should be accounted for as a retroactive reinsurance agreement.	
CNA	USA	Valuation - It is our belief that a market adjusted valuation basis does not appropriately reflect the economic realities of our business and introduces significant volatility to our capital management structure for no other reason than a desire for unachievable precision with hopes of having true comparability. From our prospective this precision is unnecessary and exceedingly costly to implement and maintain. We would suggest that for both the BCR and ICS the IAIS make only high level adjustments to the group's audited GAAP or statutory financials statements which would achieve comparability at a high level. It is our belief that such comparability should be sufficient to identify groups operating outside the norms. Paragraph 42 of Annex C includes a simplified approach for non-life insurers to be able to start with GAAP management's best estimate rather than performing stochastic valuation. CNA appreciates this simplification as it will save significant costs for U.S. non-life insurers.	
Metropolitan Life Insurance Company (MetLife)	USA	Contract Boundaries Paragraphs 15 -17 As stated on many previous occasions, the application of a strict legal definition of the contract boundaries of products is inconsistent with and a major deviation from the BCR approach and Basic Principle 5 - Internal consistency. The stated basis for the BCR is that it should be an economic view of our businesses, based on realistic, best estimate assumptions and observable data. The basis for the liabilities is to be without conservatism or margins (explicit or implicit). Furthermore, the BCR papers from the IAIS stress the importance of substance over form. Applying the strict legal interpretation of a contract boundary (the end date of the period within which the Company has no discretion to terminate or raise premium/alter the contract) means that companies are required to assume that all of their short term, renewable business lapses at the next policy anniversary/renewal date. The assumptions implicit in applying contract boundaries in this fashion are: - Extremely unlikely to ever occur in practice. - Inconsistent with an economic view of our business. - Inconsistent with best estimate assumptions and observable data. - Inherently conservative, with substantial implicit margin. - Consistent with the legal form of the contracts in question, but inconsistent with the substance.	

Organisation	Jurisdiction	Comments	
		The current stance toward "contract boundaries", means that when we model short duration / renewable businesses, we don't get an "economic" result. We get a result that is inherently conservative. Conservatism in a prudential context is appropriate. However, in this particular case, we are implicitly being much more conservative on some businesses (e.g. renewable contracts) than we are on others (long term contracts). For long-term (e.g.: 30 year term life) we are allowed to apply reasonable assumptions for lapses based on past history, and model the business accordingly. For annual renewable term (e.g. group term life) we are forced to model assuming all of the business lapses at next anniversary. It seems particularly odd given that renewable business generally has lower risk than long term business. In addition, if prudential margins are moved back into technical reserves, the result will be one level of prudence on long term businesses, but explicit margin on top of implicit margins on renewable contracts. Discounting Paragraph 43 It would be important for companies to understand how the IAIS calculated its specified curves and we request release of a detailed derivation of discount rate curves. IAIS Specified Discount Curves Paragraphs 44 - 52 We remain very concerned with the potential volatility inherent in the approach employed within the BCR. There is substantial potential for problematic volatility and pro-cyclicality in the current yield curve approach to prescribed by the IAIS. Of particular concern is volatility in the last observed rates and the resultant impact on the value of liabilities beyond the observable market. Changes should be introduced to ameliorate this potential for spurious volatility and we stand ready to engage with the IAIS to further their discussions and development of yield curves	
NAIC	USA	Paragraph 27: Recommend adding "Ideally," at the beginning of the sentence. While ideally one may suggest utilizing stochastic methods, the practicality of doing so is not clear even other than for initial reporting. Paragraph 32: Suggest changing "not purely financial self-interest" to "not in accordance with the efficient markets hypothesis" (since this hypothesis is demonstrably not valid for protection products). Paragraph 34: Recommend adding "Ideally, "at the beginning for the same reasons as for paragraph 27. Paragraphs 44-54: For expediency for the initial field testing, the NAIC is prepared to accept the usage of IAIS prepared discount curves.	

Organisation	Jurisdiction	Comments
		However, the presumptions underlying these curves, especially any emphasis on risk free rates, are unlikely to be acceptable longer term, and will need revisiting.
Northwestern Mutual Life Insurance Company	USA	Mitigation of pro cyclical effects - IAIS members have stated in various settings that techniques for the mitigation of pro cyclical effects are being developed. We agree that such steps are necessary when the capital strength metric proposed is prone to unwelcome pro cyclical effects and offer the following comments: We note that Appendix C paragraphs 44 - 54 describe the development of discount rates for best estimate insurance liabilities including a 40% factor applied to the corporate bond spread but more can be done. Our remarks on discount rate tailoring are responsive to this problem. US life insurers are required to maintain an asset valuation reserve (in addition to policy reserves) which is systematically funded more generously when asset values are appreciating and is released systematically into surplus during less favourable economic times. This has the effect of absorbing losses during stress conditions, enabling the insurer to remain more invested for long term total return while meeting its obligations and stabilizing capital markets.
The Travelers Companies, Inc.	USA	We do not believe the segmentation for P&C insurers is sufficient as products with similar names but different risks have been grouped together. We also believe that the "market adjusted" calculation for P&C insurance liabilities is the incorrect measurement and it is inconsistent with current actuarial practices. We note that probability-weighted cash flow methods are generally not used in by P&C insurers for estimating claim liabilities, despite free rein to use whichever estimation method is most reliable, implying that such methods are either not feasible, or not likely to produce superior estimates, or both. If a separate measurement objective is needed for the BCR then we propose that the IAIS define the principle and not the methodology to achieve that principle. We are also concerned with the practical aspect of applying the recognition criteria. We do not have the systems in place to capture the information as we don't believe the information is decision useful. The contract does not begin until the policy period begins and the policyholder needs to still have title to the insured item at the beginning of the period. We also are not sure how renewals would be handled since this guidance would suggest that the insured item is covered under two contracts.
Comments on Annex D - Qualifying Capital Resources - ComFrame		
Canadian Institute of	Canada	In paragraph 9, the meaning of the term "realizable value" should be further clarified.

Organisation	Jurisdiction	Comments
Actuaries		
Canadian Life & Health Insurance Association Inc.	Canada	#2 - It is not clear which financial instruments would qualify as capital. We request the IAIS provide more specificity, for example to clarify that senior debt qualifies. #7 - Exclusions/deductions are too punitive and don't recognize the long-term nature of our business. #7 b) and d) - Regarding intangibles and DTAs, life insurers' portfolios are managed over long time horizons, thus allowing the ability to monetize, or crystalize realization of value, including through sales to third parties. #7 i) - Exclusions/deductions for excess encumbered assets will have very punitive aspects on three common business practices, and hence the unintended consequence of deterring such activities: (a) reinsurance assumed and (b) risk mitigation derivatives hedging and (c) secured funding type transactions. (a) Reinsurance Assumed - In some reinsurance structures, collateral is provided in support of capital requirements or as an additional credit protection. Divestitures of insurance blocks are often transacted using reinsurance, with collateral provided by the assuming company (reinsurer). "Excess" collateral, from the perspective of the assuming company, can arise from two sources: (i) any requirements in the cedant's jurisdiction, or negotiated by the cedant, to post collateral in excess of the cedant's ceded liabilities (i.e. to also cover the cedant's required capital on the business ceded) and (ii) in circumstances where the cedant's reserving basis is more conservative than the assuming company's. Hence any conservatism required by the ceding company from either of these two sources will have a direct impact on the transaction if the additional collateral triggers a deduction from assuming company's Core capital. (b) Risk mitigation derivatives hedging - This could have a very punitive impact on derivative hedging activities, and in addition, the number itself could be quite volatile. For example, companies have to post an initial margin ("IM") for exchange traded and cleared swaps and there is no associated liability on their books to net this collateral against, and so the full amount is deducted. For OTC derivatives, collateral posting is typically subject to a haircut (or over-collateralization) based on the type of assets, credit and/or tenor. The BCR wording would result in the over-collateralization amount being excluded from Core capital. This is excessively punitive as in a wind-up or liquidation situation, the pledged assets could be sold to settle the derivative liability and the excess would be freely available to the insurer. For cleared derivatives, there is an IM that needs to be posted with the clearing house which is not supporting any specific derivative liabilities. This would be excluded from Core capital which we would find excessively punitive since the IM would be released to the insurer once the derivative is unwound. As insurers typically use derivatives for risk management purposes, having these capital charges would increase costs of these risk-mitigating activities. (c) Secured funding type transactions - Secured funding programs (such as repos and similar) typically require haircut (or over-

