Solvency 2 update: SRI for specific allocations

WORKSHOP – July 19 2022

For Alpha

ASSOCIATION
EUROPE
FINANCES
RÉGULATIONS

Context

Ai For Alpha leverages the power of machine learning to help asset managers in their investment process

- In the current environment with multitude of information, it is crucial to efficiently leverage market data in order to rationalize investment decisions.

- Ai for Alpha has designed Artificial Intelligence solutions to help professionals cope with market information and build robust investment solutions.

- Ai for Alpha also uses AI to answer risk & regulatory questions.

As a fintech, Ai For Alpha makes the bridge between Ai and investment solutions

Our Solutions

Ai 360 Allocations based on market regime

Market Signals (Equity, Multi - Assets)
Understand key market drivers at any time

BNP Paribas AIFA investable index
Invest in the signals with best in class execution

Tailor-made strategies
Equity, Bonds, Commodities, Cross assets

Ai 360 Strategy decoding

Risk Analysis & Portfolio Visualization
Heatmap by markets, factors and macro risks exposures

Smart Filter
Fund selection based on investment criteria

Analysis of successful strategies
Trends

Predict market regime

Decode major strategies

Clients, Awards & Partners

Clients

| Investment Banks | SOCIETE GENERALE | BNP PARIBAS |

| Asset Managers | EDMOND DE ROTHSCHILD | HOMA CAPITAL | JHI |

| Insurers & Wealth Managers | LOMBARD ODIER INVESTMENT MANAGERS | meilleur placement.com | CA INDOSUEZ WEALTH MANAGEMENT |

Awards & Partners

| Awards Received | eit Digital | EIT Digital is supported by the EIT, a body of the European Union. | SSRN Top 1% | Best Paper Award |

| Incubator | GLOBAL MARKETS INCUBATOR |

| AI Seminars Presentations | J.P.Morgan | ECML PKDD 2021 |

Our expertise is recognized by major players in all investment areas

The new PRIIPS Regulation

For Alpha

Changes between SRRI and SRI under PRIIPs

Evolution of regulation PRIIPS (joint regulation ESMA, EIOPA)

Fields	SRRI	SRI
Goal	**Market risk only**	**Market Risk (MRM) + Credit Risk (CRM)**
Data	**5 years** of historical data	5 years when available, otherwise 2 years for daily, 4 years for weekly, and 5 years for monthly funds
Frequency	Weekly prices for daily valued funds	Follows the actual pricing frequency of the fund.
Risk Indicator	Standard deviation of returns	**Value-at-Risk-equivalent volatility** (VEV) based on **Cornish-Fisher expansion** of a Gaussian Value-at-Risk
Risk Class	Derived from volatility bands	Derived from **Market Risk** based on Value-at-Risk-equivalent volatility (VEV) bands
Credit Risk	Not taken into account	Credit risk assessed on a look-through basis
Effective	Up to End 2022	**Live in Jan 2023**

