Comments on Consolidated text sent 20.10.10

Substantive Comments

Member State	Article number	Article IM reference	Justification	Drafting suggestion
CEA	Recital 010	IM13	We welcome the allowance for diversification up to entity level in the risk margin. However, this should be extended to allow for diversification up to group level. **[Please see our key priority issues paper]**	The calculation of the risk margin should be based on the assumption that the whole portfolio of insurance and reinsurance obligations is transferred to another insurance or reinsurance undertaking. In particular, the calculation should take the diversification of the whole portfolio into account **up to group level.**
CEA	Recital 012	IM13	In line with the principle of proportionality.	The segmentation of insurance and reinsurance obligations into lines of business and homogeneous risk groups should reflect the nature **and scale** of the risks underlying the obligation. The nature of the underlying risks may justify segmentation which differs from the allocation of insurance activities to life insurance activities and non-life insurance activities, from the classes of non-life insurance set out in Annex I of Directive 2009/138/EC and from the classes of life insurance set out in Annex II of Directive 2009/138/EC.

CEA	Recital 013	IM20	The illiquidity premium can be earned on all illiquid assets, which will not only be the case during periods of "stressed illiquidity". If the market is considered "liquid" there would be expected to be no material liquidity premium observed. In this case, a formulaic approach could still be used, without the need for Eiopa to exercise discretion to define "periods of stressed illiquidity".	~~During periods of stressed~~ **In i**lliquid~~ity~~ ~~in~~ financial markets, the interest rate that can be earned on ~~temporarily~~ illiquid assets in excess of the interest rate that can be earned on credit-risk free liquid assets may be attributable to sources other than credit risk. Investors capable of holding **illiquid** assets ~~that can become temporarily illiquid~~, in particular insurance and reinsurance undertakings matching their liabilities with such assets, are therefore earning an illiquidity premium ~~in those periods of stressed liquidity~~. The inclusion of an illiquidity premium in the risk free interest rate term structure used to calculate the best estimate with respect to the insurance and reinsurance obligations is intended to eliminate the valuation mismatch between the assets and liabilities in periods of stressed liquidity and mitigate potential undue pro-cyclical effects of the financial system.
CEA	Recital 014	IM20	The illiquidity premium may be earned on all illiquid assets available in the financial markets. Not just those which are quoted. Indeed, non-quoted assets would be expected to be less liquid than quoted assets. Additionally, in principle, illiquid assets may be available for longer durations than the point at which the extrapolation of the risk-free curve begins. The risk-free curve is extrapolated precisely because there is an illiquid market for risk-free instruments beyond this point.	~~The illiquidity premium cannot be reliably earned in the financial markets in relation to maturities beyond the point where no market data is available. Therefore, no illiquidity premium should be applied to the extrapolated part of the relevant risk-free interest rate term structure.~~
CEA	Recital 015 a NEW	IM20		The risk free interest rate term structure should be determined on the basis of observed data from active markets which are deep, liquid and transparent. Where the markets do not meet these criteria for longer maturities, the risk free interest rate term structure has to be

				extrapolated appropriately. The extrapolation method should result in a smooth curve and should take into account data that does not fully meet the criteria (the criteria being deep, liquid and transparent markets as referred to earlier in the paragraph).
CEA	Recital 016	IM19	We welcome this paragraph	The determination whether a method of calculating technical provisions is proportionate to the nature, scale and complexity of the risks should include an assessment of the model error of the method. But this assessment should not require insurance and reinsurance undertakings to specify the precise amount of the model error.
CEA	Recital 19	IM7	The wording is inconsistent with the framework directive which states that in order to be qualified as Tier 1 the item should substantially posses the relevant characteristics. Also, the directive refers to high quality items and not to highest.	Tier 1 shall be made up of own-fund items which are of the highest quality and which fully absorb losses to enable an insurance or reinsurance undertaking to continue as a going concern.
CEA	Recital 022/023	IM7	We strongly support the current Commission proposals for the full value of in force cash flows relating to existing business to be classified as Tier 1. Applying an SCR stress and additionally tiering the item is a double-counting of the risk, and insurers already cover the risk that future cash flows do not occur as expected under the SCR. **[Please see our key priority issues paper]**	Rec 22 - The assessment of whether basic own-fund items possess the characteristics set out in Article 93 of Directive 2009/138/EC should be in line with an economic approach. The assessment of loss-absorbency in a winding-up in accordance with Article 93 of Directive 2009/138/EC should not involve a comparison of the excess of assets over liabilities valued on a going-concern basis against the excess of assets over liabilities valued under the assumption that winding-up proceedings have been opened in relation to the insurance or reinsurance undertaking. Rec 23 - The amount of the excess of assets over liabilities that is included in Tier 1 should not be adjusted for amounts that relate to expected profits that result from the inclusion in the calculation of technical provisions of premiums on existing contracts that will be received in the future.

CEA	Recital 024	IM7	We disagree with this recital and instead believe that moderate step-ups should be allowed in Tier 1. This is because the call is optional, and would only be exercised if market conditions allow undertakings to refinance at a lower cost than the new stepped-up coupon. Under stressed conditions this is very unlikely to be the case. [Please see our key priority issues paper]	Incentives to redeem increase the likelihood that an insurance or reinsurance undertaking will repay or redeem a basic own-fund item when it has the option to do so. Examples include contractual increases in the dividend or interest rate combined with a call option. Own-fund items having such features should be limited to ensure that the objective of stopping cash out-flows in the form of repayment or redemption of the own-fund item at a breach of the Solvency Capital Requirement is not undermined and should only be classified as Tier 2 or Tier 3.
CEA	Recital 25	IM7	We do not understand what these restricted reserves are and why they are considered to exist under Solvency II. Furthermore, part of the current definition of ring-fenced funds (RFF) states that RFFs cover own funds items which "can *only be used to cover losses arising from particular risks*". Note that we do not support this part of the definition of ring-fenced funds (see comments to Article 69) and furthermore, given the current drafting in Article 69, it appears that there is an overlap in the definitions of ring-fenced funds and restricted reserves ("*items that absorb losses from specific risks*"), despite the fact that this recital states that restricted reserves "*should be distinguished from ring-fenced fund arrangements*".	Where own-fund items are reserves that are established for certain purposes and subject to legal or regulatory requirements that restrict the availability of that item to absorb losses arising from specific risks, then those reserves should only be classified as Tier 1 in relation to the risks they cover. Where the value of the reserve exceeds the estimate of the related risk, then the excess amount should be classified as Tier 2 provided it is available to absorb losses in a winding-up. These reserves, the use of which is restricted, should be distinguished from ring-fenced fund arrangements where assets and liabilities are ring-fenced and there is a lack of transferability of assets that are included in computing the excess of assets over liabilities within the insurance or reinsurance undertaking such that those own-fund items can only be used to cover losses arising from a particular segment of liabilities or from particular risks. Reserves, the use of which is restricted, should also be distinguished from the provisions that insurance or reinsurance undertakings may be required to establish in statutory financial statements, which are not deemed necessary for solvency purposes due to the requirement for undertakings to establish adequate technical provisions.

CEA	Recital 033	IM17	All participations should be considered as strategic by their very nature – as discussed in our comments to IM27/ Para 152 of the consolidated IM. **[Please see our key priority issues paper]**	~~Insurance and reinsurance undertakings should assess the participation in all related undertakings in order to identify those which are of a strategic nature.~~ **Taking into account the likely reduction in the volatility of the value of related undertakings, within the meaning of art. 212 of the Directive 2009/138/EC, arising from the strategic nature of those investments, t**he calibration of the equity risk on the investments in related undertakings ~~which are of strategic nature~~ should reflect the~~is~~ ~~likely~~ reduction in the volatility of their value arising from the strategic nature **of these investments, their long-term holding** and the influence exercised by the participating undertaking on those related undertakings.
CEA	Recital 037	IM24	Whilst we agree in principle that lapse risk should cover these risks, consideration needs to be given to the practicability of carrying all these calculations.	The modelling of mass lapse risk in the Solvency Capital Requirement standard formula should capture the risk relating to all possible ways to surrender the contract, including surrender without the payment of a surrender value, change of the insurance undertaking by the policy holder and termination of the policy resulting from the policy holder's refusal to pay the premium.
CEA	Recital 039	IM27	All participations should be considered as strategic by their very nature – as discussed in our comments to IM27/ Para 152 of the consolidated IM. **[Please see our key priority issues paper]**	~~Insurance and reinsurance undertakings should identify which of its related undertakings are of a strategic nature. The calibration of the equity risk on the investments in related undertakings which are of strategic nature should reflect the likely reduction in the volatility of their value arising from the strategic nature and the influence exercised by the participating undertaking on those related undertakings.~~

CEA	Recital 042	IM27	We will discuss the proposals based on QIS5 feedback	As a portion of the illiquidity premium observed in the financial markets is recognised in the calculation of technical provisions, insurance and reinsurance undertakings should be required to reflect the specific risks of an increase of the value of technical provisions due to a decrease in the illiquidity premium when calculating their Solvency Capital Requirement.
CEA	Recital 043	IM27	We will discuss the proposals based on QIS5 feedback	Consistent with the approach set out in Article 105(5) of Directive 2009/138/EC, the market risk module shall include an additional risk sub-module in order to address the specific risks arising from the inclusion of an illiquidity premium in the calculation of the technical provisions that are not captured elsewhere in the Solvency Capital Requirement. The effect of an increase of the illiquidity premium is captured in the calibration of the parameters of the spread risk sub-module.
CEA	Recital 045	IM42		The counterparty default risk module of the Solvency Capital Requirement calculated with the standard formula should be based on the assumption that, for exposures that may be diversified and where the counterparty is likely to be rated (type 1 exposures), **losses given default on counterparties which do not belong to the same group are independent and losses given default on counterparties which do belong to the same group are not independent.**
CEA	Recital 048	IM23	Please see our comments to Article 76.	~~Consistent with the approach set out in Article 104(1), (3) and (4) of Directive 2009/138/EC, the Basic Solvency Capital Requirement shall include an additional risk module in order to address the specific risks arising from intangible assets that are not captured elsewhere in the Solvency Capital Requirement.~~ **The specific risks arising from intangible assets should be**

				captured within the equity risk sub-module, as type 2 equities.
CEA	Recital 051	IM25	The assumption of an instantaneous shock, which effectively excludes any benefit from dynamic hedging, is unrealistic. In practice the shock would not happen instantaneously. Therefore the exclusion of dynamic hedging and future management actions is far more prudent than a 99.5th VaR. These methods should be recognised within the SCR.	~~The scenario-based calculations of the Solvency Capital Requirement standard formula are based on the impact of instantaneous shocks and insurance and reinsurance undertakings should not take into account risk mitigation techniques that rely on insurance or reinsurance undertakings taking future action, such as dynamic hedging strategies or future management actions, at the time that the shock occurs. Dynamic hedging strategies and future management actions should be distinguished from rolling hedge arrangements, where a risk mitigation technique is currently in force and will be replaced at the time of its expiry with a similar arrangement regardless of the solvency position of the undertaking.~~
CEA	Recital 058	IM33	We strongly object to this recital. Undertakings should not have to prove that diversification exists between the RFF and the rest of the company. The SCR of the entity should be calculated taking into account diversification effects between the RFF and the rest of the entity. Diversification of risks means that all risks do not happen at the same time - the existence of RFFs does not change this. Cases where diversification exists are much more frequent than cases where diversification should not be recognised. Consequently, the burden of proof should be inverted: supervisors, after justification, could ask undertakings not recognise diversification.	The adjustment to the calculation of the Solvency Capital Requirement standard formula for ring-fenced fund arrangements should allow diversification of risks within the ring-fenced fund to be recognised. The adjustment to the calculation of the Solvency Capital Requirement standard formula for ring-fenced fund arrangements should also be based on the assumption that there is ~~no~~ diversification of risks between the ring-fenced funds and the rest of the insurance or reinsurance undertaking, unless **supervisory authorities demonstrate sufficient evidence** ~~that undertaking can demonstrate, to the satisfaction of the supervisory authority,~~ that this assumption is inappropriate **for that undertaking**.

			The current proposals are more penalising than Ceiops' final advice on ring-fenced funds.	
CEA	Recital 059 / art. 202	IM37	As a general comment, there should be a clear distinction between parameters and coefficients which should be updated more frequently and those which could be received on a less frequent basis. The discount rate, illiquidity premium, last liquid point and coefficients included in the spread risk module, are examples of those that should be reviewed more frequently. Correlation coefficients could be reviewed less frequently. A general period will be too short for some elements but too long for others.	EIOPA should periodically analyse qualitative and quantitative data together with any other relevant information in order to be able to advise the Commission on any necessary updates to the correlation parameters. The first review should take place within the first 5 years of the new regime but then thereafter the reviews should take place every 10 years to allow undertakings and supervisory authorities sufficient stability in their forward planning. EIOPA should adopt the same approach towards reviewing other aspects of the standard formula, including the review of other parameters, calibrations, and assumptions. EIOPA should nevertheless continue to be able to produce opinions upon request by the European Parliament, the Council, or the Commission, or on its own initiative as set out in Regulation (EU) No…/2010 according to different timings or in relation to different matters where appropriate. An ad hoc review might for example be envisaged where an exceptional market wide event had taken place.
CEA	Recital 066	IM5	The onus should be on the insurance and reinsurance undertakings to make sure that their internal model is based on current information and practice.	~~It is likely that many aspects of internal models will change over time as knowledge about risk modelling improves, and accordingly supervisory authorities should have regard to current information and practice in making their assessment of the internal model to ensure that insurance and reinsurance undertakings keep pace with recent developments.~~

CEA	Recital 069	IM38	When calculating the MCR, the calculation should recognize the effect of the health equalization systems if these are recognized and used in order to calculate the health capital requirement.	Insurance and reinsurance undertakings should calculate the linear Minimum Capital Requirement using a standard calculation regardless of whether the undertaking uses the standard formula or an internal model to calculate its Solvency Capital Requirement.
CEA	Recital 070	IM18	Consistency should be ensured with the forthcoming CRD versions as long as they are not in breach of the Directive 2009/138/EC for insurance and reinsurance undertakings. A recital should be added to cater for this. 5% may be better described as a material interest than as a significant interest	Consistent with the prudent person principle set out in Article 132 of Directive 2009/138/EC and to ensure cross-sectoral consistency, the interests of firms that re-package loans into tradable securities and other financial instruments (originators) and the interests of the insurance and reinsurance undertakings investing in those securities or instruments should be aligned. To achieve this, the originator should retain a significant economic interest in the underlying asset.
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CEA	Recital 072	IM18	We believe that the investment in such repackaged loan investments should be mainly guided by the prudent person principle stated by the Directive. We firmly believe undertakings will need to have an appropriate understanding of such holdings. These investments are an important component of the current economy, and the present	Insurance and reinsurance undertakings investing in tradable securities and other financial instruments based on repackaged loans should make their investment decision only after having conducted thorough due diligence, from which they should have adequate information and knowledge about the securitisation including a comprehensive and thorough understanding of the investment and its underlying exposure.

