



TOPICS:

Insurance

SOURCE:

European Insurance and Occupational Pensions Authority

EIOPA: Revised Guidelines on the Treatment of Market and Counterparty Risk Exposures in the Standard Formula

- The EIOPA Final Report sets out targeted amendments to the 2015 Guidelines under Solvency II, primarily **to update legal references, streamline content and enhance clarity** without altering supervisory expectations.
- EIOPA emphasises simplification and proportionality, **removing** guidance that duplicates clear Level 1 or Level 2 provisions. Accordingly, Guidelines 1 (employee benefits), 3 (average duration in the duration-based equity sub-module), 7 (market risk concentration) and 8 (securities lending and similar arrangements) are deleted.
- **Amendments** to existing guidance focus on clarifying application principles. Guideline 2 (duration of bonds and loans) generalises the treatment of issuer options, requiring prudent assumptions under stressed conditions. Guideline 4 reiterates that all interest-rate-sensitive assets and liabilities must be included in the interest rate risk sub-module, with stressed recalculation of technical provisions and assets.

- Guideline 5 clarifies that hybrid instruments must be assessed according to economic substance, applying relevant stresses to discrete components where feasible. Guideline 6 strengthens conditions under which financial risk-mitigating instruments, including short equity positions, may be recognised, limiting eligibility to instruments compliant with Articles 208–215 of the Delegated Regulation. Guideline 9 simplifies the treatment of legally binding commitments lacking explicit nominal values, requiring an estimated maximum exposure for loss-given-default calculation.
- A **new** Guideline 10 addresses leveraged investment funds. Under the look-through approach, undertakings must account for leverage by applying stresses to gross assets and deducting outstanding borrowing; losses are capped at 100% for highly leveraged structures.

