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# **Solvency 2 Update & TPT 7.0 for Alternative Investments**

26 February 2025, online

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## Solvency 2 Update

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### TPT 7.0 for alternative investments

- Overview
- Debt Instruments
- Other Fields

- Sector classification **NACE** updated to new version **2.1**;

but EIOPA still requires **NACE 2.0** for **QRTs** (Q&A ID 2931)




<https://ec.europa.eu/eurostat/web/products-eurostat-news/w/wdn-20230210-1>

[https://www.eiopa.europa.eu/qa-regulation/questions-and-answers-database/2931\\_en?prefLang=da](https://www.eiopa.europa.eu/qa-regulation/questions-and-answers-database/2931_en?prefLang=da)

- Changes in **QRT S.06.02** – **applicable from – 31.12.2023:**
  - Custodian LEI
  - Bail-In Rule
  - Infrastructure Investment

### Reporting requirements under Solvency II Directive

The supervisory reporting requirements applicable to all undertakings subject to Solvency II Directive are defined in:

- [\(EU\) 2023/894 - ITS with regard to the templates for the submission of information necessary for supervision \(applicable as of 31/12/2023\)](#) 

[https://www.eiopa.europa.eu/tools-and-data/supervisory-reporting-dpm-and-xbrl\\_en](https://www.eiopa.europa.eu/tools-and-data/supervisory-reporting-dpm-and-xbrl_en)

# Solvency 2 Review 2020 Timeline

EIOPA's Opinion  
on Solvency II

Dec 20

**Level 1**  
Amendment  
published

8 Jan 25

**Draft**  
**Level 2**  
Amendment  
expected

Q2/Q3 25

**Effective  
Date**

Jan 27

**Key Details!**

[https://ec.europa.eu/commission/presscorner/detail/en/ip\\_21\\_4783](https://ec.europa.eu/commission/presscorner/detail/en/ip_21_4783)