			restrictions/rules could severely limit the asset management of insurance company. We believe that the effect of tougher capital requirements, in connection with additional qualitative requirements for investments in repackaged loans, is harmful for the construction of a diversified portfolio. From our perspective, the entirety of new requirements directed towards investments will most certainly have a significant effect on the possibilities for insurance companies to take on market risk. The asset allocation will undoubtedly be pushed away from a diversified portfolio structure towards a concentration on certain low yield products, in particular government bonds. For these reasons, we disagree with restrictions on investments, which are considered to be a direct intervention of the supervisor in the management of the undertaking.	
CEA	Recital 073	IM1	We acknowledge that the words “at least” appear in the Framework Directive however, we believe their inclusion in the implementing measures could result in an unlevel playing field. It is necessary to clearly explain clearly the purpose of the four eye principle.	The "four-eye" principle sets out a basic principle of good governance that no individual should have unfettered power over decision making and that prior to implementing any significant decision concerning the undertaking at least two persons should approve any such decision. **It clarifies the principle under company law that any company must have two persons in charge of the company and that one-person-controlled insurance undertakings are not allowed.**
CEA	Recital 075	IM1	It is important to differentiate between the internal audit function and the other functions under the System of Governance. Smaller undertakings, in terms of complexity and risk profile, may appoint	In the context of the system of governance, independence means that a person or organisational unit carrying out a function should be able to carry out its duties objectively and free from influence and to report relevant findings directly to the administrative, management or

			the same person to perform the tasks required of the risk management, compliance or actuarial functions. Full independence is required only of the Internal Audit function.	supervisory body**.** **Specifically for the internal audit function**, ~~In order to be fully independent, as required for the internal audit function,~~ a person or organisational unit performing such a function should, in addition, not assume responsibilities for more than one function **and remain independent at all times**.
CEA	Recital 084	IM14	More guidance is required on the term "exceptional fall". For example, exceptional fall may result in a downturn which affects a major part of the market and is caused by a shock which closely resembles the shocks being calculated as part of the standard formula.	No redrafting suggestions at this stage. Exceptional falls in financial markets may by their nature arise in unpredictable ways and with unpredictable consequences. The degree and intensity of such falls goes beyond those experienced during downturns that occur as part of the economic cycle. For the purposes of the extension period, the reference to financial markets does not necessarily refer to the whole of the financial markets but could apply to a segment of the financial markets if a major unforeseen, sharp and steep fall seriously and adversely affects the financial situation of all or some of the insurance and reinsurance undertakings in the European Union.
CEA	Recital 087	IM2	The word "material" has been added to provide consistency with Recital 38 of the Framework Directive.	Insurance and reinsurance undertakings are required by Directive 2009/138/EC to disclose publicly **material** information on their solvency and financial condition. Detailed and harmonised requirements regulating the information which must be disclosed and the means by which this is to be achieved are appropriate so as to ensure equivalent market conditions and the smooth operation of insurance and reinsurance markets throughout the Union, and to facilitate the effective integration of insurance and reinsurance markets throughout the Union.
CEA	Recital 089	IM2	The CEA supports the original wording of the Commission.	The information to be disclosed in the solvency and financial condition report should be considered as material if its omission or misstatement could influence the economic decisions that users make on the basis of that document. **Materiality depends on the size and**

				nature of the omission or misstatement judged in the surrounding circumstances.
CEA	Recital 094	IM9	Application of proportionality and materiality is particularly important in the area of supervisory reporting.	The **level of detail of** information to be submitted regularly to the supervisory authorities ~~should be complete, although the level of detail provided~~ should have due regard to materiality considerations. **The information** should be considered as material if its omission or misstatement could influence the decisions that supervisory authorities may make when they carry out the supervisory review process.
CEA	Recital 096	IM37	It is not the case that undertakings hold all the necessary information to assess and update correlation parameters. Some of the information will be undertaking specific and some will specifically relate to the market. Supervisory authorities should only request from (re)insurers, undertaking specific data. Also, this kind of information should not be part of systematic reporting to the supervisor.	In order to be able to advise the Commission on future revisions of correlation parameters on the basis of suitable empirical information, EIOPA should receive appropriate data from supervisory authorities. Supervisory authorities should in any event **request additional information, where applicable,** ~~receive this data~~ from insurance and reinsurance undertakings ~~as part of the information which is to be reported to supervisors given that it will be necessary for the purposes of supervision from the perspective of informing the use of supervisory tools such as capital add~~.
CEA	Recital 098	IM8	Convergence is achieved through a number of means including supervisory transparency and exchange of information.	Supervisory disclosure **and the Supervisory College structure under Solvency II** will ~~aims at~~ enhanc~~e~~ing the effectiveness and transparency of supervision and ~~at~~ foster~~ing~~ convergence of supervisory practices and thus promoting a level playing field throughout the Union.
CEA	Recital 100	IM8	The proposed new wording provides consistency with Article 31(1).	The disclosure of aggregate statistical data under Article 31(2)(c) of Directive 2009/138/EC is intended to provide general information on national insurance sectors as well as on important activities of the supervisory authorities themselves. Relevant information should cover data related to both quantitative and qualitative requirements, together with aggregate national data reported in comparable terms

				over time. **Due respect will be paid to the protection of confidential data.**
CEA	Recital 102	IM10		**The supervisory authority in the Member State in which the special purpose vehicle is established should be responsible for the authorisation of that special purpose vehicle.** Where the special purpose vehicle which assumes insurance risk from an insurance or reinsurance undertaking is established in a Member State which is not the Member State in which the insurance or reinsurance undertaking is established, there should be close co-operation between the supervisory authorities.
CEA	Recital 104	IM10		**Where supervisory authorities authorise the use of a special purpose vehicles by more than one undertaking, then those** ~~The~~ special purpose vehicle should be bankruptcy remote in the sense that it should remain at all times protected from the winding up proceedings of any of the insurance or reinsurance undertakings which transfer risks to the special purpose vehicle.
CEA	Recital 112	IM31		Articles 237 to 240 of Directive 2009/138/EC assign a number of rights and duties **to the group supervisor** (including on exchange of information) in the supervision of insurance and reinsurance undertakings that are subsidiaries of other insurance or reinsurance undertakings and are subject to centralised risk management at the level of the parent undertaking, with a view to ensuring close cooperation between all supervisory authorities concerned. In this context, it is necessary to harmonise the procedures applicable to the supervision of such insurance and reinsurance subsidiaries.
CEA	002	None	***Para "Whole section"*** As the exact method of applying proportionality will differ depending on specific circumstances, the	In applying the requirements referred to in this Regulation account shall be taken of the nature, scale and complexity of the operations of insurance or reinsurance undertakings and the risks inherent in their business. The principle of proportionality justifies simpler and less

			Level 2 implementing measures should introduce the principle of proportionality under exact articles of the implementing measures with clear guidance to help with interpretation and application which would complement an overarching principle statement on proportionality in level 2.	burdensome or more complex requirements depending on the risk-profile of the undertaking.
CEA	003	None	***Para "whole section"*** The CEA supports application of materiality however it is not directly outlined as a principle in Level 1. We acknowledge the introduction of a Materiality Principle in Article 3 of the draft Level 2 implementing measures, however materiality will depend on specific circumstances, for example 'material risk' or 'material change'. For this reason, any reference to materiality in the Level 2 text should introduce areas where materiality can be applied, rather than to attempt a more precise overarching definition. .	Any information should be considered as material if that information could influence the decision-making and judgement of the intended user of that information.
CEA	006	V2 IM3	We are concerned with a blanket requirement to apply IFRS. In our view, the principle for market consistency should be stated here. IFRS is not a principle, rather one tool available to achieve a market consistent valuation. We cannot preclude that other methodologies are equally appropriate. The possibility to rely on existing data and calculations is really crucial for small undertakings and should be not excluded if equivalence with a	1. Unless otherwise stated, assets and liabilities shall be recognised in conformity with the international accounting standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002. **(Re-)insurance undertakings which are neither obliged to prepare financial statements under international accounting standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002, nor provide such statements on a voluntary basis are allowed to recognise assets and liabilities according to local reporting**

			market consistent valuation is ensured. Additionally, we are concerned by the requirement for assets and liabilities to be valued separately. This is not in line with the total balance sheet approach based on economic principles underpinning Solvency II. There is no need to split-up and value parts of the business separately under a going-concern valuation.	**requirements provided that they are deemed to be consistent with the valuation approach set out in Article 75 of the Framework Directive. If local GAAP requirements are not considered to be equivalent (re-)insurance undertakings are required to adjust the corresponding balance sheet items in accordance with Art. 75.** 2. **Notwithstanding paragraph 1, the v**aluation of assets and liabilities shall be carried out, unless otherwise stated, in conformity with international accounting standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002 provided that those standards include valuation methods that are consistent with the valuation approach set out in Article 75 of Directive 2009/138/EC. If those standards allow for more than one valuation method, only valuation methods that are consistent with Article 75 of Directive 2009/138/EC can be used. 3. Where the valuation methods included in international accounting standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002 are either temporarily or permanently not consistent with the valuation approach set out in Article 75 of Directive 2009/138/EC, then insurance or reinsurance undertakings shall use the alternative valuation methods that are consistent with the valuation approach set out in Article 75 of Directive 2009/138/EC, as prescribed by EIOPA. 4. ~~Individual assets and liabilities shall be valued separately.~~
CEA	008	V4	We do not agree with the recognition of contingent	~~**Recognition**~~ **Treatment of contingent assets and liabilities**

		IM3	liabilities. In order to measure contingent liabilities an excessive use of expert judgment would be needed as a contingent liabilities can each have unique characteristics and no reliable historical data to use to carry out the valuation. We request that the EC takes into account the final advice of Ceiops, which also states that contingent liabilities are to be disclosed only. Additionally, the definition of materiality remains unclear and leaves room for arbitrary interpretation. If the reference to materiality is retained, we suggest a high threshold to make clear that only a few items would have to be valued.	~~Insurance and reinsurance undertakings shall recognise as a liability contingent liabilities, as defined in international accounting standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002, that are material.~~ ~~Contingent liabilities are material if information about the current or potential size or nature of that liability could influence the decision-making or judgement of the intended user of that information.~~ **Contingent assets and liabilities, as defined by the Commission in accordance with Regulation (EC) No 1606/2002, should not be recognised for solvency purposes. Material contingent assets and liabilities shall however be reported to supervisors and be subject to continuous assessment as part of the ORSA.**
CEA	009	V5 IM3	***Para 1*** - The proposed treatment could be very onerous for non-listed participations. We do not agree with the proposal to move straight to the adjusted equity method if a quoted market value is not available. We believe that a mark-to-model approach provides a valuation that better reflects the economic balance sheet of the participations and therefore is more in line with the spirit of the Directive. A mark-to-model approach should be the method to use if a quoted market value is not available. We would propose that the fair value hierarchy from IFRS should be used as a reference:	Insurance and reinsurance undertakings shall value: (1) holdings in related undertakings, within the meaning of Article 212 of Directive 2009/138/EC, using the default valuation approach set out in Article V3(1); where a valuation in accordance with Article V3(1) is not possible, the following shall apply: (a) **a mark to model valuation approach shall be used in accordance with Article V3(2);** ~~in the case of a subsidiary undertaking, as defined in Article 13(16) and referred to in Article 212(2) of Directive 2009/138/EC, valuation shall be based on an~~

			1) Use market values if quoted 2) Use mark to model approaches based on observable market input is possible 3) Use valuation technique based on non-observable inputs (of which the adjusted equity value could be one). ***Para 2*** - There should be no zero valuation of related undertakings for which the Level 1 text (Art 229) requires the book value to be deducted from the own funds of the group. A zero valuation and a deduction of the book value of the participation seems to result in a double-deduction. We would request clarity as to whether the book value for solvency purposes would also be set to zero. ***Para 3*** - Goodwill has economic value and as such the possibility to assign value to goodwill should not be excluded. This is essential for an economic approach. Goodwill can be sold and so would have a value under a transfer. Assigning a nil value is inconsistent with the requirements for accounting purposes (under which goodwill is tested for impairment and if it is not impaired by definition it has a non-nil value). If goodwill is assigned a value then obviously the fact that its value maybe impaired under stress circumstances would be considered within the	~~adjusted equity method;~~ (b) ~~in the case of holdings in related undertakings that are not subsidiary undertakings, valuation shall be based on an adjusted equity method wherever possible. Where~~ an adjusted equity method ~~is not possible, a mark to model valuation approach shall be used in accordance with Article V3(2).~~ (2) notwithstanding paragraph 1, holdings in related undertakings, within the meaning of Article 212 of Directive 2009/138/EC, that are ~~either~~: (a) excluded from the scope of the group supervision under point (a) of Article 214(2) of Directive 2009/138/EC~~; or~~ ~~(b) deducted from the own funds eligible for the group solvency in accordance with Article 229 of Directive 2009/138/EC,~~ at zero unless the supervisory authorities consider that the circumstances for the exclusion or deduction do not apply at solo level. (3) goodwill ~~at zero~~ **shall be valued in accordance with international accounting standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002.** (4) intangible assets~~, other than goodwill, at zero, unless they can be sold separately and the insurance and reinsurance~~

			capital requirements.	~~undertaking can demonstrate that there is a value for the same or similar assets that has been derived in accordance with Article V3(1)~~ **shall be valued in accordance with international accounting standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002.** (5) deferred tax assets in accordance with Article V7. The adjusted equity method referred to in paragraph 1 shall require the participating undertaking to value its holding in a related undertaking based on the participating undertaking's share of the excess of assets over liabilities of the related undertaking. When calculating the excess of assets over liabilities of the related undertaking, the participating undertaking shall value the related undertaking's assets and liabilities in accordance with Article 75 and where applicable, Articles 76 to 86, of Directive 2009/138/EC.
CEA	010	V6 IM3	We would like to add that explicit consideration of employee benefits and termination benefits is missing from this section. ***Para 2*** - As per Ceiops' final advice on contingent assets and liabilities. Please see our comments to Article 8.	Insurance and reinsurance undertakings shall value: (1) Financial liabilities, as referred to in international accounting standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002, in conformity with those international accounting standards upon initial recognition. There shall be no subsequent adjustment to take account of the change in own credit standing of the insurance or reinsurance undertaking after initial recognition. (2) ~~Contingent liabilities based on the probability-weighted average of future cash flows, taking into account the time value of money (expected present value of future cash-flows), required to settle the contingent liability over the~~