Organisation	Jurisdiction	Comments	
		collateralization) as well. The BCR wording would imply that the over-collateralization amount (i.e. assets in excess of the debt balance) would be excluded from Core capital. As per the argument above for derivatives, in a wind-up or liquidation situation, the secured borrowing could be repaid/settled and any excess collateral returned to the insurer and available for other claims. Another situation of concern would relate to collateralized line/letter of credit facilities. Since these would be off-balance sheet, any assets used to collateralize them would be deducted from capital.	
EIOPA Insurance & Reinsurance Stakeholder Group	EU	No comments.	
Insurance Europe	Europe	As highlighted in Insurance Europe's response to the ComFrame consultation (December 2013), ComFrame should not contain specific definitions as to which capital resources qualify in the context of the capital adequacy assessment. Rather, principles should be articulated that permit the flexibility needed for the various accounting regimes. Each accounting regime contains rules that help to determine whether specific capital can be considered for capital adequacy purposes. Insurance Europe believes that the Solvency II approach to capital resources should be considered by the IAIS for the BCR purpose. Insurance Europe would also welcome more clarity on a number of points missing or vague in Annex D, paragraphs 6 and 7, namely: i) the treatment of minority interests is not clear; ii) the items referred to under point h) of paragraph 7and the third bullet point of paragraph 8 are not appropriate adjustments to group capital resources if the starting point is a consolidated balance sheet.	
Bundesanstalt fr Finanzdienstleistungsaufsicht (BAFIN)	Germany	Please see answers to Q13 and Q16.	
Financial Services Agency	Japan	The description of capital definition in Annex D seems to be somewhat inconsistent with those in the ComFrame document. It is desirable to make those consistent with the description in the ComFrame document that has employed the fundamental concept of tiering of the qualified capital resources that has focused on the degree of loss absorbency.	
The General Insurance	Japan	(General) It is described in Annex D that "The BCR uses the proposed ComFrame definition of Qualifying Capital Resources", but it should be appropriately examined whether the definition of Qualifying Capital Resources in ComFrame is adequate for BCR purposes since the	

Organisation	Jurisdiction	Comments	
Association of Japan		treatment of Qualifying Capital Resources in ComFrame has not been decided yet.	
Autorite des marches financiers	Qu 霢 c - Canada	We suggest that the meaning of the term "Realisable value" be better described.	
The Central Bank of the Russian Federation	Russia	Inclusion of non-paid-up capital into additional capital Current proposal: 100% of the non-paid-up capital is included into the additional capital. Our comment: Taking into account the time lag needed to pay up the capital and the associated credit risks we suggest applying a discount to such capital.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary	
American Council of Life Insurers	United States	Most jurisdictions, including the US, rank policyholders ahead of debt holders in the event of an insolvency or windup. This means that the claims of policyholders have payment priority over the claims of debt holders in an insolvency or windup. In contrast, bank depositors rank pari passu with senior creditors. Accordingly, in jurisdictions where policyholders rank ahead (i.e., have claims payment priority) of debt holders, any debt (including senior debt, not just subordinated debt) should qualify as additional capital- provided that distributions could be suspended or amortized within 5 years of ultimate maturity, because under jurisdictional law, the debt holder's claims are subordinated to policyholders' claims in the event of insolvency.	
Institute of	United States	Annex D Question 28, (Pages 34, 35 & 36)	

Organisation	Jurisdiction	Comments	
International Finance - IIF		Qualifying Capital Resources - The proposal indicates that the ComFrame definitions of qualifying capital resources will be used for the BCR. We have previously raised our significant concerns with these definitions in the context of our response to the Com-Frame consultation which we do not consider appropriate. The ComFrame definitions of qualifying capital resources differ in many respects from requirements G-SIIs must meet in existing regimes but should be aligned. It is therefore difficult to evaluate the implications of these proposals in isolation of the final design and calibration of HLA. For these reasons we believe the BCR should require meeting capital resource requirements in substance as opposed to form. A principled, rather than prescriptive approach to capital resources should allow comparability without introducing unnecessary and unjustified change to local or regional regimes2. Fungibility of surplus capital in the regulated banking sector should be ensured and recognized as capital resources. In most jurisdictions, policyholders are ranked senior to debt holders - unlike bank depositors, who rank pari passu with senior creditors. Accordingly, in jurisdictions where policyholders rank ahead of debt holders, any debt (inclusive of senior debt, not just subordinated debt) should qualify as additional capital, provided that distributions could be suspended or amortized within 5 years of ultimate maturity. This would align with Guideline M2E5-5-4-1, which should be modified so that distributions that require prior regulatory approval qualify as core capital (i.e., surplus notes). In these jurisdictions (where policyholders rank ahead of debt holders) traditional debentures should qualify as capital since it meets the subordination requirement in form and substance (Parameter M2E5-5-1). Annex D - Question 28, (Points 6 & 7 page 35) The treatment of minority interest is ambiguous. In annex D, point 6 & 7, it is unclear whether minority interests are excluded from qualifying capital resources, as they are not explicitly defined as part of core capital and they are not added back as additional capital. The proxy measures for risk exposures are not explicitly defined as net of minorities. Consequently, BCR could be calculated on gross of minority exposures while capital resources are net of minorities. It is important that the two measures are consistently defined and calculated, otherwise the ratio between BCR and capital resources could be a non-sense. Annex D Question 28, (Paragraph 7 (h) and (i) page 36 and Paragraph 8)	

Organisation	Jurisdiction	Comments	
		Exclusions from core capital - Annex D include a list of items that are excluded from core capital. The exclusion of controlling holdings in banks´ core or additional capital is not an appropriate adjustment to group capital resources where the start point is a consolidated balance sheet. As regards point (i) excess secured or encumbered assets, we believe these items fully merit inclusion in core capital. Specifically, a reduction in core capital is not appropriate where excess collateral can be withdrawn and recovery on pledged assets is limited to the amount of any liability. The proposed deduction of the excess encumbered assets will have punitive impacts on hedging, securities lending and reinsurance activities that are fundamental to insurance risk management and funding. First, the proposed capital deduction could have a very punitive impact on derivative hedging activities. When companies post an initial margin for exchange traded and cleared swaps, and there is no associated liability on their books to net this collateral against, the full amount would be deducted from collateral. The proposed BCR wording would also deduct from core capital the typical haircuts on posted collateral for OTC derivatives. In these situations, the pledged assets could be sold to settle the derivative liability and the excess would be freely available to the insurer. Similarly, posted collateral for cleared derivatives would be released to the insurer once a derivative is unwound. Deducting these temporary encumbrances is excessively conservative and will inhibit the use of derivatives for risk management purposes. Secondly, to avoid inconsistent treatment of the off-balance sheet transactions, such as securities lending, there should be an appropriate recognition of collateral received in the form of other securities, which are not recognized on-balance sheet due to respective accounting rules. The proposed deduction would also impair the use of reinsurance for divestitures of insurance blocks. If the ceding company forced to post more collateral than the assuming reinsurer reports as liability, due to local collateral requirements or conservative reserving practices, the excess becomes a deduction to the reinsurer, which will add cost to the transaction and inhibit the use of reinsurance as a risk management tool.	

