April 20, 2021

IAIS Draft Application Paper on Macroprudential Supervision – *NAIC Draft Comments*

Section/Paragraph	Comment
General	Overall the paper reads well and is quite comprehensive. However the Application paper continues to be overly granular in detail and/or come across as prescriptive in places.
4	Editorial: It should not, however, ~~not~~ be considered as an exhaustive guide to macroprudential supervision.
18	Suggest moving this statement to be the first in the paragraph with edits below: A risk dashboard is ~~seen to be~~ a descriptive data tool aimed at regularly assessing relevant risks and trends.
19	Editorial: The frequency of updating ~~of indicators~~ may depend on the availability of data, the stage of the financial cycle and other market developments or impending disruptions.
21	Editorial: The remainder of this section provides general guidance and examples on the construction and use of a risk dashboard. As concrete ~~Concrete~~ examples, ~~risk dashboards are included in~~ Annex 2 provides the risk dashboards used by South Africa and EIOPA. ~~for the following members:~~ ~~• South Africa~~ ~~• EIOPA~~
27	Editorial: Trends typically reflect the behaviour of the risk by indicating how a certain exposure or indicator has developed over time.
52, Table 2	Noting both approaches as resource-intensive for supervisors is not phrased in a way that belongs in a table of reasons one approach might be preferred to the other. Therefore, suggest rewording the bottom-up disadvantage both to distinguish the two options and to better reflect the differences of the two approaches: Somewhat less resource-intensive for supervisors, but more intensive for participants ~~and supervisors~~. All other things equal, model-driven is a plus, not a minus, because it is easier to implement, so the downside(s) are the whole point, not just parenthetical. Suggest: ~~Model driven (less flexible)~~ Use of models may limit flexibility of approach. Participants tend ~~Incentive~~ to present ~~more~~ favourable results.
59	Editorial: Sensitivity analysis is an evaluation of the ~~effects of~~ degree by which a model's results ~~(ie by the function that describes analytically)~~ vary in response to changes ~~induced by changes int~~ to the values of input variables.
60	Editorial:

	The data extracted by insurers should always follow the same criteria to assist supervisors in ~~be able to~~ understanding the macroeconomic implications of ~~view generated by~~ a given factor.
62	Editorial: Supervisors could also consider qualitative analysis methods (eg review of questionnaires, ~~or~~ surveys, or published material) to monitor and assess specific risks that might not necessarily be identified by quantitative analysis methods
79	Editorial: It becomes a macroprudential concern if a shock (the trigger event) leads to reactions causing liquidity shortages ~~in a particular~~ across an entire sector or across several sectors.
84	Editorial: The failure of a large insurer in a critical niche market may become a systemic concern if it leads to financial problems for its ~~counterparts~~ counterparties, particularly if these counterparties are critical financial market participants themselves. ~~Hence,~~ Limited substitutability refers to the difficulty for other components in the financial system to ensure the continuation of supply of insurance coverage after a failure or distress of an individual insurer~~. However, the exposure can also apply to groups of insurers~~ that performs a specialised function.
96, Table 5	We are not sure that it is appropriate to rely on the "exposure-balance sheet" indicator to assist in the identification of off-balance sheet financing. It may be better to refer to Financial Statement Disclosures or perhaps to say that there is no individual type of indicator.
105	Editorial: Insurers' overall score above thresholds as determined from the sample could be deemed systemically important, while those scoring below the thresholds would not be considered as systemically important financial institutions.
110	It is tautological that markets correctly price the market value; suggest: Behind this methodology~~,~~ is the assumption ~~is~~ that markets are efficient and correctly price the ~~market~~ value of assets and liabilities.
112	Editorial: Reduced form models require an abundance of data to do appropriate time series econometric analysis with publicly available data for ~~publically~~ publicly traded entities.
124, Table 9	Editorial: Based on ~~publically~~ publicly available information and real time data Not all companies may be ~~publically~~ publicly traded, thus many of the measures may not be calculated
136	Editorial: However, as noted above, the aggregate impact of ~~it would be important to take note that non-systemically risky~~ insurers that have not been identified as systemically risky should also be considered when evaluating the ~~identified from prior assessments are isolated from the perimeter of supervisory responses to~~ systemic risk of the sector as a whole.
160	Typo:

	The concepts for both recovery and resolution planning are described in ICP 12 (Exit from the Market and Resolution) and ICP 16 and further guidance is provided in the Application Paper on Recovery Planning and the draft Application Paper on Resolution Powers and Planning.
175	Footnote 37 – editorial: An example ~~can be found in 2020, when EIOPA issues a~~ is the statement on dividends distribution and variable remuneration policies in the context of Covid-19 issued by EIOPA in 2020: (https://www.eiopa.europa.eu/sites/default/files/publications/statement-on-dividend-distribution-april2020.pdf)
176	Footnote 38 – editorial: An example ~~can be found by~~ is the Macroprudential database. Statistical data warehouse of the European Central bank. https://sdw.ecb.europa.eu/browse.do?node=9689335