- **Long-term Equity Investments (LTEI)**

30% / 36% / 39% / 49% -> 22% equity risk,

 if LTEI criteria fulfilled



- **Lower Risk Margin**

-> lower liabilities -> higher own funds

-> **more risk capital, e.g. for investments**



- **Further suggestions bei EIOPA:**

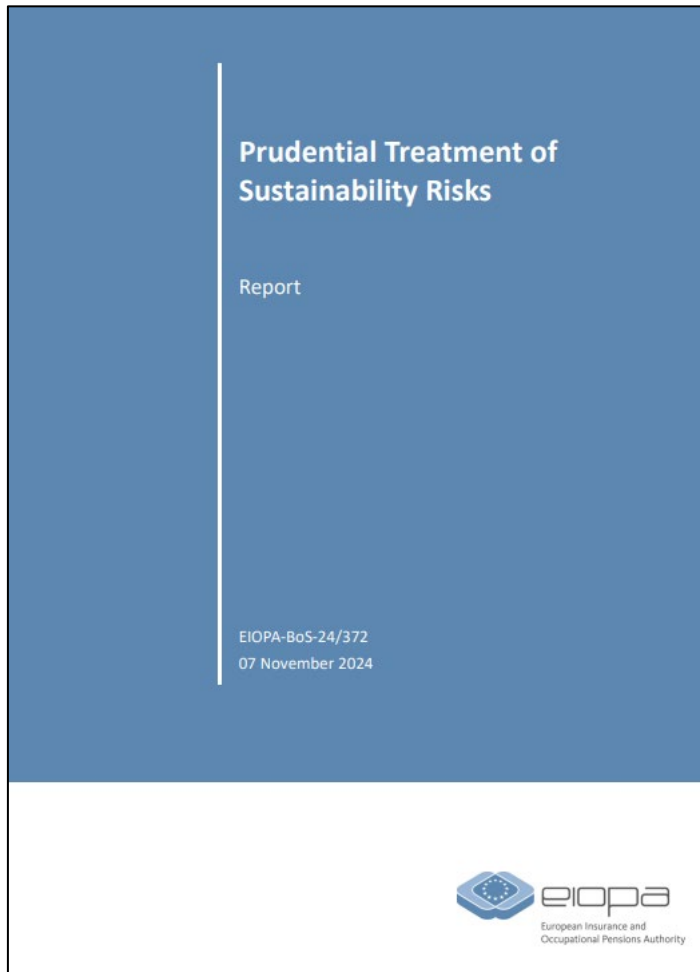
- Increase **Interest Rate Shocks**



- Increase **Symmetric Adjustment** +/-10% -> +/-17%



# EIOPA's Report "Prudential Treatment of Sustainability Risks"



## Potential SCR increasing for fossil fuels exposures:

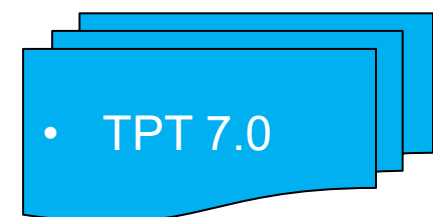
- **Equity**: Up to 17 percentage pt. (up to **44% relative**)
- **Debt**: Up to 5 percentage pt. (ca. **40% relative**)
- **Real Estate**: no conclusion

# EIOPA's Consultations Focus on Alternative Investments

Consultation	Key Aspects
Management of sustainability risks	<ul style="list-style-type: none"> <li>- Sustainability Risk Plan</li> <li>- Stress Tests + <b>Scenario Analysis</b> (min. 15 yrs)</li> </ul>
Biodiversity risk management	<ul style="list-style-type: none"> <li>- No final conclusion yet</li> </ul>
Market and counterparty risk exposures in the standard formula	<ul style="list-style-type: none"> <li>- Consideration of <b>(prepayment) options</b> in loans</li> <li>- Considerations of <b>leverage</b> in funds</li> </ul>




- EET
- BAI ESG



- TPT 7.0

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**TPT 7.0 for alternative investments**

- **Overview**
- Debt Instruments
- Other Fields



## Timeline

- Before April 2025: TPT 6.0
- April 2025 – June 2025: TPT 7.0 OR TPT 6.0
- **From July 2025 onwards:** TPT 7.0

## Changes of existing fields

- Field description (10 / 124, 32, 39 / 90 / 91, 54, 57, 62, 74, 87, 118, 137)
- Field conditions (54, 62)

## New fields

- **NACE 2.1 (148)**
- **Expected maturity date (143), exp. mod. duration (144), exp. credit sensi (145)**
- **PIK (146)**
- Custodian LEI & type of ID (140, 141)
- Bail-in rule (142)
- Infrastructure\_investment\_additional\_QRT (147)

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**TPT 7.0 for alternative investments**

- Overview
- **Debt Instruments**
- Other Fields

## Scope for debt changes:

- Government Bonds (CIC 1)
  - **Corporate Bonds (CIC 2)**
  - Structured notes (CIC 5)
  - **Collateralized securities (CIC 6)**
  - Cash & Deposits (CIC 7)
  - **Mortgages/Loans (CIC 8)** -> **incl. liquidity facilities, leverage in funds**
  - Futures (CIC A)
  - Call options (CIC B)
  - Put options (CIC C)
  - SWAPs (CIC D)
  - Forwards (CIC E)
  - Credit derivatives (CIC F)
- focus of this presentation***

### EIOPA's Consultation on GLs "Market and counterparty risk exposures in the standard formula"

#### Guideline 2 – Impact of options on the duration of bonds and loans

*"When determining the **duration of bonds and loans**, insurance and reinsurance undertakings (collectively "undertakings") should **take into account options granted to the issuers of the bonds and loans which might decrease or increase their maturity**. Assumptions that are used for the determination of the duration of such bonds or loans **should reflect stressed conditions**."*

[https://www.eiopa.europa.eu/document/download/e38d45a8-8a40-446a-927f-81e83769e1d2\\_en?filename=EIOPA-BoS-24-481\\_CP%20on%20revised%20GLs%20on%20treatment%20of%20market%20and%20counterparty%20risk%20exposures%20in%20the%20standard%20formula.pdf](https://www.eiopa.europa.eu/document/download/e38d45a8-8a40-446a-927f-81e83769e1d2_en?filename=EIOPA-BoS-24-481_CP%20on%20revised%20GLs%20on%20treatment%20of%20market%20and%20counterparty%20risk%20exposures%20in%20the%20standard%20formula.pdf)