Organisation	Jurisdiction	Comments	
		Annex D Question 28, (Point 7 (e) & (f) page 35) On item e) and f), there is some confusion on whether or not this would apply to BCR or if it is only an ICS issue (cf. bottom of paragraph 52, "The IAIS intends to review both of these issues with the context of developing the ICS").	
Liberty Mutual Insurance Group	United States	Annex D does not adequately explain why the characteristics that distinguish Core Capital from other capital are material for insurance supervisory purposes, which should be focused on whether capital is available for insurance policyholder protection. It appears that any form of senior debt issued by a holding company may not constitute qualifying capital. Liberty Mutual strongly disagrees, because if that debt has been contributed to an insurance subsidiary and is subordinate to policyholder claims, it is clearly available as capital to the insurer. Although some restrictions on when debt can be considered core capital may be appropriate, by not allowing any debt to be considered capital the IAIS ignores the equity-like characteristics of long term debt and the ability of an issuer to refinance debt at maturity.	
Prudential Financial Inc.	United States of America	- Par D7 - Deferred Tax Assets: ComFrame treats DTA in an overly conservative way. DTAs appearing in times of stress would be inadmissible for capital as they generally rely on future profits for realization. Thus there would be no tax shield, despite the likelihood of insurers ultimately realizing the tax benefits. - Par D6 - We agree with and support the statement in paragraph 6 that the MOCE is fully included in core capital.	
Aflac	USA	As we noted in our comments on the May 28, 2014 Memorandum with respect to the Global Insurance Capital Standard (ICS), we share the industry-wide concerns over the overly conservative definition of qualifying capital that is included in the ComFrame Consultation Paper (October 17, 2013). The restrictions on qualifying capital are so prescriptive that they do not appropriately reflect the long-term nature of the insurance business model. We suggest that the IAIS consider types of qualifying capital other than those specified in the ComFrame Consultation Paper. Two examples of such qualifying capital are debt obligations issued at the holding company level and surplus notes, although these examples are not meant to be all-inclusive. In the United States, rating agencies allow certain types of debt instruments issued at the holding company level to be considered as equity for purposes of computing the debt to capitalization ratio. These particular debt instruments are often referred to as hybrid instruments as they have characteristics of both debt and equity. Since the proceeds from outstanding debt at the holding company level can be contributed to the insurance subsidiaries to support policyholder liabilities, these debt obligations should be considered a source of insurance regulated entity capital. We suggest that the IAIS consider these types of debt instruments at the holding company, or some portion thereof, as qualifying capital. Further, based on the IAIS's definition of core capital, surplus notes that are issued by U.S. insurance companies would not be considered	

Organisation	Jurisdiction	Comments	
		core capital. These capital instruments are a vital capital tool that is used to provide capital for insurance companies in the U.S. Even though surplus notes have a stated maturity, interest payments require regulatory approval by the supervisor before the insurance company can make payments. Therefore, we feel that surplus notes should be considered core capital.	
American International Group (AIG)	USA	Margin over current estimate (MOCE) The full inclusion of MOCE (the margin over best estimate liabilities) as a component of Qualifying Capital Resources would, in AIG's view, tend to undermine the rigor of the BCR framework by virtue of its sensitive dependence on actuarial approaches. Such inclusion runs contrary to the BCR's appropriate emphasis on simplicity, comparability, and resilience to stress. These concerns are amplified by the potentially significant impact that MOCE would have on the BCR ratios; as noted by the IAIS, MOCE would account for about 38% of G-SII Core Capital on average, based on the Field Test results. The MOCE is estimated through a computationally-intensive company-specific actuarial process, which can generate significantly different results based on relatively subtle changes in assumptions. Including MOCE as a component of capital therefore infuses this complexity and variability directly into the BCR capital ratios. During periods of stress, both supervisors and market participants rightly focus on an institution's capital position as defined by the purest, strongest forms of loss absorption, and are unlikely to place significant credence in the MOCE component of reserves. Although the MOCE does provide valuable loss absorbing properties, it is, in our view, unlikely that during a stress period these properties would be accepted by market participants, policyholders, and regulators as tantamount to those of true equity capital. As an embedded component of a defined reserve, the MOCE, unlike equity capital, is not capable of absorbing losses beyond its defined purpose. The IAIS should work to develop an economically appropriate treatment of MOCE that reflects both the benefits and limitations of its loss absorbing properties and that accounts for the likely variability and inherent opacity of individuated calculations in the estimation of MOCE across firms. A thoughtfully designed BCR should not be dependent on MOCE.	
Metropolitan Life Insurance Company (MetLife)	USA	Paragraph 7 Exclusions from Core Capital See our comments at Q4.3 Paragraph 52 b. Non-qualifying Reinsurance above. Where there is ability to withdraw excess collateral and a limitation of the counterparty"s recovery on pledged collateral to the amount of the liability (and accrued interest), the excess of restricted assets over related liabilities should not be treated as a reduction of capital. An example would be overcollateralization to Federal Home Loan Bank (FHLB). MetLife is permitted to withdraw at any time any portion of the collateral pledged to the FHLB as long as there is no event of default and collateral requirements are met.	
The Travelers Companies,	USA	We believe that any instrument that is subordinated to policyholders should be considered core capital. We also note that there is an inconsistency in that debt issued by the holding company can meet the requirements to be classified as a capital resource (paragraph 2), but	

Organisation	Jurisdiction	Comments
Inc.		then fails to be considered core or additional capital.
Comments on Annex E - Guidance for specific balance sheets items		
Canadian Life & Health Insurance Association Inc.	Canada	No Comments.
EIOPA Insurance & Reinsurance Stakeholder Group	EU	Specific balance sheet items are currently foreseen to be recognized using GAAP. We advocate a fair value option for those assets and liabilities. Property should be valued at fair value as it otherwise would be inconsistent with the valuation of invested assets which according to the proposal is based on fair value.
Insurance Europe	Europe	2 This paragraph makes a reference to IFRS/GAAP approaches for valuing property assets. The IFRS approach to property is not market value based. Given that European insurers will have to use a market value approach in the Solvency II context, Insurance Europe would welcome confirmation that market values are allowed for property assets (even if not part of the IFRS/GAAP approach).
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	General comment: We recommend providing for a fair value option as regards specific balance sheet items under US-GAAP. Paragraph 2: The valuation of property based on reported IFRS or GAAP is inconsistent with the valuation of invested assets based on fair value. The valuation of property should be changed to fair value.
The General Insurance Association of Japan	Japan	(General) We would like to request that it be made clear the IASs referred to in Annex E are applied only to companies that adopts IFRS, and not applied to those that adopt GAAP in their jurisdictions.
Allstate Insurance	United States	See Q-2 General Comments on Executive Summary

