Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (Text with EEA relevance)

TITLE I

VALUATION AND RISK-BASED CAPTAL REQUIREMENTS (PILLAR I), ENHANCED GOVERNANCE (PILLAR II) AND INCREASED TRANPARENCY (PILLAR III)

CHAPTER II

VALUATION OF ASSETS AND LIABILITIES

Article 10

Valuation methodology — valuation hierarchy

1 Insurance and reinsurance undertakings shall, when valuing assets and liabilities in accordance with Article 9 (1), (2) and (3), follow the valuation hierarchy set out in paragraphs 2 to 7, taking into account the characteristics of the asset or liability where market participants would take those characteristics into account when pricing the asset or liability at the valuation date, including the condition and location of the asset or liability and restrictions, if any, on the sale or use of the asset.

2 As the default valuation method insurance and reinsurance undertakings shall value assets and liabilities using quoted market prices in active markets for the same assets or liabilities.

3 Where the use of quoted market prices in active markets for the same assets or liabilities is not possible, insurance and reinsurance undertakings shall value assets and liabilities using quoted market prices in active markets for similar assets and liabilities with adjustments to reflect differences. Those adjustments shall reflect factors specific to the asset or liability including all of the following:

a the condition or location of the asset or liability;

b the extent to which inputs relate to items that are comparable to the asset or liability; and

c the volume or level of activity in the markets within which the inputs are observed.

4 Insurance and reinsurance undertakings' use of quoted market prices shall be based on the criteria for active markets, as defined in international accounting standards adopted by the Commission in accordance with Regulation (EC) No 1606/2002.

5 Where the criteria referred to in paragraph 4 are not satisfied, insurance and reinsurance undertakings shall, unless otherwise provided in this Chapter, use alternative valuation methods.

6 When using alternative valuation methods, insurance and reinsurance undertakings shall rely as little as possible on undertaking-specific inputs and make maximum use of relevant market inputs including the following:

a quoted prices for identical or similar assets or liabilities in markets that are not active;

b inputs other than quoted prices that are observable for the asset or liability, including interest rates and yield curves observable at commonly quoted intervals, implied volatilities and credit spreads;

c market-corroborated inputs, which may not be directly observable, but are based on or supported by observable market data.

All those markets inputs shall be adjusted for the factors referred to in paragraph 3.

To the extent that relevant observable inputs are not available including in circumstances where there is little, if any, market activity for the asset or liability at the valuation date, undertakings shall use unobservable inputs reflecting the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. Where unobservable inputs are used, undertakings shall adjust undertaking-specific data if reasonable available information indicates that other market participants would use different data or there is something particular to the undertaking that is not available to other market participants.

When assessing the assumptions about risk referred to in this paragraph undertakings shall take into account the risk inherent in the specific valuation technique used to measure fair value and the risk inherent in the inputs of that valuation technique.

7 Undertakings shall use valuation techniques that are consistent with one or more of the following approaches when using alternative valuation methods:

a market approach, which uses prices and other relevant information generated by market transactions involving identical or similar assets, liabilities or group of assets and liabilities. Valuation techniques consistent with the market approach include matrix pricing.

b income approach, which converts future amounts, such as cash flows or income or expenses, to a single current amount. The fair value shall reflect current market expectations about those future amounts. Valuation techniques consistent with the income approach include present value techniques, option pricing models and the multi-period excess earnings method;

c cost approach or current replacement cost approach reflects the amount that would be required currently to replace the service capacity of an asset. From the perspective of a market participant seller, the price that would be received for the asset is based on the cost to a market participant buyer to acquire or construct a substitute asset of comparable quality adjusted for obsolescence.