				~~lifetime of that contingent liability discounted at the relevant risk-free interest rate term structure.~~ (3) Deferred tax liabilities in accordance with Article V7.
CEA	011	V7 IM3	***Para 1*** - IFRS is just one but not the only suitable proxy for valuation under Solvency II (as admitted by Ceiops in its final advice with regard to the valuation of assets and other liabilities). This should be reflected in the proposals. Furthermore, it should be clarified that Para 2 applies to **net** DTAs in line with the letter of the Commission as to changes to the QIS5 specifications. **[we do not have any re-drafting suggestion at this stage for this paragraph]** ***Para 2*** – This requires an assessment of the probability of the DTA being utilised, however, under IFRS DTA already includes a deliberate assessment of recoverability. Therefore, it remains unclear which criteria should be applicable in order to demonstrate the recoverability for prudential purposes.	1. Insurance or reinsurance undertakings shall calculate deferred taxes in conformity with international accounting standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002 except that deferred taxes other than the carry forward of unused tax credits and the carry forward of unused tax losses shall be valued on the basis of the difference between the values ascribed to assets and liabilities in accordance with Article 75 of Directive 2009/138/EC and the values ascribed to the same assets and liabilities for tax purposes. 2. In the case of net deferred tax assets the insurance and reinsurance undertaking shall demonstrate to the supervisory authority that it is probable that future taxable profit will be available against which the deferred tax asset can be utilised. **Elements as future business, or fiscal mutualisation within a group could be used for demonstrating the recoverability of deferred tax assets. When assessing future profits, the legal time limit for carrying forward the tax deficit should be taken into account.**
CEA	012	TP1 IM13	The wording “becomes party to the contract” is not sufficiently clear for several Members States for certain types of product. We request the text is re-drafted in line with the tentative decision of the IASB staff paper 11B	Insurance and reinsurance undertakings shall recognise an insurance or reinsurance obligation of the undertaking at whichever is the earlier of ~~the date~~ ~~the undertaking becomes a party to the contract that gives rise to the obligation or, the date the insurance or reinsurance cover begins.~~

			(week beginning April 2010).	**(a) the undertaking being on risk to provide coverage to the policyholder for insured events and** **(b) the signing of the insurance contract.** Insurance and reinsurance undertakings shall derecognise an insurance or reinsurance obligation only when it is extinguished.
CEA	013	TP2 IM13	**Contract Boundaries** The contract boundary is a critical point. This new drafting is very unclear and we do not believe it is sufficiently robust to be interpreted consistently in practice. Furthermore, it appears completely out-of-line with current best practices and will create a mismatch between solvency statements and risk management. The valuation of assets and liabilities is central to an economic approach and is defined by the insurance contract. It is critical that the boundary of a contract is appropriately defined so all the risks and obligations are included to ensure policyholder protection. The current drafting appears to restrict the boundary of a contract such that obligations which the industry currently recognises and considers a key component of their insurance risk within existing contracts would not be recognised. We refer again to the joint industry position for	1. For the purpose of determining which insurance and reinsurance obligations arise in relation to a contract, the boundaries of an insurance or reinsurance contract ~~shall be defined in the following manner:~~ **is the point at which an insurer either:** **(a) is no longer required to provide coverage, or** **(b) has the right or the practical ability to reassess the risk of the particular policyholder and, as a result, can set a price that fully reflects that risk. In assessing whether it can set a price that fully reflects the risk, an insurer shall ignore restrictions that have no commercial substance (ie no discernible effect on the economics of the contract).** ~~(a) Where the insurance or reinsurance undertaking has a unilateral right to terminate the contract, a unilateral right to reject premiums payable under the contract or an unlimited ability to amend the premiums or the benefits payable under the contract at a future date, any obligations which relate to insurance or reinsurance cover which might be provided by the insurance or reinsurance undertaking after that date do not belong to~~

			future contract boundaries. Consistency with IFRS is desirable and the definition proposed by Industry is in line with the tentative decision of the IASB staff paper 11A (week beginning April 2010). **We propose to adopt the wording which was adopted in the IASB exposure draft.** We note that the Industry proposal is very conservative compared to a strict economic basis. On a true economic basis, consideration should be on an expected basis, and in line with the insurer's other management action assumptions and so there should be no strict requirement to assume no continuance of the contracts where the insurer has a unilateral right to cancel these. Otherwise, it may not represent a realistic picture of the situation of the insurer on a going-concern. Nevertheless, we continue to support our previous position as a workable compromise for calculating contract boundaries for Solvency II. We would like to highlight, that our continued support for the conservative approach highlighted in our previous paper is conditional on the fact that: • Expected future profits are classified as Tier 1 capital. • The winding-up gap concept is not put in place. An appropriate allowance for goodwill in the	~~the contract.~~ ~~(b) Where the insurance or reinsurance undertaking's unilateral right to terminate the contract or to unilaterally reject premiums or its unlimited ability to amend the premiums or the benefits relates only to a part of the contract, the same principle as defined in point (a) shall be applied to this part.~~ ~~(c) All other obligations relating to the contract belong to the contract.~~ ~~2. Where an insurance or reinsurance undertaking is able to amend the premiums or benefits of an insurance or reinsurance contract only together with the premiums or benefits of other insurance or reinsurance contracts, this situation shall not be considered as a limitation of the ability to amend the premiums or benefits of that contract for the purpose of point (a) of paragraph 1.~~ ~~3. Where an insurance or reinsurance undertaking has the ability to amend the benefits of a contract but not the premiums then the ability to amend benefits should be considered unlimited only if the undertaking is able to reduce all future benefits to zero.~~

			valuation of assets (e.g. participations). Please see our paper on contract boundaries. Inclusion of this text is an important clarification. **If the insurer is not able to treat the contract in the same way as new business**, **then the cash flows under this contract should be treated as existing business.**	
CEA	014	TP3 IM13	***Para 2 and 3*** - The principle of proportionality should be included here - data collection, validation and documentation is especially burdensome. Compiling **all** data is counterproductive. This requirement would seem realistic only if it were required in an aggregated form. We request that the whole paragraph is dropped and the concept included in a principle-based manner in paragraph 3. ***Para 4 and 8*** - The current wording used in Para 4(b) and 8 is unclear. It could mean, for example, that when setting mortality rates, the data for different time periods must be consistent (which is extremely unlikely due to mortality improvements)? Or it could mean that there should be no arbitrary changes to data sources used over time, which would appear more reasonable. ***Para 6*** - With regards to the use of the term "at least" in Para 6, the conditions given are adequate.	1. All data used in the calculation of the technical provisions, whether from an internal or external source, shall comply with the requirements set out in paragraphs 2 to 9. ~~2. Insurance and reinsurance undertakings shall compile a directory of all relevant data used in the calculation of the technical provisions in an aggregated form, specifying the source, characteristics and usage of the data in that calculation.~~ 3. In relation to the data used in the calculation of the technical provisions, insurance and reinsurance undertakings shall establish, implement and maintain a data policy which covers at least the following areas: (a) the definition and the assessment of the quality of data, including specific qualitative and quantitative standards for different data sets, based on the criteria of accuracy, completeness and appropriateness; (b) the use of assumptions made in the collection, processing and application of data;

			Additional conditions should not be required, therefore “at least” should be removed.	(c) data updates, including the frequency of regular updates and the circumstances that trigger additional updates **(d) documentation of the structure, source and characteristics of the data used in calculating TP.** 4. Insurance and reinsurance undertakings may not consider the data used in the calculation of the technical provisions to be accurate unless at least the following conditions are met: (a) the data are free from material errors; (b) **there are no arbitrary changes to the** data **sources** ~~**from**~~ **for** different time periods ~~used for the same estimation are consistent~~; (c) the data are recorded in a timely manner and consistently over time. 5. Insurance and reinsurance undertakings may not consider the data used in the calculation of the technical provisions to be complete unless at least the following condition are met: (a) data satisfying the condition in point (b) are available for each of the relevant homogenous risk groups used in the calculation of the technical provisions and no such relevant data is excluded from being used in the calculation of the technical provisions without justification; (b) the data are of sufficient granularity and include sufficient historical information to identify trends

				and assess the characteristics of the underlying risk. 6. Insurance and reinsurance undertakings may not consider the data used in the calculation of the technical provisions to be appropriate unless ~~at least~~ the following conditions are met: (a) the data fit the intended purposes; (b) the amount and nature of the data ensure that the estimations made in the calculation of the technical provisions on the basis of the data do not include a material estimation error; (c) the data are consistent with the assumptions underlying the actuarial and statistical techniques that are applied to them in the calculation of the technical provisions; (d) the data appropriately reflect the risks to which the insurance or reinsurance undertaking is exposed with regard to its insurance and reinsurance obligations. 7. Any assumptions made in the collection, processing and application of data shall be consistent with the data to which they relate and shall comply with the requirements set out in Subsection 1 of Section 3 of this Chapter. ~~8. Insurance or reinsurance undertakings shall ensure that their data is used consistently over time in the calculation of the technical provisions unless departure is justified and disclosed.~~ 9. Insurance and reinsurance undertakings may use data from an external source provided the following requirements are met:

				(a) undertakings are able to demonstrate that the sole use of data which are exclusively available from an internal source is not more suitable than the use of data which includes data from an external source; (b) the origin of the data and assumptions or methodologies used to process the data is known to the undertaking, any trends in the original data are identified, as well as the variation, over time or across original data, of the assumptions or methodologies in the use of the original data; (c) the undertaking is able to demonstrate that the assumptions and methodologies referred to in point (b) appropriately reflect the characteristics of the undertaking's portfolio of insurance and reinsurance obligations.
CEA	017	TP5 IM13	***Para 4*** - The current wording in is too strong – we request that the requirement is to "justify", rather than explain. ***Para 5*** - Neither the use of the model nor the definition of current asset prices fit the criteria in Article TP21(3), which refers to highly liquid public market. We believe that mark to market/model should be available. This would have practicality advantages as well as being consistent with IFRS and the level I text.	1. Insurance and reinsurance undertaking shall [...] 3. Unless otherwise stated, assumptions [...] 4. Insurance and reinsurance undertakings shall ensure that assumptions underlying the calculation of the technical provisions are derived consistently over time and within homogeneous risk groups and lines of business, without arbitrary changes. The assumptions shall adequately reflect any uncertainty underlying the cash-flows. Insurance and reinsurance undertakings shall monitor, explain ~~justify~~ and document the changes of assumptions from one period to another. They shall estimate the impact of material

				changes of assumptions from one period to another. 5. Insurance and reinsurance undertakings shall derive assumptions on future financial market parameters or scenarios according to the following requirements: (a) the insurance or reinsurance undertaking is able to demonstrate that assumptions are appropriate and consistent with Article 75 of Directive 2009/138/EC; (b) where the undertaking uses a model to produce projections of future financial market parameters, the undertaking shall ensure that the model complies with the following requirements: – it generates asset prices that are consistent with financial markets ~~that meet the requirements set out in Article TP21(3);~~ – it assumes no arbitrage opportunity; – the calibration of the parameters or scenarios is consistent with the relevant risk-free interest rate term structure as referred to in Article 77(2) of Directive 2009/138/EC;.
CEA	019	TP6 IM13	***Para 3*** **- Use of term "realistic"** Future management actions can't be considered as realistic for all future scenarios. Sometimes they are planned as reactions to situations which have not occurred before.	[...] 3. Assumed future management actions shall be ~~realistic~~ **reasonable** and consistent with the insurance or reinsurance undertaking's current business practice and business strategy, including the planned replacement of risk mitigation techniques. If there is sufficient current evidence that the

			Para 3 and 7 **- Reference to current business strategy** We recommend the inclusion of this precision. Indeed, even if the major part of the management actions would be implemented considering the undertaking continue to write NEW business, on particular point, especially related to assets and cash-flows, it could lead to odd model behaviour. For instance, the management action related to the maturity of future bonds bought: if the undertaking is supposed to continue writing NEW contracts, the duration of the technical provision would stay stable and so do the maturity of future bonds investments. However, in the model used for the calculation, only premiums arising from past business would be taken into account, so the duration of the technical liabilities would decrease, and if the duration on the assets side stay the same due to an inflexible use of the on-going concern principle, it would generate an artificial duration mismatch which would false the assessment of the technical provision.		undertaking will change its practices or strategy, the assumed management actions shall be consistent with the changed practices or strategy. **Assumed future management actions should nevertheless take into account the fact that only premiums related to existing business are taken into account in the calculation of the technical provisions.** [...] 7. Insurance and reinsurance undertakings shall be able to verify that assumptions about future management actions are realistic through: (a) a comparison of assumed future managements actions with management actions taken previously by the insurance or reinsurance undertaking; (b) a comparison of future management actions taken into account in the current and past calculations of the best estimate. Insurance and reinsurance undertakings shall document and be able to explain any relevant deviations in relation to points (a) and (b**)**. **In this analysis, undertakings should take into account the fact that only premiums related to existing business are taken into account in the calculation of technical provisions.**
CEA	020	TP7 IM13	To avoid any potential ambiguity and to ensure consistency with Recital 9 since the drafting here could potentially include under para 1 (a) 2nd bullet point, unrealised investment returns, and profit commission (assuming this is a benefit) under para	1.	Future discretionary bonuses or future discretionary benefits means future benefits of insurance or reinsurance contracts**, other than unit-linked contracts,** which have one of the following characteristics:

			1 (a) first bullet point.	(a) the benefits are legally or contractually based on one or several of the following results: – the performance of a specified pool of contracts or a specified type of contract or a single contract; – realised and/or unrealised investment return on a specified pool of assets held by the insurance or reinsurance undertaking; – the profit or loss of the insurance or reinsurance undertaking or fund corresponding to the contract; (b) the benefits are based on a declaration of the insurance or reinsurance undertaking and the timing or the amount of the benefits is at its full or partial discretion. [...]
CEA	022	TP9 IM13	**Expected future developments** Although, in principle this requirement appears in line with an economic approach, it would be very important to apply these requirements pragmatically. The future developments considered should be highly probable and there should be sufficient evidence to support the assumptions, otherwise this requirement could include a very high degree of uncertainty and complexity. We note that Article 78 only states that	The calculation of the best estimate shall take into account expected future developments that will have a material impact on the cash in- and out-flows required to settle the insurance and reinsurance obligations thereof. For this purpose future developments shall include demographic, legal, medical, technological, social, environmental and economical developments including inflation as referred to in Article 78 of Directive 2009/138/EC **if they are highly probable at the calculation date**.