Organisation	Jurisdiction	Comments	
Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company			
Institute of International Finance - IIF	United States	Annex E - Question 29 Guidance for specific balance sheet items (Paragraph 2 page 37) Paragraph 2 states that property valuations should be based on the G-SIIs reported IFRS or GAAP valuations. However, property valuations under IFRS are not based on Market Values. This introduces inconsistency in the framework relative to other asset classes (as well as many existing and envisaged solvency regimes) for which market values are used and especially it introduces inconsistency in the comparability principle as property valuations may differ under different accounting regimes and other territories/Groups account properties to their market values. It would therefore be helpful if the IAIS can confirm that market values can be used in the valuation of property. However the principle of proportionality should prevent this from requiring costly valuation procedures to be instigated where use of market valuation would not be materially more insightful.	
Prudential Financial Inc.	United States of America	- Par E6 - this implies that the MOCE is calculated on a pre-tax basis. MOCE should be counted in capital and adjusted for taxes when doing so.	
CNA	USA	Paragraph 6 of Annex E directs the group not to determine the deferred tax effect of releasing the MOCE. Due to the material impact releasing MOCE has on equity, 38% for the G-SII's per the exposure draft, CNA believes it is critical to tax effect the MOCE adjustment in order to provide a more balanced and economic view. In addition, without a requirement regarding the recomputation of deferred taxes, we believe individual groups' financials would not be comparable and would, in fact, give an advantage to a group domiciled in a jurisdiction were a large MOCE is required. It is unclear to CNA why this result would be acceptable when the general approach has been standard valuation for comparability purposes.	

Organisation	Jurisdiction	Comments
Metropolitan Life Insurance Company (MetLife)	USA	Paragraph 6 We believe an adjustment is to be made to reflect that allocations of prudence (margins) from insurance liabilities to capital resources should generate a tax adjustment.
The Travelers Companies, Inc.	USA	No comment.
Comments on Annex F - BCR Formula and Derivation		
Canadian Life & Health Insurance Association Inc.	Canada	#24 - We are not entirely sure how to interpret this paragraph. We believe its intent is to state there was a need to create as many sub-segments as 15 to avoid having to blend factors for large blocks of business. Also, to gauge the appropriateness of setting the number of sub-segments at 15, it would be insightful to know the extent of avoidance of blending factors if 10 and 20 sub-segments would have been used instead. #39 - There is a lack of clarity of what risk factor to apply to non-fixed income assets in the Credit segment. We suggest that internally rated bonds be given a risk factor somewhere between investment grade (0.69%) and non-investment grade (1.8%). It is not clear what factor is applied to reinsurance recoverables. As a minimum, there should be a distinction between "investment grade", i.e. highly rated reinsurers (attracting a charge of 0.69%) and "non-investment" grade, i.e. lower quality reinsurers (attracting a charge of 1.8%). As a further improvement to enhance risk sensitivity and comparability, the risk charge for reinsurance should not be viewed as comparable with bond ratings and hence should be lower. Reinsurers are subject to regulatory oversight, must satisfy local capital requirements (in addition to any BCR requirements), and would represent a higher level of security than a comparably rated bond. Although there have been few reinsurer failures to draw on for actual experience, we believe that the loss given default for a reinsurer would be extremely low, and certainly much lower than would be the case for comparably rated bond. Together with a low probability of default, we believe the risk charge should be much lower than those for bonds.
Office of the Commissioner of Insurance	China, Hong Kong	It is stated that the current estimate is derived from cash-flows in which benefit and claims payments are netted by premiums received, and current estimate could be negative. Please consider suggesting to include treatments for any negative current estimate. Please also refer to comments made to Annex C.
EIOPA Insurance & Reinsurance	EU	See comments under section 2 and 2.2.

Organisation	Jurisdiction	Comments	
Stakeholder Group			
Insurance Europe	Europe	26 Insurance Europe welcomes the recognition of reinsurance as a risk mitigating tool through the use of current estimate net of reinsurance recoverables. However, the BCR fails to correctly reflect the economic benefits of risk-mitigating tools more generally including non-proportional reinsurance and profit/risk sharing. Further work should be done to see how risk-mitigation techniques can be included to better reflect the actual market risk exposure of insurers. 35 Given the comment that "Current estimate liabilities were considered, but were not chosen as the exposure base because they may be negative" we understand that current estimate liabilities in respect of variable annuities would not include the value of the separate account. We would welcome clarification on whether it is the intention of the IAIS that when considering the BCR capital requirement the current estimate liabilities for unit-linked business should in the same way exclude the value of the unit fund. 41 Insurance Europe welcomes the recognition of no asset risk attached to unit-linked business. In addition, Insurance Europe believes that the exposure measure for assets needs to appropriately recognise any policyholder participation in movements in asset values. 43 Insurance Europe would welcome more information on how implicit diversification was taken into account in the BCR calibration. Insurance Europe would like to note that an industry-based approach for diversification fails to account for differences between highly-diversified and poorly-diversified insurers. This is another example why the simplicity of the BCR may cause problems in practice.	
Gesamtverband der Deutschen Versicherungswirtschaft	Germany	Paragraph 41: Further clarification is required which assets are excluded from the asset exposure base, in particular for participating life insurance products. We suggest reflecting the corresponding loss bearing capacity of technical provisions by excluding assets backing participating insurance liabilities from the asset exposure base.	
International Credit Insurance & Surety Association	Global	21. Selection of Segments General Approach IAIS states that in order to create a homogeneous group one should consider "Whether the same exposure measure is appropriate for different risk grouped together". In the case of the grouping of trade credit insurance, surety and political risk insurance this obviously not the case. As the Exposure measure for trade credit insurance is totally different from the other types of insurance within its segment.	

Organisation	Jurisdiction	Comments	
(ICISA)		The consideration that there should be "similarity in terms of uncertainty relating to the size and timing of payments" within one segment then, again, trade credit insurance differs from its peers. Considering the dynamic exposure management of trade credit insurance companies makes that with regard to the third consideration "the relative riskiness of earned and unearned business" trade credit insurance is different from surety and other business in the Non Traditional Group. Exposure Measures for non life business 32. The reasons mentioned in this paragraph why Current Estimates are not an appropriate measure for Property (TNL Other) can be applied to Trade credit insurance and political risk insurance as well: - Similar to Property, for trade credit insurance the uncertainty relates to future events. - Current Estimates are not forward looking and do not correctly reflect events occurred in the history. - Volatility of the outcome would increase by over-emphasising past events. - Current Estimates cannot reflect sufficiently the dynamic exposure management of the credit insurance industry as and when it reacts to economic events. ICISA advocates therefore that trade credit insurance should be within "Traditional Non Life Other non life" segment with the net written premium as proxy for the Exposure Measure instead of the Current Estimate/Notional Value. Non Traditional Insurance segmentation 33 . …Other non traditional life insurance business has been combined into a comprehensive other non traditional insurance category along with other non-traditional non-life insurance and commercial credit insurance and suretyship. In case only limited data were available the IAIS wanting to avoid a "disproportionate level of granularity to the BCR formula in return for very limited additional risk sensitivity" grouped different insurance lines of business in sub segments. ICISA gathers that, since trade credit insurance and surety forms a small part of the overall business portfolio of the G-ISSs, grouping trade credit insurance, surety and political risk in the other non-traditional insurance segment seems to have been done merely for practical (statistical) reasons. ICISA would like to seek confirmation of this by IAIS. Given that there appears to be no reasoning behind this segmentation (other than the one mentioned above) and given that the IAIS in an earlier publication stated that the three main criteria of traditional insurance business are the following ones: - Premise of insurability (risk event well defined, accidental, the business is based on the law of large numbers).	

