INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS

Technical Note on ICS Version 2.0 for the monitoring period

The following table summarises the changes to ICS Version 2.0 for the monitoring period compared to 2019 Field Testing and should be read in conjunction with the Level 1 document for ICS Version 2.0 for the monitoring period. The full description of 2019 Field Testing (2019 FT) can be found in the Technical Specifications. Any component not described in the table will use the approach (design and calibration) from 2019 Field Testing for ICS Version 2.0 for the monitoring period. The Level 2 document with a full description of ICS Version 2.0 for the monitoring period will be released in early 2020. At such time, stakeholders should refer only to the Level 2 document and not this technical note.

Reference to 2019 FT	ICS Component	Change compared to 2019 FT
5	ICS Balance Sheet	**Accounting**: Added accounting guidance for non-insurance entities by defining various types of entities, and then determining the accounting treatment to generally align with the GAAP requirements. Additionally, guidance was developed for non-voting interest entities. **Capital Requirements for non-insurance entities:** Maintained the approach followed for the BCR/HLA capital requirement with the addition of: • Proportional sectoral requirements for entities reporting on the equity method (significant influence); • Equity risk charge for Market Value/GAAP Value investments; and • Equity risk charge for non-financial entities.
6	Market Adjusted Valuation	**Middle Bucket criteria:** Criterion c is modified to recognise liabilities that are partially, rather than fully, matched. A graduated benefit is applied for partial matching of assets and liabilities. The longer the period of matching, the larger the benefit granted in the spread calculation. After the matching period ends, the spread is phased out, while ensuring that the spread stays between that of the General Bucket and the maximum possible spread of the Middle Bucket. **Spread over the LTFR**: The spread over LTFR has been refined and depends on the real interest rate classifications used for the calculation of the LTFR. The spreads are:

Reference to 2019 FT	ICS Component	Change compared to 2019 FT
		• 20 basis points (developed economies); • 25 bps (other developed economies); and • 35 bps (emerging markets) **Rolling hedges:** The treatment of rolling hedges with respect to valuation will use a similar approach to that applied to rolling hedges for market risks, including a 20% haircut and a replacement frequency of not less than one month.
9	Qualifying Capital Resources	**Extraordinary calls for Tier 1 Limited financial instruments**: A provision for extraordinary calls is introduced in the criteria for Tier 1 Limited financial instruments to allow for calls in the first five years after issuance of the instrument in cases of regulatory or tax events, provided the instrument is replaced by another of similar or better quality. **Tier 2 Basket**: The Tier 2 basket limit is increased from 10% to 15% of the ICS capital requirement to address the cliff effect under a stress condition and to consider DTA on MOCE in the Tier 2 basket. In addition, the amount of computer software intangibles recognised in the basket is subject to a 90% haircut, compared to the previous haircut of 50%. **Principal Loss Absorbency Mechanism (PLAM)**: A distinction is made for mutual and non-mutual IAIGs. For non-mutual IAIGs, the 10% limit for Tier 1 Limited financial instruments will be maintained for Tier 1 Limited financial instruments that do not have a PLAM. An additional 5% allowance is granted to those Tier 1 Limited financial instruments that do have a PLAM. The limits are stated as a % of the ICS capital requirement. For mutual IAIGs: A PLAM is not required as part of Tier 1 Limited capital resources and the limit for Tier 1 Limited capital resources is maintained at 30% of the ICS capital requirement. **Acceleration Clauses**: The IAIS will retain criterion i) for Tier 2 Paid-Up financial instruments, which does not allow acceleration clauses that may be triggered in going concern. However, a national discretion will be allowed in order to recognise acceleration clauses, provided all other criteria are met. The Kuala Lumpur Agreement states that: "*The reference ICS could include a limited number of national discretions for issues that cannot be resolved. If*