			undertakings should take into account assumptions on inflation, expenses and future discretionary bonuses. Therefore, the current drafting goes a lot further than the Directive's requirements. We request that this article is removed, or as a compromise, the text amended to only apply to those developments that are highly probable at the calculation date.	
CEA	023	TP10 IM13	A requirement to take ALL uncertainties into account does not appear feasible.	The cash-flow projection used in the calculation of the best estimate shall, explicitly or implicitly, take account of all **known** uncertainties in the cash-flows, **identifying** ~~including where relevant the following characteristics:~~ ~~(a) uncertainty in the timing, frequency and severity of insured events;~~ ~~(b) uncertainty in claim amounts, including uncertainty in claims inflation, and in the period needed to settle and pay claims;~~ ~~(c) uncertainty in the amount of expenses as referred to in Article 78(1) of Directive 2009/138/EC;~~ ~~(d) uncertainty in expected future developments referred to in Article TP9 to the extent it is practicable;~~ ~~(e) uncertainty in policy holder behaviour;~~ ~~(f) dependency between two or more causes of uncertainty;~~

				(g) ~~dependency of cash-flows on circumstances prior to the date of the cash-flow.~~ **(h)** **the risk drivers which have the potential to materially affect (directly or indirectly) the frequency of option take-up rates;** *(i)* **the risk drivers which have the potential to materially affect (directly or indirectly) the level of moneyness.**
CEA	025	TP12 IM13	**Tax consideration in BE** The insurer should model all the cash flows it is expecting to receive in, less all the cash flows it is expecting to pay out, as part of its best estimate. Consider first, if policyholders pay tax on their insurance claims after receipt, then there should be no specific consideration of this tax by the insurer. The insurer should be considering its gross payment to the policyholder only. The current wording is unclear in this regard. Consider then, if a tax is charged to policyholders on their premiums, via an increased premium paid to the insurer which must then be passed by the insurer to the tax authority. This would be a cashflow that passes through the insurer and so in principle should be considered within the BE. However, often the most pragmatic way to model this would be by modelling the net premium (after	The calculation of the best estimate shall take account of taxation payments which are, or are expected to be, charged to policy holders or are required to settle the insurance or reinsurance obligations. All other taxation payments shall be accounted for outside of technical provisions. **Any taxation payments charged to policyholders and directly transferred to the taxation authority should not be included in the calculation of best estimate.**

			tax) received by the insurer within the best estimate. This is because simplifications should be possible if they have an immaterial impact on the result, or can be shown not to underestimate the TP. Therefore, it is not clear why this paragraph is drafted in this way, requiring the insurer to make a specific consideration of policyholder tax within the best estimate. Likewise, we should add that we have similar concerns for all cash flows which are by nature "passing through arrangements" e.g. cash flows which do not generate risks for the insurer.	
CEA	026	TP13 IM13	It would be very important to apply the principle of proportionality here. Furthermore, it is important to emphasise that risk mitigation techniques currently in place should be taken into account in the valuation of options and guarantees. Risk mitigation techniques should be fully recognised under the risk sensitive approach of Solvency II.	When calculating the best estimate, insurance and reinsurance undertakings shall identify and take into account: (a) all **material** financial guarantees and contractual options included in their insurance and reinsurance policies; (b) factors which may materially affect the likelihood that policy holders will exercise contractual options or the value of the option or guarantee. (c) **any risk mitigation techniques that are currently in place**
CEA	027	TP14 IM13	**Calculations per currency** Projecting cash flows in all currencies could be unduly onerous for international insurers and	The best estimate shall be calculated separately for **significant** cash-flows in different **currencies in line with the principle of proportionality.**

			reinsurers where there can be many currencies. Undertakings with worldwide business cannot demonstrate all obligations in different currencies. It is common practice to deal with major currencies separately and use groupings for other currencies.	
CEA	028	TP15 IM13	**<u>Use of term "audit"</u>** Although the word "audit" is not used in TP5, the meaning of TP5 (3 and 4a) appears to already cover transparency requirements sufficiently. Furthermore, the phrase "...the undertaking … has to demonstrate…." appears in several articles. Therefore, it is not clear why this additional paragraph is needed here. We would suggest to combine all these requirements into one section.	1. The choice of actuarial and statistical methods for the calculation of the best estimate shall be based on their appropriateness to reflect the risks which affect the underlying cash-flows. The actuarial and statistical methods shall be consistent with and make use of all relevant data available for the calculation of the best estimate. 2. Where a calculation method is based on grouped policy data, insurance and reinsurance undertakings shall be able to demonstrate that the grouping of policies creates homogeneous risk groups which appropriately reflect the risk characteristics of the individual policies included. 3. Where a future event may impact the cash-flows in such a manner that their present value does not only depend on the expected outcome of the event, but also materially depends on the way the outcome could deviate from the expected outcome, including where policies include financial guarantees and contractual options, the method to calculate the best estimate for these cash-flows shall take this characteristic into account. ~~4. The best estimate shall be calculated in a transparent manner and in such a way as to ensure that the calculation method and the results that derive from it can be audited.~~

CEA	029	TP16 IM13	**Policy-by-policy calculations** The per policy calculation is a new requirement which is not in the Directive. Policy-by-policy calculations are unnecessary if the data can be grouped without loss of accuracy. Rather than requiring policy-by-policy calculations to be the default, we believe that firms should have the freedom to group policy data. Therefore, grouping of policies should be possible not only in the case of an "undue burden", but as long as the criteria (a-c) are met.	The cash-flow projections used in the calculation of best estimates for life insurance obligations shall be made ~~separately~~ for each policy. Where the separate calculation for each policy would **not give rise to any significant increase in accuracy,** ~~be an undue burden on~~ the insurance or reinsurance undertaking~~, it~~ may carry out the projection by grouping policies, provided that the grouping complies with the following requirements: (a) there are no **major** ~~significant~~ differences in the nature, scale and complexity of the risks underlying the policies that belong to the same group; (b) the grouping of policies does not **significantly** misrepresent the risk underlying the policies and does not **significantly** misstate their expenses; *(c)* the grouping of policies is likely to give approximately the same results for the best estimate calculation as a calculation on a per policy basis, in particular in relation to financial guarantees and contractual options included in the policies.
CEA	030 bis	IM13	**Health obligations** In line with the specific articles (29 and 30) related to life and non-life insurance, we request that an article is added to reflect the specifics of health business. This re-drafting proposal would be in line with the QIS5 specifications.	**The cash-flow projections should take account of claims inflation and premium adjustment clauses. If premium adjustment clauses are set such that they will move in line claims inflation, it may be assumed that the effects of claims inflation and premium adjustment clauses cancel out each other in the cash-flow projection.**

CEA	031	TP18 IM13	**Risk Margin -Diversification** We have received concerns that this article, and hence the assumptions required to be used in the risk margin calculation are not clear. It is important calculations are clearly defined. ***Para 1(a)*** - We strongly support the proposal to include diversification across lines of business within the risk margin. ***Additional Para 3*** – We do not agree that no diversification within groups should be excluded from the risk margin. Even ignoring any potential restructuring, this will be costly under current Group structures. We request justification of this approach. Diversification within the group for the purposes of the risk margin calculation should be allowed for in line with an economic methodology. **Risk Margin - Residual market risk** ***Para 1(b) and (c)*** - Residual Market Risk is still ill-defined. We have conceptual and practicability concerns with this requirement and these have also been highlighted in the feedback we have received from QIS5. Any residual market risk is unlikely to be material but would create a significant calculation burden for insurers to quantify, which does not appear feasible. There is no generally accepted practice as to how to allow for such risks, so it is	1. The calculation of the risk margin shall be based on the following assumptions: (a) the whole portfolio of insurance and reinsurance obligations of the insurance or reinsurance undertaking that calculates the risk margin (original undertaking) is taken over by another insurance or reinsurance undertaking (reference undertaking); [...] (g) the assets should be considered to be selected in such a way that they ~~minimise~~ **eliminate** the Solvency Capital Requirement for market risk; (h) the Solvency Capital Requirement of the reference undertaking captures – underwriting risk with respect to the transferred business; – ~~the residual market risk that has not be eliminated in accordance with point (g);~~ – credit risk with respect to reinsurance contracts, special purpose vehicles, intermediaries, policyholders and any other material exposures which are closely related to the insurance and reinsurance obligations; – operational risk; (i) the loss-absorbing capacity of technical provisions **and**

			hard to see how consistency could be achieved across firms in the measurement of their technical provisions for this complex calculation. Furthermore, residual market risk is already implicitly allowed for in the method of extrapolation of the interest rate curve. In addition the prudence of the 6% cost of capital rate builds in further margins for long-term liabilities. We consider that the combination of these effects produces an overly prudent risk margin. Pillar II would, in our view, the appropriate place to make any required consideration of residual market risk and we request that this requirement is removed within Pillar 1. **Risk Margin - Loss absorbency of DT** ***Para 1(i) and (j)*** - After a portfolio has been transferred, the reference undertaking will incur similar cash in and outflows as the original undertaking. In particular, the reference undertaking will generate deferred tax liabilities in the same way as the original undertaking. As a consequence, the loss absorbing capacity of these deferred taxes should be taken into account. Setting the loss absorbency of deferred taxes to zero is, in our view, not in line with the economic framework and is not a requirement of the Level 1 text.	**deferred taxes**, as referred to in Article 108 of Directive 2009/138/EC, in the reference undertaking corresponds for each risk to the loss-absorbing capacity of technical provisions in the original undertaking; ~~(j) there is no loss-absorbing capacity of deferred taxes as referred to in Article 108 of Directive 2009/138/EC for the reference undertaking;~~ ~~(k) subject to points (d) and (g), the reference undertakings will adopt future management actions that are consistent with the assumed future management actions, as referred to in Article TP6, of the original undertaking.~~ 2. Over the lifetime of the insurance and reinsurance obligations, the Solvency Capital Requirement necessary to support the insurance and reinsurance obligations referred to in Article 77(5) of Directive 2009/138/EC shall be equal to the Solvency Capital Requirement of the reference undertaking in the scenario set out in paragraph 1. **3. These principles also apply at group level on the basis of the whole portfolio of insurance and reinsurance obligations of the insurance or reinsurance group.**

			Risk Margin - Management actions ***Para 1(k)*** - Demanding that the reference undertaking will adopt the same future management actions as the original undertaking seems to contradict 1(g) that says that the assets to be considered shall minimize the SCR for market risk. In our view, choosing the strategic asset allocation is a management action.	
CEA	032	TP19 IM13	**6% CoC** We have concerns that the 6% is too high and has not been sufficiently justified by Ceiops. We note that it is very important that this figure will be regularly reviewed and updated, as required by the level 1 text.	The Cost-of-Capital rate referred to in Article 77(5) of Directive 2009/138/EC shall be equal to 6 % **and shall be reviewed on a regular basis**.
CEA	033	TP20 IM13	**Risk Margin – Formula** ***Para 1*** - This text suggests that the default approach for the risk margin calculation is a full projection of the SCR. However, in our view, insurers should not have to prove, under the proportionality principle, that it is appropriate for them to use simplifications for this calculation. A simplified method should be standard. We note that the Risk Margin calculation in itself is an approximation in order to arrive at a market consistent valuation, and it rests on many assumptions (e.g. the 6% CoC) which are approximate. Therefore a requirement to project forward each future SCR accurately would result in	*[One of the simplifications proposed in QIS5 should be drafted here. We are still discussing feedback from QIS5 to see which would be the most appropriate re-drafting proposal.]* 1. The risk margin for the whole portfolio of insurance and reinsurance obligations shall be equal to the following: $$risk\ margin = CoC \times \sum_{t \geq 0} \frac{SCR(t)}{(1 + r(t+1))^{t+1}}$$ where *CoC* denotes the Cost-of-Capital rate, *SCR*(*t*) denotes the Solvency Capital Requirement referred to in Article TP18(2) after *t* years and *r*(*t*+1) denotes the relevant ~~basic~~

			a significant burden and spurious accuracy. Feedback we have received from QIS5 is that across the board, the full formula is too complex and consequently was impossible to test in QIS5. One of the simplifications suggested in QIS5 should be included in the drafting here. **Risk Margin – Interest rate** ***Para 1*** - The interest used should be the same risk-free rate used to discount the liabilities. There is no justification for using a discount rate excluding the illiquidity premium. **Risk Margin – allocation to TP** ***Para 3*** - The allocation in the risk margin is not needed to achieve an accurate valuation. Flexibility is needed on the re-allocation methods - a variety of allocation principles are available. It should be noted that an allocation of capital and/or margin is a decision for internal management.		risk-free interest rate referred to in point (a) of Article IR1(1) for the maturity of t+1 years. The ~~basic~~ risk-free interest rate $r(t+1)$ shall be chosen in accordance with the currency used for the financial statements of the insurance and reinsurance undertaking. [...] 3. Insurance and reinsurance undertakings shall allocate the risk margin for the whole portfolio of insurance and reinsurance obligations to the lines of business referred to in Article 80 of Directive 2009/138/EC. ~~The allocation shall adequately reflect the contributions of the lines of business to the Solvency Capital Requirement referred to in Article TP18(2) over the lifetime of the whole portfolio of insurance and reinsurance obligations.~~
CEA	034	TP21 IM13	The current drafting appears too strict. The combined result of these requirements would imply that replication would be almost impossible. We request that the requirements that should be satisfied by the financial instruments are consistent with the requirements set out under IM3 (valuation	1.	For the purpose of determining the circumstances where some or all future cash flows associated with insurance or reinsurance obligations can be replicated reliably using financial instruments for which a market value is observable as referred to in the second subparagraph of paragraph 4 of Article 77 of Directive 2009/138/EC, undertakings shall assess whether all the criteria set out in paragraph 2 and 3 are met. In this case, the value of technical provisions associated

			of assets and other liabilities) i.e. there should be a link to IFRS. There should not be additional requirements over and above IM3 for these financial instruments.	with those future cash-flows shall be equal to the market value of the financial instruments used in the replication. 2. The cash-flows of the financial instruments used in the replications shall replicate the uncertainty in amount and timing of the cash-flows associated with the insurance or reinsurance obligations, in relation to the **material** risks underlying the cash-flows associated with the insurance and reinsurance obligations ~~in all possible scenarios~~. In particular, the following cash-flows associated with insurance or reinsurance obligations cannot be reliably replicated: (a) cash-flows associated with insurance or reinsurance obligations that depend on the likelihood that policy holders will exercise contractual options, including lapses and surrenders; (b) cash-flows associated with insurance or reinsurance obligations that depend on the level, trend, or volatility of mortality, disability, sickness and morbidity rates; (c) all expenses that will be incurred in servicing insurance and reinsurance obligations. 3. To be used in replications, the financial instruments shall be traded in active markets as defined in international accounting standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002, which also meet all of the following criteria: (a) a large number of assets can be transacted without significantly affecting the price of the financial instruments used in the replications (deep),