Organisation	Jurisdiction	Comments	
		- Accounted for under IFRS (and under US-GAAP) as insurance business. - Contains the notion of insurable risk. Trade credit insurance complies with these three criteria so ICISA does not see any reason why this should be different and advocates that trade credit insurance should be considered as traditional insurance business. The IAIS itself classifies Short-term trade credit insurance as traditional (IAIS document: Global Systemically Important Insurers: Policy measures, 18 July 2013 Page 17 Table 1. Classification of typical insurance activities). ICISA is curious to know why a merely practical segmentation overrides the earlier consideration regarding trade credit insurance as being traditional insurance business Current Estimates 38. Other non-traditional insurance includes credit products like surety, trade credit and political risk insurance. Due to limited data availability, Current Estimate has been used as the proxy exposure measure during initial field testing. Notional value captures insured volumes outstanding and could be better suited for the BCR. The main risk of loss comes from non-performance by the reference obligors in the contracts. Like mortgage insurance, a loss is not typically incurred until there is a credit event. The feasibility of using Notional value will be investigated during further field testing. This exemplifies again that credit insurance does not belong in this group as Notional Value is a non-existing exposure measure in trade credit insurance and Current Estimates do not make sense for the same reasons as do not make sense for the TNL property segment. ICISA advocates therefore that trade credit insurance should be within "Traditional Non Life Other non life" segment with the net written premium as proxy for the Exposure Measure instead of the Current Estimate/Notional Value.	
The General Insurance Association of Japan	Japan	- (Para 2,3) Same as Q.3 - (Para 26) Although it is stated in Annex F that the proxy measures for Protection type products are Net Amount at Risk, "Health" and "Other" classes of Protection type products are mapped to the "Other life" sub-segment in Annex G, and it therefore seems that Current Estimate is the proxy measure for the two classes. Although the Current Estimates of "Health" and "Other" could have negative value, is it okay to assume that negative Current Estimates as a proxy measure are allowed? (While this paragraph also states that "The Current Estimate is not considered an adequate proxy for the Protection segment because … the Current Estimate could be negative.") - (Para 31) It should be made clear that the Current Estimate described in this paragraph is a net amount netted with related reinsurance assets. - (Para 32) There are not just a few long-term policies in the sub-segment of "Property". Therefore, if written premiums are used as the proxy measure, lump-sum premiums for entire long-term policy periods will also be included in the proxy measure. This will result in the over-	

Organisation	Jurisdiction	Comments	
		evaluation of the measurement of risks during the coming one-year period. Hence, we would like to propose that the IAIS adopt earned premiums for the past one-year period, from the valuation date, as the proxy measure. (Although it is a figure for the past year, it would be very close to current conditions taking into account the increasing or decreasing trend of written premiums.) - (Para 42, 43) The IAIS's idea that it does not explicitly reflect ALM risk and diversification effects is understandable. - However, P&C insurers conduct risk control taking diversification effects by region, peril, etc. into account in underwriting risks and/or using ALM techniques. Hence, it should be examined during the development of the ICS that the benefits are appropriately reflected in the ICS framework. - We think it is worth considering reflecting diversification effects explicitly after examining the data collected through the field testing in reference to such elements as various approaches to reflect the effects in existing solvency regulation frameworks. - As stated in paragraph 23 of Annex F, segmentation, risk exposures, and factors are designed based on the risk profile of currently designated G-SIIs. If and when additional groups are designated as G-SII in the future, we believe it will be necessary to revisit the design of those elements as necessary.	
The Life Insurance Association of Japan	Japan	The segments of investment grade and non-investment grade should be determined by taking into account the substance of an insurance business, even where there is a lack of an external rating, instead of only using methods of rating agencies. For example, we believe that policyholder loans and validly collateralized claims should be included in the investment grade segment.	
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	Par. 26 of the annex seems to be not clear on how to calculate NAAR. Literally reading, current estimate net of reinsurance should be deducted from amount at risk gross of reinsurance. Therefore KNF propose to clarify this provision in the following way: "Net Amount at Risk (NAAR), equal to the sum insured net of reinsurance minus current estimate net of reinsurance."	
The Central Bank of the Russian Federation	Russia	BCR Calibration, alpha scalar (a) value Current proposal: The final value of the alpha scalar has not been determined. Our comment: We consider the alpha scalar (a) of 100% applied at the BCR testing appropriate. Higher scalar and, thus, higher BCR should not be used as it will influence insurers' risk management system. Property Traditional Non-life valuation Current proposal: The received insurance premium is proposed to be used as the exposure measure. Our comment: Although currently used factor models for the assessment of the required capital are based on the insurance premiums, it should be taken into consideration that the value of the insurance premium does not always reflect the amount of risk taken and the quality of	

Organisation	Jurisdiction	Comments	
		underwriting. Thus, such approach can fail to account to the full extent for the catastrophe risk specific to this property insurance segment. Segmentation of the NI component Current proposal: In the current formula, there is distinction between banking and non-bank non-insurance activities (NBNI). At the same time, the approaches to the valuation of capital necessary to cover the NBNI risks do not account for the specific features of various lines of such business. Annex G, describing the structure of the RBC components, does not include NI component. Our comment: Taking into consideration the importance of the NI component regulation for the financial stability of the insurance market, we suggest identifying the most common segments of the NBNI activities based on the results of the field testing (eg., asset management, pension insurance, real estate operations segments, etc.) (to supplement Annex G) and indicate at least basic approach to the valuation of each segment. As well, we suggest that the development of requirements to the capital covering NBNI businesses which are part of insurance groups should be coupled with the implementation of such requirements to the indicated businesses per se. For example, requirements to the capitalization of the asset managing company should be identical regardless of whether this company constitutes a part of the insurance group or not. Otherwise possibilities for the regulatory arbitrage appear. Accounting for the off-balance sheet assets and liabilities Current proposal: Guaranteed investment contracts and asset management operations are included into the NTNI component, on-balance sheet investments are included into the Assets component. Our comment: It is not clear how the BCR formula accounts for the NTNI off-balance sheet assets and liabilities, particularly derivatives operations used for the insurance reserves investment.	
Institute and Faculty of Actuaries	United Kingdom	Covered in responses to questions 2 and 3 above.	
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual	United States	See Q-2 General Comments on Executive Summary	