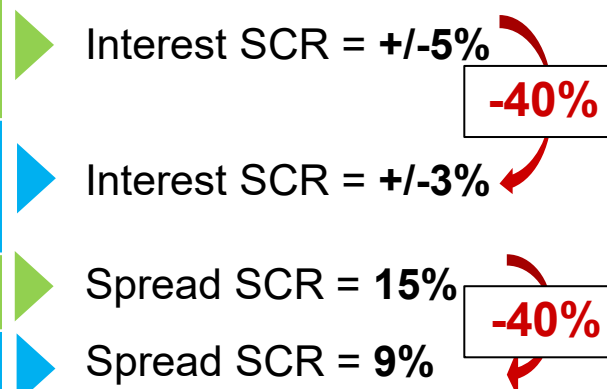
# Example: Contractual vs. Expected in TPT 7.0

<b>Basis characteristics</b>	<ul style="list-style-type: none"> <li>• <b>Bullet</b></li> <li>• <b>Zero-coupon</b></li> <li>• <b>Loan</b></li> <li>• <b>Unrated</b></li> </ul>
<b>Valuation Date</b>	<b>31/12/2024</b>
<b>Contractual Maturity Date</b>	<b>31/12/2029</b>
<b>Expected Maturity Date (after stress)</b>	<b>31/12/2027</b>

## TPT

<b>39_Maturity_date</b>	<b>31/12/2029</b>
<b>143_Maturity_date_expected</b>	<b>31/12/2027</b>
<b>90_Modified_duration_to_maturity_date</b>	<b>5</b>
<b>144_Modified_duration_to_maturity_date_expected</b>	<b>3</b>
<b>92_Credit_sensitivity</b>	<b>5</b>
<b>145_Credit_sensitivity_expected</b>	<b>3</b>

**-40% SCR change**



**PIK coupon =**

***“where [...] cash payments are delayed and amortized into the loan’s principal”***

<https://www.privateinvestor.com/the-rise-of-pik-sparks-concerns/>

<b>Cash Coupon</b>	-
<b>PIK Coupon p.a.</b>	<b>10% fixed</b>
<b>PIK Accrual frequency</b>	<b>Annually</b>
<b>Outstanding Nominal</b>	<b>100 EUR</b>
<b>Valuation Date</b>	<b>31/12/2024</b>
<b>Expected Maturity Date (after stress)</b>	<b>31/12/2027</b>

<b>t</b>	<b>Nominal</b>	<b>PIK</b>	<b>Redemption Rate</b>	<b>Cash Flow</b>
Q4-24	100	10	1.331	0
Q4-25	110	11	1.21	0
Q4-26	121	12.1	1.1	133.1

## Payment-In-Kind Loans: Common TPT V 6.0 Challenges

- **No field to distinguish PIK calculation methodology from cash coupon:**

e.g. TPT 6.0 shows EURIBOR 3 m + 8% margin quarterly; 1.2 Redemption Rate

*-> floating coupon occurs quarterly as cash or accrued and considered in RR?*

- **No way to model irregular cash flow profiles:**

e.g. sometimes cash, sometimes PIK performance-based

- Wrong modified durations & credit sensitivities



**Wrong  
SCR**



# Payment-In-Kind Loans: TPT 7.0 and PIK Modelling

## New Field: 146\_PIK

0 - No PIK

1 – PIK is described by coupon fields but is paid out via RR.

2 – PIK is in RR but not in coupon fields. Coupon fields = cash coupon only.

3 – PIK is in coupon fields (only or additionally to cash coupon).