				(b) assets can be easily bought and sold without causing a significant movement in the price (liquid), (c) current trade and price information are readily available to the public, in particular to the undertakings (transparent).
CEA	035	TP22 IM13	**Valuation of recoverables** ***Para 2*** - It would be extremely burdensome and impracticable to require a best estimate calculated separately for each counterparty. We request that only the "sum of" the amounts recoverable should be calculated. ***Para 5*** - It is not clear what material structural basis risk would mean in practice. Therefore, this requirement could result in considerable uncertainty for insurers as to what would be permitted. Conceptually the recovery from the SPV may have an expected value of 75% of the gross liability. If 25% is defined as material then there will be no credit for the 75% even if the entity can make a reasonable assessment using its risk assessment and modelling capabilities. If insurers are holding assets that do not fully match their liabilities then a capital charge will apply and in essence you would look through any SPV structure. The wrong approach, in our view, would be to try and ban them or quasi limit their use.	[...] 2. The **sum of the** amounts recoverable from special purpose vehicles, the amounts recoverable from finite reinsurance contracts as referred to in Article 210 of Directive 2009/138/EC and the **sum of the** amounts recoverable from other reinsurance contracts shall each be calculated separately. The amounts recoverable from a special purpose vehicle shall not exceed the aggregate maximum risk exposure of this special purpose. [...] 5. If payments from the special purpose vehicles to the insurance or reinsurance undertaking do not directly depend on the claims against the insurance or reinsurance undertaking ceding risks, the amounts recoverable from these special purpose vehicles for future claims shall only be taken into account to the extent it can be verified in a prudent, reliable and objective manner ~~that the structural mismatch between claims and amounts recoverable is not material~~.

			The requirement in this article to verify the amount in a prudent, reliable and objective manner should be sufficient.	
CEA	036	TP23 IM13	**Counterparty default adjustment** ***Para 1*** – We do not understand the current wording: the items reducing the default risk of reinsurance and SPVs should be integrated in the assessment of the probability of default and the LGD of the exposure and consequently be included in the technical provisions on recoverable on the asset side. It would significantly increase the complexity of the standard formula and makes the understanding of the solvency 2 balance sheet more difficult if the item covering the counterparty risk of the value of recoverable is valued separately from the value of the recoverable. ***Para 2*** - The current proposal is excessively burdensome. A requirement for such a degree of granularity is not feasible or necessary for most undertakings. Simplifications should be allowed. For example, it should be possible to group counterparties if they exhibit the same rating. ***Para 3*** - There may be certain structures where it is reasonable to believe that rates of recovery will be far in excess of 50% (e.g. reinsured External Fund Links with UK regulated unit-linked insurers with floating charges in place) but where data is extremely limited due to lack of actual defaults. The	1. The adjustment to take account of expected losses of the counterparty, referred to in Article 81 of Directive 2009/138/EC, shall be calculated as the expected present value of the change in cash-flows underlying the amounts recoverable from that counterparty, resulting from a possible default of the counterparty for whatever reason, including insolvency or dispute, at a certain point in time. For this purpose, the change in cash-flows shall ~~not~~ take into account the effect of any risk mitigating technique that mitigates the credit risk of the counterparty. ~~These risk mitigating techniques shall be separately recognised as an asset, without increasing the amount recoverable from reinsurance contracts and special purpose vehicles.~~ 2. The calculation in paragraph 1 shall take into account possible default events over the lifetime of the reinsurance contract or special purpose vehicle and the dependence on time of the probability of default. **Where material,** it shall be carried out separately by counterparty and each line of business, and in non-life insurance also separately for premium provisions and provisions for claims outstanding. 3. The average loss resulting from a default of a counterparty, referred to in Article 81 of Directive 2009/138/EC, shall **by default** not be assessed at lower than 50 % of the amounts recoverable without the adjustment referred to in paragraph 1, unless there is a reliable basis for another assessment.

			wording of this paragraph would appear to require actual recovery data to be available in order to justify a rate higher than 50%, which would be excessively prudent in some circumstances. Therefore, the 50% should not be a hard assumption that is impossible to over-turn without providing proof to an unreasonable or unrealistic level. In general, limits should not be fixed at level 2. ***Para 4*** - It is not clear that the original wording would allow for any arrangements that overlay the actual assets held and improve the security of the SPV. ***Para 5*** – We request that it is clearly written how the counterparty default adjustment should be assessed. In particular, it should be specified that collateral should be taken into account when assessing the default adjustment.	4. The probability of default of special purpose vehicles referred to in Article 211 of Directive 2009/138/EC shall be calculated in accordance with the average rating of assets **or contract counterparties** held by the special purpose vehicle, unless there is a reliable basis for an alternative calculation. **5. NEW: The expected losses of the counterparty should be assessed as the LGD (allowing for any risk mitigation techniques such as collateral) of the counterparty multiplied by the probability of default.**
CEA	037	IR1 IM20	**Addition of Illiquidity Premium** ***Para 1*** - The illiquidity premium needs to added to the forward curve. It is not clear from this drafting that that would be the case and seems to be suggesting that it should instead be added to the swap curve. This is a crucial technical point - it is the same process for the extrapolated curve. If not, the resulting spot curve could give illogical results and	1. The rates of the relevant risk-free interest rate term structure to calculate the best estimate with respect to insurance or reinsurance obligations, as referred to in Article 77(2) of Directive 2009/138/EC, shall be ~~calculated as the sum of~~ **derived from**: (a) the rates of a basic risk free interest rate term structure; (b) where applicable, an illiquidity premium corresponding to the insurance or reinsurance obligations.

			can produce negative forward rates. **<u>Calculation of illiquidity premium</u>** ***<u>Para 2</u>*** **– [Please see our key priority issues paper]** The current proposals for Eiopa to exercise discretion in the application of the illiquidity premium are not workable in practice. The illiquidity premium should be determined using a formula which is specified in level 2. Please see in more detail our comments to Para 41.	The relevant risk free interest rate term structure shall be calculated separately for each currency and maturity, based on information and data relevant for that currency and that maturity. **<u>The illiquidity premium should be added to the forward rates derived from the spot rates of the basic interest rate term structure.</u>** 2. For each relevant currency, EIOPA shall derive and publish: (a) the basic risk free interest rate term structure referred to in point (a) of paragraph 1; (b) the illiquidity premium observed in the financial markets referred to in paragraph 1 of Article IR6; (c) the ultimate forward rate referred to in paragraph 2 of Article IR4. [...]
CEA	038	IR2 IM10	**<u>Basic risk-free curve – principles</u>** ***<u>Para 1</u>*** - The proposals have so far not enshrined any principle which states that the risk-free term structure curve has to be free of arbitrage. **<u>Basic risk-free curve – adj to swap curve</u>** ***<u>Para 2</u>*** - In practice, an adjustment to the swap curve for credit risk and basis risk is expected to be immaterial. We question whether it is necessary to	1. The rates of the basic risk-free interest rate term structure shall meet all of the following criteria: (a) they are free of any risk; (b) insurance and reinsurance undertakings are able to earn the rates in a risk-free manner in practice; (c) the rates are reliably determined based on financial instruments traded in a market meeting the criteria set out in paragraph 3 of Article TP21.

			make this adjustment. Please note also, that it is important for undertakings to have certainty as to how to calculate the risk-free rate on a continuous basis, as this is a key component of the calculation of Technical Provisions. Therefore, we request the addition of the calibration of the adjustment to be made to the swap curve included within level 2, which should then be regularly reviewed to ensure it remains appropriate. **Basic risk-free curve – adj to government bond curve** ***Para 3*** - It is not clear how the credit adjustment would be calculated for non-AAA government bonds and so we would request clarity on this point within the Level 2 text. Additionally, we note that Eiopa would need to adequately justify the appropriate determination of the final risk-free curve if it was based on both the swap curve and the government bond curve for different maturities.	**(d) the rates must result in an arbitrage-free term structure.** 2. For each currency, the basic risk free interest rate term structure referred to in point (a) of paragraph 1 of Article IR1 shall be derived, where appropriate, on the basis of interest rate swaps rates adjusted to take account of the credit risk and the basis risk of the corresponding interest rate swaps. For this purpose basis risk shall mean the risk of loss or of adverse change in the financial situation of the holder of the interest rate swaps, resulting from the mismatch between the cash in-flows and the cash out-flows of the interest rate swaps. The adjustments shall reflect the current market conditions. **For each currency, the adjustment for credit risk of the interest rate swaps shall be assessed at 0.10%, unless Eiopa determines and publishes a reliable basis for an alternative assessment that reflects the current market conditions.** 3. For each currency, for maturities where interest rate swap rates are unavailable or such rates are not available from markets that satisfy the criteria set out in paragraph 3 of Article TP21 government bond rates adjusted to take account of the credit risk of the corresponding government bonds shall be used to derive the basic risk free interest rate term structure referred to in point (a) of paragraph 1 of Article IR1, provided that, such government bond rates are available from markets that meet all of the criteria set out in paragraph 3 of Article TP21.

CEA	039	IR4 IM20	**Extrapolation** ***Para 2*** – In converging to the long-term rate, it would be important to take account of the decreasing liquidity in the market. We describe the use of a "liquidity ratio" in the below paper, which describes one method which could be used to do this: http://www.cea.eu/uploads/DocumentsLibrary/documents/1265043387_cea-paper-on-macroeconomic-extrapolation-examples.pdf ***Para 3*** – It is important to have harmonisation in the calculation of the unconditional forward rate across currencies.	[...] 2. For each currency, the extrapolated part of the basic risk free interest rate term structure shall be based on forward rates converging smoothly from one or a set of interest rates in relation to the longest maturities for which they can be observed in a liquid market to an ultimate forward rate. **The rate of convergence from market data to the unconditional ultimate long term forward rate shall take account of market liquidity.** 3. The principles applied when extrapolating the basic risk free interest rate term structure shall be the same for all currencies, in particular as regards the determination of the longest maturities for which interest rates can be observed in a liquid market and the mechanism to ensure a smooth convergence to the ultimate forward rate **and the level of the unconditional forward rate**.
CEA	040	IR5 IM20	**Calculation of Ultimate Forward Rate** The wordings chosen pave the way for the introduction of the component approach only under Level 3. We request that Level 2 keeps the door open for the method to be used to calculate the Ultimate Forward Rate.	For each currency, the ultimate forward rate referred to in paragraph 2 of Article IR4 shall be relatively stable over time and only change due to ~~fundamental~~ changes in long-term expectations. It shall be determined in a transparent, prudent, reliable and objective manner.
CEA	041	IR6 IM20	**Calculation of illiquidity premium** We have strong concerns with the proposals in this paragraph and as such have set out some of our comments in the list of CEA priority issues on the	[...] 2. For each currency, the illiquidity premium observed in the financial markets referred to in paragraph 1 shall be calculated in a transparent, prudent, reliable and objective

			draft consolidated IMs. Our concerns are as follows: ***Para 2*** - These requirements are far too restrictive. It is possible to earn the illiquidity premium on illiquid assets. A requirement for these assets to **only** be illiquid in abnormal market conditions is un-necessary. The key requirement to calculate the illiquidity premium should be the fact that the asset is currently illiquid. ***Para 3*** – As agreed by the joint Ceiops/Industry task force, it is important that the resulting risk free curve is smooth. The illiquidity premium should be applied up until the point that the curve is extrapolated. ***Para 4*** – **[Please see our key priority issues paper]** The calculation of the illiquidity premium observed in the financial markets should be based on a clear methodology that builds on the experiences and data in that market and avoids uncertainty around how the calculation is carried out based on those observations. The formula from the joint Ceiops/Industry taskforce achieves this and should be included within the level 2 implementing measures. Critically, this also would negate the need for anybody (be it Eiopa or anyone else) to be tasked with determining whether a market is or is not in	manner as a portion of the spread between the interest rate that could be earned from a representative portfolio of assets that insurance and reinsurance undertakings are invested in and the rates of the basic risk-free interest rate term structure. The portion shall not be attributable to expected losses, unexpected credit risk on the assets or any other source other than illiquidity. For this purpose, the assets of the representative portfolio shall be valued in accordance with paragraph 1 of Article V3 [of IM3/rev1] ~~and shall be traded in markets that, apart from periods of stressed liquidity, meet all of the criteria set out in paragraph 3 of Article TP21. The use of financial instruments traded in markets that temporarily cease to meet the criteria set out in paragraph 3 shall be permitted, provided that market is expected to restore its compliance with the criteria within a reasonable period of time.~~ 3. The illiquidity premium shall be determined in such a manner that insurance and reinsurance undertakings shall be able to earn the illiquidity premium observed in the financial markets in a risk-free manner in practice and in such a manner that the illiquidity premium may be observed only in the non-extrapolated part of the basic risk-free interest rate term structure and at maturities prior to the ones of the assets of the representative portfolio of assets referred to in paragraph 2. **There shall be no gap between the starting point of the extrapolation and the illiquidity premium cut off point. The part of the interest rate term structure where the illiquidity premium ends and extrapolation starts shall be smooth.** OR ~~and in such a manner that the illiquidity premium may be observed only in the non-extrapolated part of the basic risk-free~~