Organisation	Jurisdiction	Comments
Casualty Company		
American Council of Life Insurers	United States	Annex F, paragraph 39: It is not clear from the consultation paper how the IAIS will determine if an asset is "investment grade." We believe that any rating that is acceptable for national or NAIC regulators should be acceptable as "investment grade" for the BCR. "Investment grade" status should not be restricted to items with global ratings. Annex F, paragraph 48-49: We respectfully request additional clarification regarding the selection of a 25 basis point charge for assets under management as opposed to the 0.15% that is discussed in Paragraph F48. Paragraph F48 explains the rational of applying a 0.15% capital charge for operational risk as a ratio of assets under management and simply notes that "another jurisdictional approach" is a charge of 0.25%. Despite the explanation of why a 0.15% charge is appropriate, the IAIS has chosen to apply a 0.25% charge. We are not sure why 0.25% is more appropriate than 0.15% and would appreciate additional clarification on the rationale for applying a 25bp charge instead of the 0.15% charge. We respectfully oppose a 25bp charge on all assets under management, particularly for certain activities, like investment management operations. These operations manage capital for third-parties and provide no guarantees and therefore pose little to no solvency risk to the insurer. Mutual funds and linked savings units have similar risk postures to these investment management operations. Annex F, generally: The BCR requirements need to clarify how to calculate the BCR in the event of a joint venture. In those instances where the insurance group has a majority ownership, we believe it would be appropriate for the insurance group to calculate its BCR based on its portion of ownership of the financial obligations for such entity. In those instances where the insurance group has a minority ownership, we believe the insurance group should treat the joint venture as an investment and use the appropriate BCR factor for determining the BCR components for such investment.
Institute of International Finance - IIF	United States	Annex F Question 30, (Paragraph 35 page 45) Given the comment that "Current estimate liabilities were considered, but were not chosen as the exposure base because they may be negative" we understand that current estimate liabilities in respect of Variable Annuities would not include the value of the separate account. Is it the intention of the IAIS that when considering the BCR capital requirement the current estimate liabilities for unit linked business should in the same way exclude the value of the unit fund?" Annex F Question 30

Organisation	Jurisdiction	Comments	
		We acknowledge that the IAIS has decided to retain a simple approach for developing the BCR in its given timeframe. We can understand the rationale and think that it should allow the IAIS to close the open issues flagged in our response in a timely manner. We also note that while this approach can make sense in this context, it will create a gap between the BCR/HLA on the one hand and existing solvency regimes on the other hand with potentially conflicting rules or behaviours between the various standards (in particular with those that are the most risk-based). This is particularly true since the IAIS has decided not to take explicitly into account diversification, asset-liability management or risk mitigation tools such as non-proportional reinsurance. Also, while we can apply the yield curves established by the IAIS, they may not be totally consistent with yield curves applied pursuant to existing regimes. We are of the opinion that these elements should be carefully considered when calibrating the BCR and also the BCR plus HLA. (Paragraph 43 page 47) Diversification - The bluntness of the BCR may lead to some anomalous results given that the benefits of diversification from well diversified composite insurers may be effectively shared with less well diversified firms as a result of the calibration of the factors. It is also unclear how the response of the BCR to adverse scenarios will mirror the true circumstances of well diversified firms. Therefore it is important that the BCR only serves as a reference for dialogue and should not become a trigger for supervisory action. Annex F Question 30, (Paragraph 41 page 46) Regarding assets supporting liabilities, in Annex F paragraph 41, we understand that assets backing pure unit-linked and separate account products are excluded from the asset charge for BCR purposes, as the investment performance is passed through to the policyholder. Since the assets backing participating products with participating features would similarly share the risks with the policyholders, we would appreciate it if the IAIS could clarify whether assets backing liabilities with participating features will be excluded from the exposure measure for assets. We suggest assets backing with-profits products should be excluded from asset charges as the liabilities have loss absorbency and are therefore less risky than the assets backing non-par business, considering also that with-profits products are already subjected	

Organisation	Jurisdiction	Comments	
		to liability charge. If such approach is not retained by the IAIS, when will the further guidance referred to by the IAIS in the consultation be made available and its impact taken into account? Credit Investment and non-investment grade assets. We would welcome confirmation that internally rated assets can be classified as investment grade. For the field test, the IAIS had considered assets not rated by rating agencies as below investment grade. The treatment of internally rated assets does not give due recognition to the sophisticated techniques that G-SIIs have for assessing the credit quality of their exposure and is inconsistent with the FSB´s commitment to reduce reliance on external credit ratings. We do not agree with the below investment grade classification of policy loans.	
Liberty Mutual Insurance Group	United States	The explanation provided for how the Factor Values were derived is not convincing. If anything, the explanation demonstrates that the IAIS was not able to obtain meaningful information to develop risk factors. We are left with the impression that the factors were determined arbitrarily. Annex F, Paragraph 13 discusses calibrating based on the objective of targeting the BCR between the upper and lower thresholds for supervisory intervention, but the footnote at the bottom of this page says that not all G-SII jurisdictions have group-wide PCRs. In light of the effort involved in getting information to estimate what a group-wide PCR would be in the absence of an actual requirement, we question the reliance on a calibration based on non-existent group-wide thresholds.	
Prudential Financial Inc.	United States of America	- Par F35 - As noted above in Q9, Notional Value of Annuities is inappropriate. It is more appropriate to use a NAR framework as suggested for Protection Life. Could combine with account values to reduce pro cyclicality. In addition, As noted above in Q3, we object the use of Current Estimates as basis of factors. - Par F40 - We do not understand the comment "in contrast to GAAP values" which implies that GAAP values assets at other than fair value. - Par F41 - Please provide clarification that assets in a Closed Block, which also fully pass through asset risks to the policyholder, will be excluded from the asset charge like separate accounts. The "e.g. unit linked" is Euro-centric and should also refer to separate accounts. - Par F42 - Local regulation may already address incentives for minimizing ALM risk, such as AAT testing in the US. - Par F43 - We reinforce the need for explicit diversification in the ICS.	

Organisation	Jurisdiction	Comments	
		- Par F46 - The IAIS is not charged with creating global standards for third party asset management activity and should not seek to do so through proposed regulation of G-SIIs. "Material exposure" to financial activities such as asset management presumably means that G-SIIs may have significant asset management subsidiaries. Asset management expertise is integral to sound operation of insurance companies; extending asset management activities to third party assets under management strengthens G-SIIs. - Par F48 - The IAIS is not charged with creating standards for third party asset management activity, whether stand-alone or owned by banking organizations, G-SIIs or other insurance organizations. A straight bp charge on AUM as a methodology for calculating a capital charge does not demonstrate an analysis of risk including an appreciation of an asset manager's various client types (institutional, retail, registered fund, private fund) or advised asset classes (fixed income, equity, derivatives). FSB and IOSCO are currently considering regulatory standards in the asset management area. It is premature for the IAIS to make any determinations in this area. - Par F49 - As noted, assessing a capital charge on third party assets under management for asset managers owned by G-SIIs does not foster global comparability but rather creates different treatment of asset managers based on ownership.	
American International Group (AIG)	USA	Segmentation The Field Test clearly demonstrated that the broad segmentation required by the Technical Guidance for this draft BCR does not provide sufficiently granular categorization of many well-established insurance products. Our own experience in the BCR Field Testing process illustrates the need for more refined and thoughtful segmentation before implementation of the BCR. On a US GAAP basis, the majority of AIG's Property & Casualty insurance liabilities were classified as "Other" according to the specifications of the Field Test, even though this book of business includes well-established and traditional insurance lines (e.g., workers compensation; environmental; general liability; directors & officers). Some of these product groups date back to the late nineteenth century. Others date back multiple decades in the marketplace. While the lines of business have varying risk profiles, they are product lines of long-standing and economic significance in insurance markets and cannot reasonably be segmented in this undifferentiated manner. Enhancing and rethinking the relatively crude existing segmentation is essential to aligning the BCR more closely with insurers' internal product categorizations used for management purposes, and to precluding unintended but marked differential commercial results across the US, European and world markets. Such enhancements would, in our view, also provide the basis for a more refined calibration of factors applied in determining BCR Required Capital. Yield curve The determination of the yield curve for purposes of revaluing reserves for the MAV balance sheet is an important consideration that requires further specification before the finalization of the BCR. Differences in the yield curve generate differences in the MAV liabilities and, in turn, in	

