VALDIS DOMBROVSKIS
*Vice-President of the European Commission*

Mr Dominique MOERENHOUT
Chief Executive Officer
European Public Real Estate Association
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12 MARS 2019

Brussels,
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Dear Mr Moerenhout,

I am writing in response to your letter of 15 November 2018 on the review of the Solvency II implementing measures. The Commission adopted amendments to the Solvency II Delegated Regulation on 8 March 2019.

I would like to thank you for your support to the Commission's initiative to reduce the capital charge for long-term equity investments and for your valuable considerations on the real estate sector.

The new prudential rules subject long-term equity investments to a reduced shock of 22%. They apply to equity investments in both listed and unlisted companies operating partially or almost exclusively in the real estate sector. This is provided that specific criteria are met and those companies do not qualify as Collective Investment Undertakings (CIUs)[1].

The capital charge for CIUs shall instead reflect the risks of the exposures[2] underlying the investment structure (i.e. the "look through" principle applies[3]).

At the same time, the Commission did not receive sufficient evidence to revise the specific prudential treatment of real estate and property risks.

The Commission will continue to assess the Solvency II framework (including the risk margin) in its work to prepare the 2020 review of the Directive. This preparatory work will also focus on equity investments and any other specific long-term asset class. The Commission will continue to assess carefully possible regulatory barriers to insurers' investments in long-term and sustainable growth.

Yours sincerely,

V. Dombrovskis

Valdis DOMBROVSKIS

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[1] Definition n. 40 of Article 1 of Commission Delegated Regulation (EU) 2015/35.
[2] For instance the specific "standard formula" shock factor for "property/real estate risk" is 25%.
[3] See Article 84 of Commission Delegated Regulation (EU) 2015/35.