			‘stress’ which causes uncertainty and runs the risk of exacerbating the volatility in the market. Introducing such uncertainty cannot be a sensible basis on for the regulatory framework to require capital to be assessed on an on-going basis (it will also create an impact in the markets.) We do not believe the illiquidity premium should be applied based on a subjective judgement. The formula (subject to periodic review) should be allowed to operate automatically to determine the level of liquidity premium relative to market conditions. Consequently, we strongly believe that the formula based on a transformation of the observed credit spread, as per the joint taskforce should be included in the Level 2 text.	~~interest rate term structure and at maturities prior to the ones of the assets of the representative portfolio of assets referred to in paragraph 2.~~ ~~4.~~ The illiquidity premium shall be **calculated as follows**: ~~zero for all maturities except during periods of stressed liquidity in financial markets as determined by EIOPA. EIOPA shall determine the existence of a period of stressed liquidity in financial markets if the following conditions are met:~~ ~~(a) a material part of the spread between the rates of credit risk-free liquid assets and the rates of assets that insurance and reinsurance undertakings are invested in cannot be attributed to the credit risk of the issuer and is unlikely to be due to any other reason other than the liquidity of those assets; and~~ ~~(b) the illiquidity of the assets that undertakings are invested is more likely than not to result in undertakings selling a large part of those assets unless an illiquidity premium is taken into account in discounting technical provisions.~~ **Illiquidity premium = max (0, X * (Z – Y))** **Where,** **Z is the spread calculation of the margin of the yield on a published index reflecting the average rating and maturity of credit portfolios held by insurers in respect of relevant liabilities over the basic risk free rate for the applicable**

				currency in percentage points as set out in IR2; **Y is the allowance for long term expected default on the index, 0.4%** **X is the proportion of the spread remaining after the deduction of Y that is due to illiquidity, 50%** 5. The methods applied when deriving the illiquidity premium observed in the financial markets shall be the same for all currencies.
CEA	042	IR7 IM20	**Application of illiquidity premium to liabilities** We welcome the move away from the binary approach for the application of the illiquidity premium. However, we still have some concerns with the proposals as set out below. We should note additionally that simplifications may be needed on the assumptions to use for the buckets under the principle of proportionality. ***Para 1 (and addendum) and Para 1*** – We request the proposed changes in line with o ur joint CEA/CFOF/CROF paper on the application of the illiquidity premium. ***Para 1(c)*** - This requirement in particular is far too restrictive and we request it is deleted. We understand that future cash-inflows incoming the following years could not necessarily be reinvested	**1.(addendum)For insurance or reinsurance obligations which have discretionary benefits, the assessment of the percentage of the illiquidity premium is performed at a level of aggregation at which the liabilities and associated assets are managed.** 1. The portion shall be set at 100 % for ~~contracts~~ **obligations** which meet the following criteria: (a) the only **significant** underwriting risks connected to the ~~contracts~~ **obligations** are longevity risk and expense risk; (b) ~~the insurance or reinsurance undertaking does not bear any form of surrender risk in relation to the contract~~ **there is no option for any form of surrender or the benefits to policyholders in case of any form of surrender are less than or equal to the technical provisions determined with the portion of the illiquidity premium set at 100%;**

			on assets earning the illiquidity premium. However, this is only an issue if the future in-flows are greater than the future out-flows (claims, expenses...). If not, there is no cash to reinvest, so the illiquidity premium could be earned to meet all (re)insurance obligations. ***Para 3 and 4*** - We object to the inclusion of 50% bucket for all other insurance contracts. A zero bucket should be in place.	~~(c) the premiums have already been paid and no incoming cash flows are allowed for in the gross technical provisions related to the contracts.~~ OR: the premiums have already been paid ~~and no incoming cash flows are allowed for in the gross technical provisions related to the contracts.~~ **or future incoming cash flows are not materially higher than future cash-outflows.** 2. The portion shall be set at 75 % for a) life insurance ~~contracts~~ **obligations** with profit participation other than those specified in paragraph 1 **b) obligations for which the benefits to policyholders in case of any form of surrender are less than or equal to the technical provisions determined with the portion of the illiquidity premium set at 75%** **c) obligations for which there are features in the liability which significantly limit the rational policyholder's behaviour in the case of any form of surrender. Examples of such features would include significant guaranteed rates or discretionary benefits, significant penalties in case of any form of surrender or fiscal disincentives, significant accrued benefits or final bonus, and the existence of significant in-the-money options and guarantees.** **3. The portion shall be set at 0 % for life insurance obligations where all investment risk is borne by the**

				policyholder and there are no discretionary benefits. 4. The portion shall be set at 50 % for ~~contracts~~ **obligations** other than those specified in paragraphs 1**,** ~~and~~ 2 **and 3**.
CEA	045	TP26 IM13	**Segmentation by Member State** ***Para 1*** - We appreciate the fact that the reference to country has been replaced by Member State, however: • This requirement is still extremely burdensome; • It is not considered important for determining the solvency position of a company (the additional cost and effort for undertakings is not balanced by any clear supervisory benefit); • It is not line with best practices; • It does not have any basis in the Level 1 text (and it is too prescriptive for a principles based regime); • In some cases for reinsurers it may just not be possible to do this split; • Policyholders can change their country of residence without any significant change in their risk profile. The "location" should not by itself be a	1. The lines of business referred to in Article 80 of Directive 2009/138/EC shall be defined as set out in Annex I. ~~In addition to the segmentation set out in Annex I, lines of business of insurance obligations shall be further divided according to the Member State in which the risk relating to the obligation is situated~~. [...] 3. Where an insurance or reinsurance contract covers risks across life and non-life insurance, the insurance or reinsurance obligations shall be unbundled into their life and non-life parts **unless the risk in one line of business is not material.** 4. Where an insurance or reinsurance contract covers risks across the lines of business 1 to 28 as set out in Annex I, the insurance or reinsurance obligations shall, where possible, be unbundled into the appropriate lines of business **unless the risk in one line of business is not material.** 5. **Unless the risk in one line of business is not material,** insurance obligations shall be unbundled into segments where the underlying insurance contract covers risks across more than one of the following segments: (a) life insurance with profit participation ~~(lines of business 29 to 32 as set out in Annex I)~~;

			segmentation criteria (in particular for reinsurance contracts where segmentation at individual risk would be at a too low level of granularity). Homogeneous risk groups or LoBs should not be required to be divided into smaller small parts if TP15 (2) and TP3 are fulfilled. This will require a very granular level of data for any undertaking carrying out international business. For example, a company active at global level would expect this to lead to potentially over 1000 segments (28 countries/regions split for 46 lines of business) The requirement is made more onerous by the requirement to apply the method of determining risk location set out in Directive Article 13(13) to all risks worldwide. As most countries have their own definitions of risk location, this will require any undertaking carrying on business outside the EU to apply two sets of codes to every transaction: (1) to determine risk location in accordance with local law (2) to determine risk location for Solvency II purposes. The two may well be different. We cannot find any requirement in the Directive to support this level of granularity, and it is not clear why it should be required. **Segmentation - unbundling** ***Para 3, 4, 5 and 7*** – Unbundling should only be applied if the risks relating to the unbundled	(b) index-linked and unit-linked life insurance ~~(lines of business 33 to 36 as set out in Annex I)~~; (c) other life insurance ~~(lines of business 37 to 40 as set out in Annex I)~~. 6. Within the segments referred to in points (a) to (c) and within the segment of life reinsurance ~~(lines of business 43 to 46 as set out in Annex I)~~, the allocation of an obligation to a line of business shall be based on the risk profile at inception of the underlying contract. 7. Where an insurance or reinsurance contract includes health insurance or reinsurance obligations and other insurance or reinsurance obligations, the health obligations shall, where possible, be unbundled into the appropriate lines of business **unless the risk in one line of business is not material**.

			components are material. This will reduce the administrative burden. The principle of proportionality should be considered. **Segmentation - life** ***Para 6*** – Although we appreciate the attempt to reduce the burdens created due to the proposed life segmentation, i.e. by requiring the segments to be calculated only once at inception rather than requirements which could mean segments change over the contract life, it is difficult to see what meaningful information a segmentation based on risks at policy inception can give. We request that all proposals to segment according to risk driver are removed as this is not in line with how life insurers currently manage their risks and does not provide useful information.	
CEA	047	TPS1 IM19	***Para 4*** - We suggest to assess the materiality of a model error at entity level.	4. A method shall not be considered to be proportionate to the nature, scale and complexity of the risks if the error referred to in point (b) of paragraph 2 is material **at entity level.**
CEA	049	TPS3 IM19	***Para "whole paragraph"*** **These methods should be the default approach, rather than categorised as simplifications.** The benefits of using an approach that requires the projection of future SCRs is highly questionable, especially as the risk margin is a proxy to an unknown value (as market prices do not exist) and	**Simplified calculation of the risk margin** Subject to Article TPS1, insurance and reinsurance undertakings may use simplified methods when they calculate the risk margin, including one or more of the following: (1) methods which use approximations of the terms SCR(t) referred to in Article TP20(1);

			that a common, subjectively set, cost of capital rate is used for all companies, which introduces a significant element of approximation. Applying more complex calculation methods to derive a proxy for an unknown value will not increase accuracy, but will increase the burden and cost for companies and their policyholders.	(2) methods which approximate the discounted sum of the terms SCR(t) as referred to in Article TP20(1) without calculating each of the terms SCR(t) separately.
CEA	050	TPS4 IM19	**Calculation of the risk margin during the financial year** As per our comments on art 49 TPS3, insurers should not have to satisfy proportionality requirements in order to use simplified calculations of the risk margin. This is particularly the case for calculations carried out more than annually.	~~Subject to Article TPS1~~, insurance and reinsurance undertakings may derive the risk margin for dates other than the end of the financial year from the result of an earlier calculation of the risk margin without an explicit calculation of the formula referred to in Article TP20(1).
CEA	051	AOF1 IM6	We believe that not setting a timeline for supervisors to render their decision on AOF will lead to significant discrepancies across member states and possibly to situations where the approval of ancillary is unduly delayed. Our proposed timeline is in line with the spirit of Art. 34 (6) of the Framework Directive which requires that "Supervisory powers shall be applied in a timely manner".	**4. Supervisory authorities should do everything in their power to reach a decision on the application as quickly as possible and within one month from the date of receipt of the complete application.** **5. If the decision requires the involvement of other supervisors then a longer period of 2 months should be granted.** **6. If CEIOPS/EIOPA is referred to in a consultation and mediation process an additional month seems appropriate.**
CEA	053	AOF3 IM6	**For Mutuals, the criteria for approval of Ancillary Own Funds cannot be applied in practice**	**Assessment of the application - Status of the counterparties** 3. In relation to paragraph 1 subparagraph (b), the supervisory authorities shall assess the liquidity position of the

			The assessment set out in the Implementing Measures AOF3 and AOF4 is expected to be carried out per counterparty. However, mutuals do not have access to capital markets and have to rely heavily on supplementary members' calls, where it would not be feasible to carry out a per counterparty assessment. It should be made clear that the principle of proportionality should apply and that simplifications may be allowed. Furthermore, a distinction should be made between intra and extra group transaction. For intra group transactions the requirements should not be as demanding. ***Para 3 a) and b)*** - The concept of prompt does not appear in FD Art 89 or 90. It could be deleted in (a) and (b) without loss. If retained it should be defined with reference to the duration of policyholder liabilities.	counterparties, taking into account the following: (a) whether the counterparties are subject to legal or regulatory requirements that may reduce the counterparties' ability to ~~promptly~~ satisfy their commitments under the ancillary own funds item; (b) whether the legal form of the counterparties prejudice the counterparties' ~~prompt~~ satisfaction of their commitments under the ancillary own funds item.
CEA	054	AOF4 IM6	**For Mutuals, the criteria for approval of Ancillary Own Funds cannot be applied in practice** The assessment set out in the Implementing Measures AOF3 and AOF4 is expected to be carried out per counterparty. However, mutuals do not have access to capital markets and have to rely heavily on supplementary members' calls, where it	**Assessment of the application – Recoverability of the funds** In accordance with Article 90 (4) (b) of Directive 2009/138/EC, the supervisory authorities shall base their approval on an assessment of the recoverability of the funds, taking into account the following: (1) whether the likely recoverability of the funds is increased as a result of the availability of collateral or an analogous arrangement that satisfies the requirements in Articles SCRRM1 to SCRRM5 and

			would not be feasible to carry out a per counterparty assessment. It should be made clear that the principle of proportionality should apply and that simplifications may be allowed.	where relevant Articles SCRRM6 and SCRRM7; (2) whether the recoverability of the funds is clear of any current or foreseeable impediments; (3) the ability of the insurance or reinsurance undertaking to take action to enforce the counterparties' satisfaction of their commitments under the ancillary own funds item; and The insurance or reinsurance undertaking shall demonstrate to the supervisory authorities the likely recoverability of the funds, taking into account the criteria referred to in paragraphs (1) to (3).
CEA	055	AOF5 IM6	This would be unreasonable, as the undertaking may not possess such data, whereas the supervisor does possess it.	2. For the purposes of paragraph 1, the information shall include the data relating to the insurance or reinsurance undertaking seeking supervisory approval and ~~may also include market data where the data are relevant to the undertaking seeking supervisory approval. The undertaking shall, provide the data to the supervisory authorities.~~
CEA	056	AOF6 IM6	***Para 3(b)*** - We strongly disagree with AOF6 (3) (b) as it could lead to unduly frequent calculations, and give too much discretionary power to supervisors. We would suggest re-drafting this paragraph to state that undertakings should recalculate the amount of the AOF when supervisors ask for it and justify their demand. ***Para 3(c)*** - We think that the approval of the methodology to calculate AOF should be granted for all the life of the instrument, except if supervisors get relevant information to prove that	**Specification of Amount and Timing** 1. The supervisory authorities shall not approve an unlimited amount of ancillary own funds. 2. Where the supervisory authorities approve an amount of ancillary own funds, the decision of the supervisory authorities shall specify the amount that has been approved. That amount shall be the amount for which the insurance or reinsurance undertaking has applied for or a lower amount. 3. Where the supervisory authorities approve a method to

			the methodology is no more Solvency II compliant.	determine the amount of each ancillary own fund item, the supervisory authorities' decision shall set out the following: (a) the initial amount of the ancillary own funds item that has been calculated using that method at the date the approval is granted; (b) the minimum frequency of recalculation of the amount of ancillary own funds item using that method **if more frequent than annual and the justification for such a request;** (c) ~~the time period for which the calculation of the ancillary own funds item using that method is granted~~.
CEA	058	COF1 IM7	Criteria for classification should not apply to the excess of assets over liabilities as this would result in double counting the risks covered by the SCR and furthermore, it is difficult to see how this could be applied in practice. We have concerns with the "paid-in" feature required for Tier 1: the Directive (Article 93 (1)) states that Tier 1 items should be **available**, but not specifically paid-in. This comment is relevant for all references of "paid-in" instruments in this section. ***Para 1 (f)*** - Preference shares where the preferential treatment only concerns ranking between shareholders should be excluded from 1(f) and be treated as ordinary share capital.	The following basic own-fund items shall be classified as Tier 1 provided that they meet the criteria set out in Article COF2: (1) the excess of assets over liabilities, valued in accordance with Article 75 and Section 2 of Chapter VI of Directive 2009/138/EC, comprising the following items : (a) Paid-in ordinary share capital; (b) Paid-in initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings; (c) Share premium account; (d) Paid-in subordinated mutual member accounts; (e) Surplus funds that fall under Article 91(2) of

			Para 1 (g)(i) - We strongly disagree with deducting foreseeable dividends. At the end of financial years, the dividend is not yet paid and even not yet confirmed. Furthermore, in the case of a stress occurring after the assessment of the solvency position of the undertaking, shareholders may decide to leave dividends in the company to reinforce its solvency position. ***Para 1 (g)(ii)*** - There is no indication to what reserves restricted reserves are referring to. In principle we do not believe that restricted reserves that may exist under national accounting should exist under Solvency II.	Directive 2009/138/EC; (f) Paid-in preference shares; **excluding preference shares where share holders only have preferential treatment to dividends (in which case the shares are considered ordinary share capital);** (g) Reserves, being: (i) retained earnings ~~net of foreseeable dividends or distributions;~~ (ii) reserves, excluding the reserves mentioned in point (i),~~ the reserves mentioned in point (f) of paragraph 1 of Article COF3 and the~~ restricted own-fund items that exceed the notional Solvency Capital Requirement in the case of ring-fenced funds in accordance with Article RFFOF2(2); (iii) a reconciliation reserve, which shall comprise the amount that represents the total excess of assets over liabilities, excluding the amount of own shares held by the insurance and reinsurance undertaking, reduced by the basic own-fund items included in points (a) to (f), (g)(i) and (g)(ii) of this Article, paragraph 1 of Article COF3 and paragraph 1 of Article COF7; (2) Paid-in subordinated liabilities.