Organisation	Jurisdiction	Comments	
		reported equity. Disparities in yield curve assumptions across G-SIIs would introduce a potential source of variability and, in turn, reduce the comparability of insurers' MAV results. To promote consistency and comparability in BCR calculations, it is our view that the same yield curves should be applied across all G-SIIs for the purposes of deriving the MAV balance sheet. The yield curve selected by supervisors for calculating the BCR should be realistic, be based on available market and historical inputs, and reflect the long tenor of insurance liabilities which, in many cases, exceeds 30 years. Moreover, the yield curves should be relatively stable over time. Significant shifts in yield curve assumptions could introduce potential volatility and pro-cyclicality into the capital standards, as yield curve changes that affect the value of equity but do not affect underlying cash flows could force insurance companies to deleverage in a period of stress, exacerbating risks rather than absorbing shocks. Diversification AIG recognizes that, in the interests of simplicity, the BCR does not allow for the explicit incorporation of diversification effects within the capital charges. Although this decision is consonant with the limited initial objectives of the BCR, we encourage the IAIS, as it refines the BCR, develops the HLA, and promulgates the ICS to further consider potential methodologies for reflecting, for example, the low dependency between natural catastrophes and financial risks. Explicit, rather than implicit, recognition of diversification effects among differing risks and products can provide important and useful prudential incentives for insurers to reduce risk and business concentrations. Explicit recognition of diversification would also enhance the relevance of the BCR as a measure of risk-based capital, in turn increasing the utility of the BCR as an indicator of solvency. Treatment of non-regulated banking activities Our comments in this area are informed by our own experience over the past five years. Since the financial crisis, AIG has substantially de-risked our investment portfolio and markedly reduced sub-investment grade securitization-related exposures. This de-risking process, including the ongoing run-off of legacy exposures, is a critical component of our multi-year effort to refocus AIG's energies and financial resources on our core insurance operations. Therefore, AIG expects that the allocation of our BCR regulatory capital to these activities will decline as we continue to reduce these exposures. Given the BCR's intentionally simplistic and transparent methodologies for factor-weighting insurance assets and liabilities, AIG concurs with the IAIS that the application of a Leverage Ratio measure (rather than the more computationally-intensive Basel III risk-weighting approach) is appropriate for addressing non-regulated banking activities.	
Genworth Financial, Inc.	USA	Genworth Financial, Inc. ("Genworth") is an insurance holding company that ranks in the Fortune 500 and is traded on the New York Stock Exchange. Genworth operates primarily in two divisions, including a U.S. Life Insurance Division that will be submitting any comments on the life insurance issues in the consultation through its trade associations, most notably the American Council of Life Insurers. Through Genworth's affiliates in the Global Mortgage Insurance Division, it is a leading provider of mortgage insurance. It has a material mortgage insurance subsidiary in the United States (Genworth Mortgage Insurance Corporation), and material holding company subsidiaries Canada	

Organisation	Jurisdiction	Comments	
		(Genworth MI Canada Inc., which is traded on the Toronto Stock Exchange) and Australia (Genworth Mortgage Insurance Australia Limited, which is traded on the Australian Securities Exchange). It also offers mortgage insurance in select markets in Europe and Latin America. Genworth Financial, Inc. does meet the currently proposed definition of an Internationally Active Insurance Group, but has not been designated a Global Systemically Important Insurer ("G-SII"), nor does it believe it should be considered such. For our businesses in Canada and Australia (which represent the majority of our International Mortgage insurance business), risk in-force ("RIF") is defined as an effective risk in-force, which recognizes that the loss on any particular loan will be reduced by the net proceeds received upon sale of the property. Effective risk in-force has been calculated applying a 35% factor that represents our highest expected average per-claim payment for any one underwriting year over the life of our businesses in Canada and Australia. Genworth Mortgage Insurance Corporation defines RIF as our obligation that is limited under contractual terms to amounts less than 100% of the mortgage loan value. On average, there is a policy limit of 25% of the principal amount of the mortgage loan. These are the definitions that we use in our insurance holding company's public financial disclosures. These definitions of RIF are different from the first sentence of Annex F, paragraph 36, which states: "Mortgage insurance risk-in-force measures the insured outstanding principal of the mortgage loans insured." Adoption of a description of RIF that aligns with currently publicly reported financial data would lead to a simpler definition that is comparable across companies and reduces arbitrage because it matches publicly disclosed data. The current language could lead to anomalies because it does not either include policy coverage limitations or recognize that mortgage insurance is, by definition, made on the credit risk for collateralized loans. In the United States, the European Union (excepting France), Korea and Mexico, the industry standard is that the credit risk is insured to a percentage of the loan. In the U.S. market, the mortgage insurer traditionally offers a first-loss layer of protection, with the insured lender (or loan investor) retaining second loss position. The loss exposure provided by the insurer on a loan is the RIF, which is typically far less than the full current loan balance of an insured loan. For example, on a $100,000 insured loan, and if 30% first-loss coverage is in place, the MI's RIF is $30,000 at time of origination and will proportionately decrease as the loan amount decreases until the loan to value ratio becomes 78 percent, at which time it will terminate as a matter of law. The coverage range is often lower in the other jurisdictions. The challenge for the existing definition of RIF in the consultation is that despite the exposure being explicitly limited in the insurance contract, the capital charge would apply to the whole outstanding balance. In Australia and Canada, the general market practice is for the entire loan balance, net of the proceeds received upon sale of the property, to be covered, with the premium paid in one initial payment. While there is no explicit loss cap, there effectively is a loss cap, because there is recognizable value in the property. That value can be and is actuarially estimated, even for a stress scenario. If the proposed definition were adopted, then excluding the realizable value would create the potential for arbitrage, since assuming a full loss in all instances is much more severe than the Basel framework capital assumptions for banks or for insurance companies holding residential real estate loan investments. Improving the guidance for RIF would assist the IAIS in meeting the following BCR Principles: Comparability of outcomes across jurisdictions	

Organisation	Jurisdiction	Comments	
		(Principle 2); Resilience to stress (Principle 3); Simple Design and presentation (Principle 4); and Optimize transparency and use of public data (Principle 6). Genworth is pleased to have had the opportunity to present these comments and if it would be of assistance to get more information about the preceding, Genworth would be pleased to make its actuarial or accounting experts available for further discussion with the IAIS.	
Metropolitan Life Insurance Company (MetLife)	USA	Paragraphs 35 - 38 Additional Guidance on Segmentation While we understand that the list provided by the current BCR consultation paper is not exhaustive, given that several important business lines are not included, more detailed guidance on IAIS segmentation would be very helpful. Paragraph 35 Variable Annuities - Notional Value Paragraph 35 states that "[t]he notional value of variable annuities represents the present value of those payouts that are contractually agreed to each policyholder as of the valuation date." We would suggest that further guidance on this calculation would be helpful to ensure consistency of data. Paragraph 39 Definition of Investment Grade Assets Field testing included use of both global and national ratings. We understand we will be required to use global ratings and thereby classify any asset that does not receive a rating from Fitch, Standard and Poor's, AM Best, or Moody's as a sub-investment grade asset. We find this classification to be unduly conservative and propose that at the very least G-SIIs be permitted to use ratings approved by a G-SII's regulator. We understand the formula requires us to apply a sub-investment grade factor to policyholder loans. First, we disagree entirely that any factor be applied to policyholder loans as these loans do not present any credit risk due to their being fully secured by the underlying policy assets. Second, in light of the first, if (as we would argue should not be the case) the IAIS persists in apply a factor to these loans, it should be investment and not sub-investment grade. Paragraph 41 could be read to suggest that asset factors could be applied to separate account products with guarantees. We understand from the IAIS that there will be no asset factor charges on separate accounts, including separate accounts with guarantees. Please confirm our understanding.	
Northwestern Mutual Life Insurance Company	USA	Concerning paragraph 49, we believe that a 25bp charge on all assets under management, particularly for certain activities, like investment management operations is inappropriate. These operations manage capital for third-parties with no guarantees and therefore pose little to no solvency risk to the insurer.	
The Travelers Companies, Inc.	USA	It is difficult to comment on the formula without having more information, especially on what will be used as the scalar.	