<table>
<tr><th>Reference to 2019 FT</th><th>ICS Component</th><th>Change compared to 2019 FT</th></tr>
<tr><td></td><td></td><td> national discretions are used, the impact of those national discretions should be reconcilable.”
Therefore, jurisdictions that wish to recognise acceleration clauses that may be triggered in going concern may do so, provided IAIGs from those jurisdictions provide a reconciliation of the impact between the reference ICS with and without acceleration clauses that may be triggered in going concern.
Make-Whole Call Provisions: Criterion e) for Tier 2 Paid-Up financial instruments is modified to recognise financial instruments that are callable within the first five years from the date of issue, provided that:

Any such call is at the option of the issuer only (the instrument is not retractable by the holder);
Any such call is subject to supervisory approval; and
The called instruments must be replaced in full before or at redemption by a new issuance of the same or higher quality instruments.

For structurally subordinated financial instruments, the requirement for supervisory approval of such calls can be fulfilled through the exercise of supervisory controls and supervisory review, including the ability (direct/indirect) for supervisors to limit, defer and/or disallow the issuance or redemption of capital instruments. </td></tr>
<tr><td>11</td><td>Consistent and Comparable Margin over Current Estimate</td><td>The percentile-MOCE is maintained. The calibration is increased to 85% (from 80%) for life business and maintained at 65% for non-life business.</td></tr>
<tr><td>12.3</td><td>Insurance Risks - Life</td><td>The Level and Trend Lapse risk stress for business written in Japan is reduced to 20% from 25%.</td></tr>
<tr><td>12.3</td><td>Insurance Risks – Non-Life</td><td> The Premium and Claims Reserve risk factors were refined for the following lines of business in Australia & New Zealand (AU & NZ) and Hong Kong SAR (HK SAR):
<table>
<tr><th>Premium Risk</th><th></th></tr>
<tr><td>AU and NZ – Medical expense insurance</td><td>15%</td></tr>
<tr><td>Claims Reserve Risk</td><td></td></tr>
<tr><td>AU and NZ – Consumer credit</td><td>15%</td></tr>
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<tr><th>Reference to 2019 FT</th><th>ICS Component</th><th>Change compared to 2019 FT</th></tr>
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<tr><td>AU and NZ – Other type B</td><td>35%</td></tr>
<tr><td>HK SAR – Goods in transit</td><td>50%</td></tr>
<tr><td>HK SAR – Fire & Property Damage</td><td>20%</td></tr>
<tr><td>HK SAR – General liability</td><td>26%</td></tr>
<tr><td>HK SAR – Non-proportional treaty reinsurance</td><td>25%</td></tr>
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<tr><td>12.4.3</td><td>Equity risk</td><td>The impact of running the level and volatility stresses in combination will not be requested.</td></tr>
<tr><td>12.4.6</td><td>Asset concentration risk</td><td>The Granularity Adjustment (GA) will be simplified such that the number of counterparties used to calculate the GA must be at least 10 to a maximum of 100. In addition, the GA formula will be refined to introduce a weighting factor of 95% (rather than 100%) for equity exposures. Finally, the 2018 Field Testing approach to asset concentration risk will not be requested.</td></tr>
<tr><td>12.5</td><td>Credit risk</td><td>Agent/Broker Balances: A stress factor of 6.3%, derived from the Credit risk factor for unrated short-term exposures, will be used for agent/broker balances.</td></tr>
<tr><td>13</td><td>Tax</td><td>Deferred Tax Impact on MOCE: The percentile MOCE will be considered a temporary difference for tax purposes. No deduction is applied to the DTA resulting from MOCE.

Tax Effect on the Insurance Capital Requirement: The utilisation assessment is the minimum of 20% of the ICS insurance capital requirement and the sum of tax loss carry backs (15% haircut), future income using 5 year historical GAAP income multiplied by the group effective tax rate (50% haircut), and net DTL less the net DTA (limited to 15% of the ICS insurance capital requirement). Deferred taxes on the ICS balance sheet are offset before performing this calculation.</td></tr>
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