CEA	059	COF2 IM7	***Para 1(e)*** - We do not agree that the first contractual opportunity to repay or redeem the basic own-fund item should be the maturity date of the own fund. Such a requirement ignores industry common practices where hybrid securities, particularly in the retail market, are expected to incorporate a first call date at around 5 years after the initial offering. Investors generally consider such 'first call' provisions as a formality and genuinely treat the hybrid as a perpetual security. This is further evidenced by the fact that the issuers incur no adverse reaction for not exercising the call option. Furthermore, not allowing for any incentive to redeem while setting the maturity at the first opportunity to repay seems inconsistent (redundant prudence). ***Para 1(f)*** - Moderate Step-ups should be allowed in Tier 1 because: - The call is optional, and would only be exercised if market conditions allow undertakings to refinance at a lower cost than the new stepped-up coupon which under stressed conditions, is very unlikely to be the case - The order of magnitude of step-ups (usually from 100-150bp) is lower than what has been observed in the interest rate markets over	1. Basic own-fund items **referred in paragraph 2 of article 58 COF1** are deemed to substantially possess the characteristics set out in points (a) and (b) of Article 93(1) of Directive 2009/138/EC, taking into consideration the features set out in Article 93(2), where those items meet the following criteria and, where relevant, the requirements set out in paragraph 2 are met: (a) The basic own-fund item shall rank after all other claims in the event of winding-up proceedings regarding the insurance or reinsurance undertaking, except that basic own-fund items referred to in paragraphs (1)(d), (1)(f) and (2) of Article COF1 may rank ahead of the Tier 1 basic own-fund items referred to in paragraphs (1)(a) and (1)(b) of Article COF1. (b) The basic own-fund item shall not include features which may cause or accelerate the insolvency of the insurance or reinsurance undertaking. (c) The basic own fund item shall be immediately available to absorb losses. (d) The basic own-fund item shall absorb losses at least once there is non-compliance with the Solvency Capital Requirement and shall not hinder the recapitalisation of the insurance or reinsurance undertaking. (e) The basic own-fund item shall be undated or have an original maturity of at least 10 years. The maturity date shall be deemed to be the ~~first~~ contractual ~~opportunity~~

			several years. - When faced with the recent stress market conditions certain insurers have not called their transactions despite the presence of step-ups. ***Para 1(f)*** - It does not make sense to require supervisory approval of repayments and redemptions on a going concern basis. It is unduly burdensome, especially at maturity. ***Para (g) and(i) -*** We interpret the first sentences of these paragraph to mean that the suspension of repayment of the instrument and the cancelation of coupons should be a contractual option which is exercised at the discretion of undertakings according to what actions is best as part of their recovery plan. Therefore any reference to supervisors having the power to waive the suspension of repayments and cancellation of coupons appears to be in contradiction with this. Indeed the second sentences of these paragraphs appear to be introducing automatic triggers for the suspensions of repayments and cancelations of coupons. We believe that introducing an automatic trigger is inconsistent with the purpose of the ladder of supervisory intervention. ***Para 1(h)*** - Full flexibility over dividend payments would be in breach of shareholders law in most		~~to repay or redeem the~~ **maturity date of the** basic own-fund item. The exchange or conversion of a basic own-fund item into another Tier 1 basic own-fund item of at least the same quality shall not be deemed to be a repayment or redemption. The exchange or conversion shall be subject to the approval of the supervisory authority. (f) The basic own-fund item shall only be repayable or redeemable at the option of the insurance or reinsurance undertaking and ~~shall not~~ **may** include ~~any~~ **moderate** incentives to repay or redeem that item. Incentives to redeem are defined as basic own-fund items that include features that increase the likelihood that an insurance or reinsurance undertaking will repay or redeem that basic own-fund item where it has the option to do so. The repayment or redemption of the basic own-fund item shall be subject to prior supervisory approval **if the solvency position would be materially weakened by this repayment or redemption.** (g) The basic own-fund item shall provide for the suspension of repayment or redemption of that item in the event that there is non-compliance with the **Minimum** ~~Solvency~~ Capital Requirement or repayment or redemption would lead to such non-compliance until the undertaking complies with the **Minimum** ~~Solvency~~ Capital Requirement and the repayment or redemption would not lead to non-compliance with the **Minimum** ~~Solvency~~ Capital Requirement. ~~In such a situation, the supervisory authority may exceptionally waive the suspension of~~

			Member States and would also be an obstacle to dividend pusher and stopper mechanisms. Besides, the provision is in contradiction with the concept of trigger levels proposed by Ceiops which by definition takes away this flexibility from undertakings. Furthermore, as curently drafted this article can be interpreted as being limited to cash payments. It is important that appropriate alternative coupon settlement mechanisms (ACSM) are allowed instead of a full payment flexibility requirement, i.e. full discretion for the issuer whether to pay in cash or through the ACSM at any time should be recognised as a Tier 1 feature. ***Para (1) (j):*** an explanation of the concept "free from encumbrances" is needed. ***Para 2*** - Criteria for classification should not apply to the excess of assets over liabilities as this would result in double counting the risks covered by the SCR and furthermore, it is difficult to see how this could be applied in practice. ***Para 3(c) and Para 4*** - Permanent or temporary deferral features, where the temporary feature implies that a reinstatement is possible should be allowed for in Tier 1. (See CEA paper on deferrals where it is explained how conversion into equity with the possibility of a later write up achieves the same loss absorption and effective policyholder protection on a going-concern basis and on a gone		~~repayment or redemption of the basic own-fund item, provided that the basic own-fund item is exchanged for or converted into another Tier 1 own-fund item of at least the same quality and the Minimum Capital Requirement is complied even after the repayment or redemption.~~ (h) Notwithstanding point (i), the insurance or reinsurance undertaking shall have ~~full~~ flexibility **in whether to pay in cash or otherwise** the ~~over the payment of~~ interest or ~~dividends~~ on basic own-fund items **if the MCR is breached.** (i) The basic own-fund item shall provide for the cancellation of the payment of interest or dividends in relation to that item in the event that there is non-compliance with the ~~Solvency~~ **Minimum** Capital Requirement or the payment of interest or dividends would lead to such non-compliance until the undertaking complies with the **Minimum** ~~Solvency~~ Capital Requirement and the payment of interest or dividends would not lead to non-compliance with the **Minimum** ~~Solvency~~ Capital Requirement. ~~In such a situation, the supervisory authority may exceptionally waive the cancellation of the payment of interest or dividend, provided that the payment does not further weaken the solvency position of the insurance or reinsurance undertaking and the Minimum Capital Requirement is complied with even after the payment of interest or dividend is made.~~ (j) The basic own-fund item shall be free from encumbrances and shall not be connected with any

			going-concern basis as payment deferrals - http://www.cea.eu/uploads/DocumentsLibrary/documents/1229438911_cea-working-paper-on-deferral-of-coupon-and-principal-payments.pdf). ***Para 3*** - Introducing an automatic trigger is inconsistent with the purpose of the ladder of supervisory intervention (same comment for Tier 2 criteria). How an undertaking best recovers the level of the SCR should be assessed on a case-by-case basis and should be part of the recovery plan approved by the supervisor. Automatic contractual suspensions of repayments and redemptions, coupon/interest and dividend payments may prove not to be the best actions to take in all situations. ***Para 5(a)*** - Setting a trigger at 75% of the SCR would create a third threshold, in addition to the two already defined in the Directive (MCR and SCR). It seems to us contrary to the Level 1 text, which would have defined such a threshold if necessary. The trigger should be set at the level of the MCR. ***Para 5(b)*** We suggest making a reference to the 6+3 months allowed to undertakings to cover their SCR, rather than creating a new 2-months period which is new compared to the Level 1 text.	other transaction, which when considered with the basic own-fund item, could result in that basic own-fund item not satisfying the requirements set out in Article 94(1) of Directive 2009/138/EC. 2. ~~The determination of whether the amount of excess of assets over liabilities referred to in paragraph (1) of Article COF1, excluding that part of the excess of assets over liabilities that is comprised of the items referred to in points (a), (b), (c), (d) and (f) of paragraph (1) of Article COF1, meet the criteria set out in paragraph 1 shall evaluate the excess of assets over liabilities as a whole and shall not assess the individual assets and liabilities that are included in computing the excess of assets over liabilities.~~ 3. Where the basic own-fund item is a basic own-fund item referred to in paragraphs (1)(d), (1)(f) or (2) of Article COF1, then that item shall possess one of the following principal loss absorbency mechanisms to be triggered at the trigger event specified in paragraph 3: (a) the basic own-fund item automatically converts into a basic own-fund item listed in (1)(a) or (1)(b) of Article COF1; (b) the nominal or principal amount of the basic own-fund item is written down *pari passu* by the amount by which the Solvency Capital Requirement has been breached with a basic own-fund item listed in (1)(a) or (1)(b) of Article COF1. In this case any future write-up of the nominal or principal amount of the basic own-fund item that has been written down shall only occur once the undertaking complies with the Solvency

				Capital Requirement; **or in liquidation** or (c) a principal loss absorbency mechanism that achieves an equivalent outcome to the principal loss absorbency mechanisms set out in points (a) and (b). 4. The nominal or principal amount of the basic own-fund item shall absorb losses at the trigger event. Loss absorbency resulting from lower interest payments or dividends shall not be deemed to be sufficient to meet the requirement for a principal loss absorbency mechanism. 5. The trigger event referred to in paragraph 3 is a significant breach of the Solvency Capital Requirement, defined for the purposes of this Article as the earlier of the following events: (a) the amount of eligible own funds covering the Solvency Capital Requirement is equal to or less than the ~~75 % of the Solvency Capital Requirement~~ **Minimum Capital Requirement.** (b) a breach of the Solvency Capital Requirement, where compliance with the Solvency Capital Requirement is not resolved within a period of **nine months** of that breach occurring **and if an extension of the recovery period as referred to in article 138 (4) is not in place** ~~two months~~
CEA	060	COF3 IM7	Criteria for classification are not meant to apply to the excess of assets over liabilities as this would result in double counting the risks covered by the SCR and furthermore, it is difficult to see how this could be applied in practice.	The following basic own-fund items shall be classified as Tier 2 provided that they meet the criteria set out in Article COF4: (1) The excess of assets over liabilities, valued in accordance with Article 75 and Section 2 of Chapter

			Para 1(f) - There is no indication to what reserves restricted reserves are referring to. In principle we do not believe that restricted reserves that may exist under national accounting should exist under Solvency II. Furthermore, the definition of Ring Fenced Funds appears to cover these types of reserves (i.e. reserves that cover risks). We strongly oppose to this definition of RFF.	VI of Directive 2009/138/EC, comprising the following items: (a) Ordinary share capital; (b) Initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings; (c) Share premium account; (d) Subordinated mutual member accounts; (e) Preference shares; and (f) ~~Reserves, the use of which is limited to the coverage of specific risks, to the extent that the value of the reserve exceeds the estimate of the risk being covered. Reserves, the use of which is limited to the coverage of specific risks, are reserves that are established for certain purposes and subject to legal or regulatory requirements that restrict the availability of that item to absorb losses arising from specific risks and shall be distinguished from the provisions that insurance or reinsurance undertakings may be required to establish in statutory financial statements and from ring-fenced fund arrangements~~. (2) Subordinated liabilities.
CEA	061	COF4	***Para 3*** - We do not agree that the first contractual	**Tier 2 Basic own-funds – Criteria for Classification**

		IM7	opportunity to repay or redeem the basic own-fund item should be the maturity date of the own fund. ***Para 4*** - It does not make sense to require supervisory approvals of repayments and redemptions on a going concern basis. It is unduly burdensome, especially at maturity. ***Para 5 and 6*** - We interpret the first sentences of these paragraphs to mean that the suspension of repayment of the instrument and the deferrals of coupons should be a contractual option which is exercised at the discretion of undertakings according to what actions is best as part of their recovery plan. Therefore any reference to supervisors having the power to waive the suspension of repayments and deferrals of coupons appears to be in contradiction with this. Indeed the second sentences of these paragraphs appear to be introducing automatic triggers for the suspensions of repayments and deferrals of coupons. We believe that introducing an automatic trigger is inconsistent with the purpose of the ladder of supervisory intervention.	Basic own-fund items are deemed to substantially possess the characteristics in Article 93(1)(b) of Directive 2009/138/EC, taking into consideration the features set out in Article 93(2), where those items meet the following criteria: (1) The basic own-fund item shall rank after the claims of all policy holders and beneficiaries and non-subordinated creditors. (2) The basic own-fund item shall not include features which may cause or accelerate the insolvency of the insurance or reinsurance undertaking **other than at maturity if the hybrid is dated.** (3) The basic own-fund item shall be undated or have an original maturity of at least 5 years. The maturity date shall be deemed to be the ~~first~~ contractual ~~opportunity to repay or redeem the basic own-fund item~~ **maturity date**. The exchange or conversion of a basic own-fund item into another Tier 1 or Tier 2 basic own-fund item of at least the same quality shall not be deemed to be a repayment or redemption. The exchange or conversion shall be subject to the approval of the supervisory authority. (4) The basic own-fund item shall only be repayable or redeemable at the option of the insurance or reinsurance undertaking and may include limited incentives to repay or redeem that basic own-fund item. ~~The repayment or redemption of the basic own-fund item shall be subject to prior supervisory approval.~~