Organisation	Jurisdiction	Comments
Comments on Annex G - Mapping table: BCR category to field testing data collection		
Canadian Life & Health Insurance Association Inc.	Canada	No Comments
EIOPA Insurance & Reinsurance Stakeholder Group	EU	No comments.
Insurance Europe	Europe	In any rare cases where due to the relative immateriality of guarantees relative to separate account values, the capital requirement for a group's variable annuity (with living benefits) business calculated as the factor for "variable annuities" applied to the notional value of guarantees is lower than the capital requirement that would apply if the business was treated as traditional unit-linked business (ie calculated by multiplying the factor for "Other Life" applied to the total current estimate liabilities (including separate account), we believe that the variable annuity business should be apportioned to "Other life". We would request that the IAIS confirm more explicitly if this is the intention.
Institute and Faculty of Actuaries	United Kingdom	Covered in responses to questions 2 and 3 above.
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary

Organisation	Jurisdiction	Comments	
American Council of Life Insurers	United States	Annex G provides a chart mapping the BCR category (Traditional Life, Traditional Non-Life, Non-Traditional, Assets) with the BCR segment and the corresponding products. It is not clear from the chart how to classify some insurance products that are issued by a life insurance company but are not necessarily life insurance products. For example, it is not clear where individual disability income and long-term care insurance should be classified. Without clearer definitions, the potential choices appear to be one of the following (TL-Other life, TNL-Other NonLife, or NT - Other Non-Traditional) with respective factors of 0.6%, 7.5% or 1.29%. Because the classification is unclear, we respectfully suggest that the classification for these products be aligned with those insurance products with the greatest level of similarity. This will increase the chance that the associated factors are logically assigned and make the most sense for the product in question. For example, we believe the risk of an individual disability income and long-term care insurance is more closely aligned to life insurance products with long-term guarantees. So long-term care insurance and individual disability income policies appear to fit best in the "TL-Other Life" category. Other products that are not clearly categorized include vision, dental, long-term care insurance and group long-term disability insurance. The definitions of each of the classifications should be improved to avoid inconsistent practices - with the wide range of factors that could result. It would be helpful to have guidance stating that a product should be classified according to the BCR segment populated by products that have the greatest level of similarities.	
Institute of International Finance - IIF	United States	"Annex G, Question 31, (Page 50) An additional asset class - Other receivables - should be included under Credit investment grade. Typically, insurers' "Other investment assets" would consist of a large majority of "Other receivables" such as bank certificates of deposit. As such, applying a factor of 8.4%, which corresponds to "Other investment assets", to "Other receivables" is excessively punitive. Instead, it would be more appropriate if "Other receivables" were classified under "Credit - investment grade" with a corresponding factor of 0.69%. Annex G, Question 31, (Page 49) In any rare cases where due to the relative immateriality of guarantees relative to separate account values, the capital requirement for a group´s variable annuity (with living benefits) business calculated as the factor for "Variable annuities" applied to the notional value of guarantees is lower than the capital requirement that would apply if the business was treated	

Organisation	Jurisdiction	Comments	
		as traditional unit-linked business (i.e. calculated by multiplying the factor for "Other Life" applied to the total current estimate liabilities (including separate account)), we believe that the variable annuity business should be apportioned to "Other life". We would request that the IAIS confirm more explicitly if this is the intention.	
Prudential Financial Inc.	United States of America	- Investment grade assets: Private loans should not require a third-party rating to be treated as IG; internal ratings should suffice. - [Table] Investment grade assets: Policyholder loans are risk free and should not be treated as Non-Investment Grade.	
Aflac	USA	In its March 18, 2014 document, the IAIS stated that "[a] more sophisticated and risk-sensitive framework [than BCR] is anticipated to be achieved via ICS development." To make the ICS "more sophisticated and risk-sensitive" than BCR, ICS is expected to incorporate more granular and risk-sensitive segmentation than BCR with respect to insurance liabilities. We believe that IAIS's further understanding of low-risk nature of A&H products offered by life insurance companies, such as Aflac, will inform development of granular and risk-sensitive segmentation in ICS development.	
American International Group (AIG)	USA	Segmentation The Field Test clearly demonstrated that the broad segmentation required by the Technical Guidance for this draft BCR does not provide sufficiently granular categorization of many well-established insurance products. Our own experience in the BCR Field Testing process illustrates the need for more refined and thoughtful segmentation before implementation of the BCR. On a US GAAP basis, the majority of AIG's Property & Casualty insurance liabilities were classified as "Other" according to the specifications of the Field Test, even though this book of business includes well-established and traditional insurance lines (e.g., workers compensation; environmental; general liability; directors & officers). Some of these product groups date back to the late nineteenth century. Others date back multiple decades in the marketplace. While the lines of business have varying risk profiles, they are product lines of long-standing and economic significance in insurance markets and cannot reasonably be segmented in this undifferentiated manner. Enhancing and rethinking the relatively crude existing segmentation is essential to aligning the BCR more closely with insurers' internal product categorizations used for management purposes, and to precluding unintended but marked differential commercial results across the US, European and world markets. Such enhancements would, in our view, also provide the basis for a more refined calibration of factors applied in determining BCR Required Capital.	
The Travelers Companies, Inc.	USA	We believe that for P&C insurance the mapping creates situations where different risks are mapped to the same segment (i.e., the risk of adverse "event" experience for the unexpired portion of current contracts, and the risk of mis-estimation of existing claim liabilities). We do not think this will be informative at all for the ICS and might lead to incorrect assessments of capital needs for those GSII's with P&C business.	

Organisation	Jurisdiction	Comments
Comments on Annex H - Sensitivity Analysis		
EIOPA Insurance & Reinsurance Stakeholder Group	EU	No comments.
Komisja Nadzoru Fiansowego - KNF (Polish Financial Supervisory Authority)	Poland	The purpose of having in the document the last annex on sensitivity of the parameters is not clear, if the linear approach to BCR is proposed. It seems obvious that with the 15 factors only, where average input of each factor is 6,5%, change of one factor will not cause big changes in the result (due to linear nature).
Allstate Insurance Company, The Chubb Corporation, CNA Financial Corporation, Employers Mutual Casualty Company	United States	See Q-2 General Comments on Executive Summary
Property Casualty Insurers Association of America (PCI)	United States	With regard to surety, there should be reference to reliance on the domiciliary jurisdiction determination. For example, in the U.S., surety is considered insurance/co-insurance for many purposes and this should be the controlling determination.

Organisation	Jurisdiction	Comments	
Prudential Financial Inc.	United States of America	None	
The Travelers Companies, Inc.	USA	It is too preliminary to comment on the sensitivities.	