Risk class percentage evolution
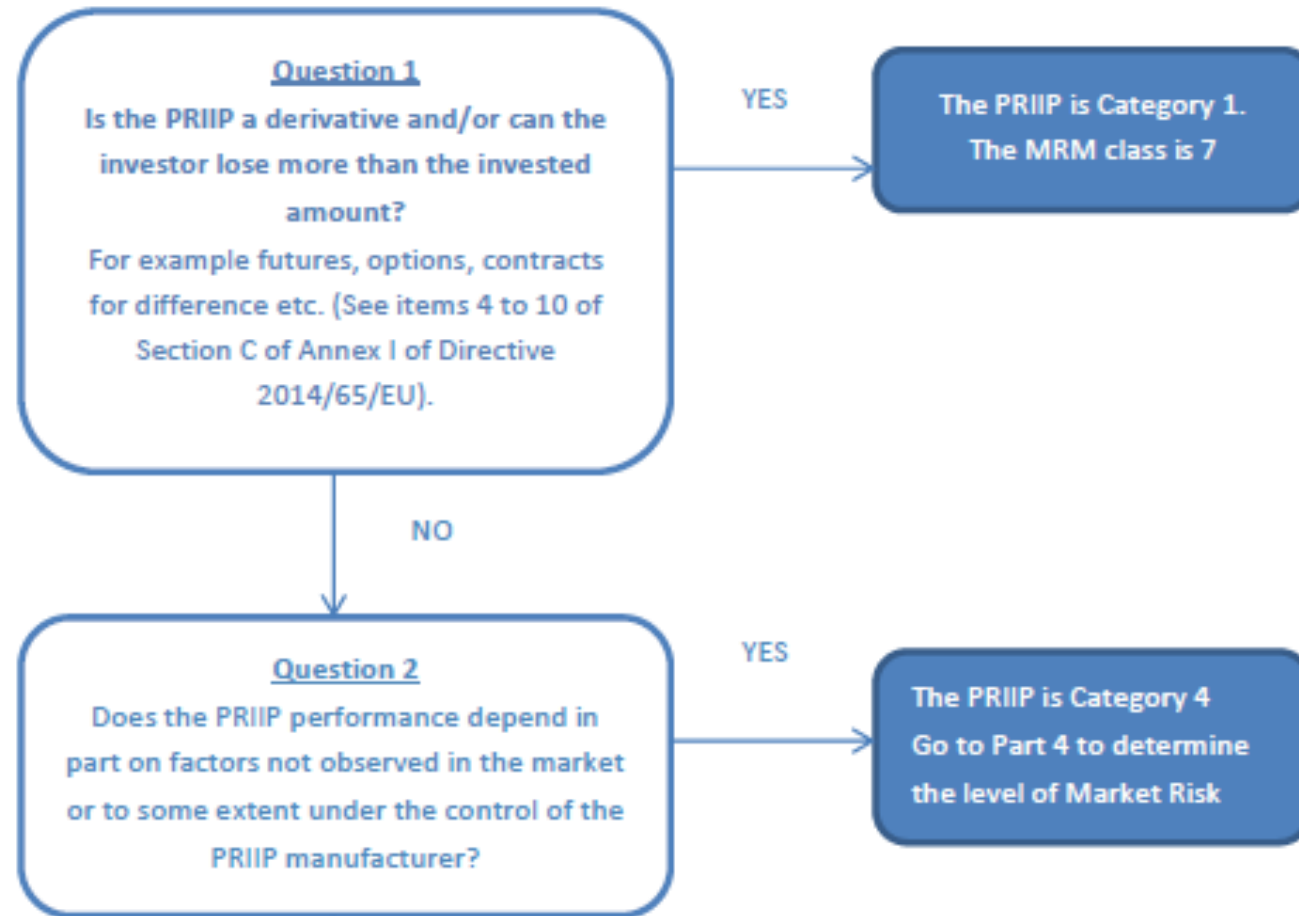
Risk class	SRRI	SRI
1	0% - 0.5%	0% - 0.5%
2	0.5% - 2%	0.5% - 5%
3	2% - 5%	5% - 12%
4	5% - 10%	12% - 20%
5	10% - 15%	20% - 30%
6	15% - 25%	30% - 80%
7	25%	80%

From CRM and MRM to risk Class

Credit Risk (CRM)	Market Risk Measure (MRM)						
	MR1	MR2	MR3	MR4	MR5	MR6	MR7
CR1	1	2	3	4	5	6	7
CR2	1	2	3	4	5	6	7
CR3	3	3	3	4	5	6	7
CR4	5	5	5	5	5	6	7
CR5	5	5	5	5	5	6	7
CR6	6	6	6	6	6	6	7

Workflow for non simple funds and derivatives

Question 1
Is the PRIIP a derivative and/or can the investor lose more than the invested amount?
For example futures, options, contracts for difference etc. (See items 4 to 10 of Section C of Annex I of Directive 2014/65/EU).

YES → The PRIIP is Category 1. The MRM class is 7

NO ↓

Question 2
Does the PRIIP performance depend in part on factors not observed in the market or to some extent under the control of the PRIIP manufacturer?