4 - Existing PIK is not described in the TPT

<b>Cash Coupon</b>	-
<b>PIK Coupon p.a.</b>	<b>10% fixed</b>
<b>PIK Accrual frequency</b>	<b>Annually</b>
<b>Outstanding Nominal</b>	<b>100 EUR</b>
<b>Valuation Date</b>	<b>31/12/2024</b>
<b>Expected Maturity Date (after stress)</b>	<b>31/12/2027</b>

<b>6_Valuation_date</b>	<b>31/12/2024</b>
<b>19_Nominal_amount</b>	<b>100</b>
<b>33_Coupon_rate</b>	<b>10</b>
<b>38_Coupon_payment_frequency</b>	<b>1</b>
<b>41_Redemption_rate</b>	<b>1.331</b>
<b>146_PIK</b>	<b>1</b>

Cash Flow via RR only



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**TPT 7.0 for alternative investments**

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Instrument	NACE Version	Example
54_Economic_sector	2.0	<b>D3511</b> (Production of electricity)
148_Economic_sector_NACE2.1	2.1	<b>D3512</b> (Production of electricity from renewable sources)
Fund Issuer (= AIFM)	NACE Version	Example
118_Fund_issuer_sector	2.0	<b>K6630</b> (Fund management)

⇒ **1 – 5 characters** for all sectors apart from financial;  
5 characters mandatory for financial (K under 2.0, L under 2.1)

⇒ **NACE 2.1 (148) mandatory for almost all instruments,**  
2.0 if 2.1 not available

Instrument	Relevant for	Example
142_Bail-in_Rule	<ul style="list-style-type: none"> <li>Corporate <b>bonds</b></li> <li>Structured <b>notes</b></li> </ul>	<p><b>0</b> (not assessed)</p>
147_Infrastructure_investment_additional_QRT	<ul style="list-style-type: none"> <li>Managed / segregated account</li> </ul>	<p><b>1</b> (not infra)</p>
Fund	Relevant for	Example
140_Custodian_identification_code	<ul style="list-style-type: none"> <li>All funds</li> </ul>	<p><b>A1231X123...</b></p>
141_Type_of_custodian_identification_code		<p><b>1</b> (LEI)</p>

## Fragen und Anmerkungen?

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[www.sof-ltd.com](http://www.sof-ltd.com)

## Alternative Investments & Regulated Investors

### Asset Owners (LP)

- Insurers (Solvency II)
- Pensions (IORP II / VAG)
- Banks (Basel)

### Regulatory Service Providers

- Third Party AIFMs
- Administrative Service Providers
- Securitisation Servicers

### Asset Managers (GP)

- Portfolio Managers
- Investment Advisors
- Banks

### Reporting, Risk & Regulatory

- **Regulatory investor reporting**  
(Solvency II / I, Basel II / MaRisk BA, CRR / GroMiKV, VAG, EET, BAI ESG)
- **Management consulting** for multidisciplinary topics (e.g. ESG, investment structuring, organisational change & IT implementation)
- **Asset classes:** private equity, private debt, infrastructure, real estate, hedge funds, fund of funds)

**SOF**

### Infrastructure Investments (Equity / Debt; Direct / Indirect)

- Advisory regarding regulatory assessments (e.g. Solvency II „**qualifying infrastructure**“)
- Validation and development of **financial models**
- **Economic risk management**  
(Manager selection & direct investments)

**SOFI**

## Zeitgemäße AI-Fortbildung für Berufstätige (CAS / DAS AI / ESG) - Kooperation mit dem BAI, der Uni Oldenburg & SOF

Risikomanagement  
Alternative Investments

(Start 6 Mai 2025)

Regulierung  
Alternative Investments

(Start Q3 –Q4 2025)

+ 3 weitere Module

Zertifikat  
**CAS AI / ESG\***

*\*Certificate of Advanced Studies Alternative Investments & Sustainability /ESG*

Zertifikat  
**DAS AI / ESG\*\***

*\*\*Diploma of Advanced Studies Alternative Investments & Sustainability /ESG*

- Aktuelle & praxisrelevante AI-Themen
- 2 Präsenzwochenenden / (aktuell online) & 5 Monate Online Phase pro Modul
- Anerkannte Zertifikate von der staatlichen Universität Oldenburg
- Exzellentes Preis-Leistungs-Verhältnis im Marktvergleich

⇒ Mehr Infos unter <https://uol.de/risikomanagement-zertifikate/>