YES → The PRIIP is Category 4 Go to Part 4 to determine the level of Market Risk

Highly risky funds are automatically classified as 7

Case of not enough history
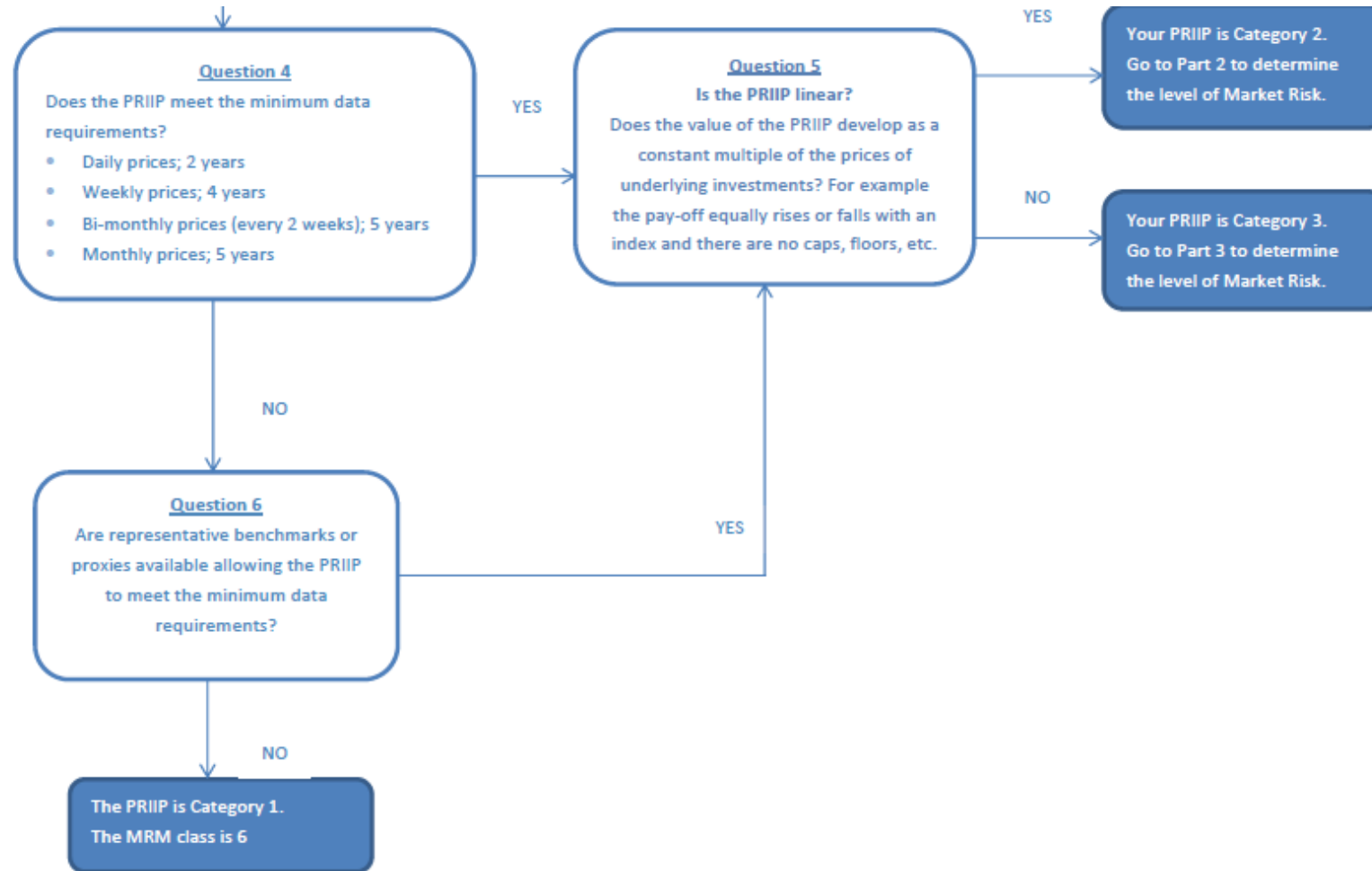
For funds with not enough history nor benchmarks, funds are classified as 6

Client case study: SRI for allocation of funds

1 . Gather data

– funds data and characteristics

(ccy, data, CRM, reported SRI)

– allocation description

2 . Compute portfolio NAVs

– Handle reporting differences (frequency, currencies)

– Generate missing data with AI consistently with reported SRI

3 . Compute SRI

– Handle implicitly correlation

– Is fully consistent with PRIIPS

\ Tool

Inputs

1. Common data files (Csv format):
   - NAVs or fund history
   - Reported SRIs
   - Currencies
   - CRM

2. Allocations (Json format):
   - Specific allocations
   - Holding periods
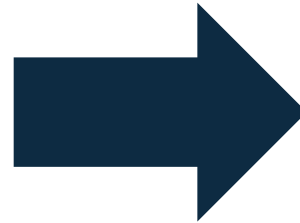
Outputs

1. Full history of funds per allocations
2. Reported SRI

Conclusion

Ai For Alpha can give you access to this technology to compute SRI on specific funds and allocations

- We provide you with the software and the source code to fully justify the calculation for the regulator

- You can use the software directly

- You can also use a consulting firm to feed the software with your data and generate SRI on your systems

For Alpha

i-Fihn Consulting
Notre expertise, votre succès

Ai For Alpha has already implemented the SRI tool in partnership with i-Fihn Consulting

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