				~~(5)~~ The basic own-fund item shall provide for the suspension of repayment or redemption of that item in the event that there is non-compliance with the ~~Solvency~~ **Minimum** Capital Requirement or repayment or redemption would lead to such non-compliance until the undertaking complies with the ~~Solvency~~ **Minimum** Capital Requirement and the repayment or redemption would not lead to non-compliance with the ~~Solvency~~ **Minimum** Capital Requirement. ~~In such a situation, the supervisory authority may exceptionally waive the suspension of repayment or redemption of the basic own-fund item, provided that the basic own-fund item is exchanged for or converted into another Tier 1 or Tier 2 basic own-fund item of at least the same quality and the Minimum Capital Requirement is complied with even after the repayment or redemption.~~ (6) The basic own-fund item shall provide for the deferral of the payment of interest or dividends in relation to that item in the event that there is non-compliance with the **Minimum** ~~Solvency~~ Capital Requirement or the payment of interest or dividends would lead to such non-compliance until the undertaking complies with the **Minimum** ~~Solvency~~ Capital Requirement and the payment of interest or dividends would not lead to non-compliance with the **Minimum** ~~Solvency~~ Capital Requirement. ~~In such a situation, the supervisory authority may exceptionally waive the deferral of the payment of interest or dividend provided that the payment does not further weaken the solvency position of the insurance or reinsurance undertaking and the~~

				~~Minimum Capital Requirement is complied with even after the payment of interest or dividend is made.~~ (7) The basic own-fund item shall be free from encumbrances and shall not be connected with any other transaction, which when considered with the basic own-fund item, could result in that basic own-fund item not satisfying the requirements set out in first paragraph of Article 94(2) of Directive 2009/138/EC.
CEA	064	COF7 IM7	Classification criteria should not apply to the excess of assets over liabilities as this would result in double counting the risks covered by the SCR. As such Net deferred taxes should be classified in Tier 1.	The following basic own-fund items shall be classified as Tier 3 provided that they meet the criteria set out in Article COF8: (1) The excess of assets over liabilities, valued in accordance with Article 75 and Section 2 of Chapter VI of Directive 2009/138/EC, comprising the following items: (a) Subordinated mutual member accounts; (b) Share premium account; (c) Preference shares; and (d) ~~An amount equal to the value of net deferred tax assets.~~ (2) Subordinated liabilities.
CEA	065	COF8 IM7	***Para 3 -*** We do not agree that the first contractual opportunity to repay or redeem the basic own-fund item should be the maturity date of the own fund.	[...] 3. The basic own-fund item shall be undated or have an original

			Para 4 – We interpret the first sentence of this paragraph to mean that the suspension of repayment of the instrument should be a contractual option which is exercised at the discretion of undertakings according to what actions is best as part of their recovery plan. Therefore any reference to supervisors having the power to waive the suspension of repayments appears to be in contradiction with this. Indeed the second sentence of this paragraphs appears to be introducing automatic triggers for the suspensions of repayments. We believe that introducing an automatic trigger is inconsistent with the purpose of the ladder of supervisory intervention.	maturity of at least 3 years. The maturity date shall be ~~the first contractual opportunity to repay or redeem~~ **maturity date of** the basic own-fund item. The exchange or conversion of a basic own-fund item into another Tier 1, Tier 2 basic own-fund item or Tier 3 basic own-fund item of at least the same quality shall not be deemed to be a repayment or redemption. The exchange or conversion shall be subject to the approval of the supervisory authority. [...] 4. The basic own-fund it em shall provide for the suspension of repayment or redemption in the event that there is non-compliance with the ~~Solvency~~ **Minimum** Capital Requirement or repayment or redemption would lead to such non-compliance until the undertaking complies with the ~~Solvency~~ **Minimum** Capital Requirement and the repayment or redemption would not lead to non-compliance with the ~~Solvency~~ **Minimum** Capital Requirement. ~~In such a situation, the supervisory authority may exceptionally waive the suspension of repayment or redemption of the basic own-fund item, provided that the basic own-fund item is exchanged for or converted into another Tier 1, Tier 2 basic own-fund item or Tier 3 basic own-fund item of at least the same quality and the Minimum Capital Requirement is complied with even after the repayment or redemption.~~
CEA	069	RFFOF1 IM33	**Ring-Fenced Funds -Definition** ***Para 1(c)*** **-** 1) **This is not in line with the Directive.** Recital 49 clearly states that the ring-fenced fund should be defined when some policyholders have greater rights to assets. The notion of specific own funds covering specific risks is not	1. An adjustment to eligible own funds for ring-fenced funds is only required if own-fund items within that ring-fenced fund have a reduced capacity to fully absorb losses on a going-concern basis due to their lack of transferability within the insurance or reinsurance undertaking because the restricted own-fund items: (a) can only be used to cover losses on a defined portion of the insurance or reinsurance undertaking's insurance or

			in the Directive. 2) Most importantly, we have strong concerns that this implies ring-fenced funds may be set up to cover certain risks, despite the fact that SCR capital is already held to cover insurance risks. **This clearly appears to be double-counting the SCR requirements.** For example, if reserves are currently set up in a Member State to cover Cat risk, we would not expect these to still exist and to be ring-fenced under Solvency II as SCR capital is already held to cover Cat risk to a 1 in 200 level under Solvency II. A similar issue would exist for equalisation reserves for example. If these reserves were still required to be held, this would clearly result in an unlevel playing field across Europe in which certain insurers need to hold more than the 1 in 200 agreed level. ⇨ **This is a return to national accounting policies and moves away from the economic valuation foreseen in the Directive.** 3) Furthermore, **we do not see how this can actually be applied in practice.** How would you make the adjustments to Own Funds and the SCR for a fund that covers risks already included in the SCR? This would not be logical in practice. We should also add that for voluntary reserves, the	reinsurance contracts; (b) can only be used to cover losses in respect of certain policy holders or beneficiaries; ~~or~~ (c) ~~can only be used to cover losses arising from particular risks.~~ 2. Without prejudice to the requirement set out in Article COF1(g)(i) that retained earnings should be net of foreseeable dividends and distributions, the own-fund items referred to in paragraph 1 shall not include the value of future transfers attributable to shareholders.

			proposed treatment would not be appropriate.	
CEA	070	RFFOF2 IM33	**<u>Ring-Fenced Funds -Adj to OF</u>** ***<u>Para 3</u>*** **-** We believe that this entire paragraph is not necessary. The notional SCR of the ring fenced fund is part of the SCR. As such, it has to be covered by own funds anyway, if not by the restricted own funds, then by other own funds Please also note that own funds within an undertaking cannot be "transferred" which is a concept applicable to groups rather than at solo level.	1. Insurance and reinsurance undertakings shall adjust own funds to reflect the existence of ring-fenced funds by comparing the amount of the restricted own-fund items within the ring-fenced fund against the notional Solvency Capital Requirement for that ring-fenced fund, calculated in accordance with Article RFFSCR2 (the notional Solvency Capital Requirement), or, where the undertaking's Solvency Capital Requirement is calculated using an internal model in accordance with Article RFFSCR2 *mutatis mutandis*. 2. For each ring-fenced fund where the restricted own-fund items exceed the notional Solvency Capital Requirement for that ring-fenced fund, the amount of restricted own-fund items in excess of the notional Solvency Capital Requirement shall be excluded from the amount of own funds which the insurance or reinsurance undertaking can use to cover the Solvency Capital Requirement and the Minimum Capital Requirement. ~~3.~~ ~~For each ring-fenced fund where the restricted own-fund items are less than the notional Solvency Capital Requirement for that ring-fenced fund, the insurance or reinsurance undertaking shall have sufficient unrestricted own-funds within the insurance or reinsurance undertaking to ensure that the Solvency Capital Requirement and the Minimum Capital Requirement are met in accordance with Articles 100 and 128 of Directive 2009/138/EC respectively.~~
CEA	071	POF1	**<u>Participations in financial and credit institutions</u>**	For the purpose of determining the basic own funds of insurance and reinsurance undertakings, the excess of assets over liabilities referred to in Article 88 of Directive 2009/138/EC shall be reduced by the

		IM17	**[Please see our key priority issues paper]** We disagree with the deduction of participations in financial and credit institutions. We see no reason for a specific treatment for these participations, which creates and unlevel playing field with banks. Participations in financial and credit institutions will normally be included in group supervision in accordance with Articles 228 or 229 of the Framework Directive. Therefore, at group level double-gearing is eliminated. At solo level, however, participations in regulated undertakings included in group supervision should in our view not be subject to any measure for eliminating double gearing. Instead, for the purpose of calculating the solo SCR, participations in financial and credit institutions should be treated as equity investments. There is no need to eliminate double-gearing at solo level when it is already carried out at group level. Furthermore, not eliminating double gearing at solo level is consistent with the treatment of credit institutions' participations in insurance undertakings in accordance Art. 60 of Dir. 2006/48/EC (CRD): "*Member States may provide that for the calculation of own funds on a stand-alone basis, credit institutions subject to supervision on a consolidated basis in accordance with Chapter 4, Section 1,or to supplementary supervision in accordance with Directive*	value, determined in accordance with Article 75 of Directive 2009/138/EC, of the participations that they hold in financial and credit institutions as referred to in Article 92(2) of Directive 2009/138/EC **unless these participations are included in the scope of group supervision and double gearing is eliminated in accordance with Directive 2002/87/EC.**

			2002/87/EC, need not deduct the items referred to in points (l) to (p) of Article 57 which are held in credit institutions, financial institutions, insurance or reinsurance undertakings or insurance holding companies, which are included in the scope of consolidated or supplementary supervision." [Point (o) of Article 57 refers to insurance and reinsurance undertakings and insurance holding companies.] This option, applied by a majority of Member States, allows them to decide not to deduct certain holdings and participations in institutions included in the scope of their consolidation from solo-level own funds. Moreover, in groups with insurance and banking activities of a similar size, the solo solvency of the insurer with deducted non-insurance participations will not reflect the economic reality. The path towards an internal model is not possible, because of the use test requirements – modelling only the insurance part is not sufficient for internal management. Thus, deduction is not appropriate and we suggest use of the 22% equity stress. Finally, the proposed treatment is not appropriate because: • It suggests that the Commission places no reliance on surplus produced under CRD. This is inconsistent with other part of the level 2 text where reliance is place on CRD	

			(e.g. IM18 – repackaging loans) • It provides a strong incentive for the undertaking to move surplus funds from the participation up to the participating undertaking (where it can be used for solvency purposes).	
CEA	072	EOF1 IM7	***Para 1(a) and (b)*** - Although we understand the intention to remain faithful to the wording of the Framework Directive, we believe that it should be made clear that the limits are applicable to the eligible own funds covering the SCR. ***Para 1(a) and (b)*** – Tier 1 should cover at least one third of the SCR and Tier 3 should be eligible to cover 1/3 of the SCR as suggested by the Framework Directive. ***Para 3*** - In principle the CEA does not support the complexity introduced by the use of sub-limits. Sub-limits have to be carefully assessed against the criteria used for T1. The mix of the instruments constituting Tier 1 capital should be assessed on a regular basis as part of the undertaking's ORSA in accordance to its specific risk profile. In any case, we believe there is a case for a higher limit. We will come back with a more detailed position of where this limit must be set. Our preliminary view however is that it should be set in the range between 40 to 50% of T1.	1. As far as compliance with the Solvency Capital Requirement is concerned: (a) the proportion of Tier 1 items in eligible own funds is at least ~~one half~~ **one third** of the total amount of eligible own funds **used to cover the SCR.**; (b) the eligible amount of Tier 3 items is less than ~~15~~ **33** % of the total amount of eligible own funds **used to cover the SCR.** 2. As far as compliance with the Minimum Capital Requirement is concerned the proportion of Tier 1 items in the eligible basic own funds shall be at least 80 % of the total amount of eligible basic own funds. 3. Within the limit referred to in paragraphs (1)(a) and (2), the eligible amount of the following basic own-fund items shall be less than 20 % of the total amount Tier 1 own funds: (a) items referred to in paragraph (1)(d) of Article COF1; (b) items referred to in paragraph (1)(f) of Article COF1; and

				(c) items referred to in paragraph (2) of Article COF1.
CEA	073	TOF1 and TOF2 IM7	Having the date for grandfathering as the same as the date for the implementation of Solvency II would be simpler to apply in practice. Sufficient assurance to supervisors is given by the fact that instruments under Solvency I will still need prior supervisory approval. Transitional provisions for tiering of subordinated debt are not in line with current practices. Transitional provisions for own funds items should be simplified by basing grandfathering criteria on existing Europe-wide regulations for hybrid capital: Subordinated instruments currently eligible to cover the required solvency I margin up to 50% should be grandfathered under Tier 1 and subordinated instruments eligible to cover the required solvency I margin up to 25% should be grandfathered under Tier 2. The reason for this is that the purpose of transitional provisions is obviously to ensure a smooth transition from current practices to Solvency II without undue disruption. However, the current proposals are not based on the way that instruments are accounted for as part of the Solvency Margin, and so it is difficult to see how the proposed transitional provisions can achieve their aim.	*Article 73 TOF1* **Tier 1 – Transitional Arrangements** 1. Without prejudice to Article EOF1 and notwithstanding Articles COF1 to COF8, basic own-fund items that were issued prior to ~~the date of adoption of this Regulation~~ **the date referred to in Article 309 of Directive 2009/138/EC, and which according to the Directives referred to in Article 310 of Directive 2009/138/EC could be used to meet the available solvency margin** ~~to an unlimited extent~~ **up to at least 50% of the solvency margin shall be included in Tier 1 basic own funds for up to 20 years after the date referred to in Article 309 of Directive 2009/138/EC.** ~~that meet the criteria set out in paragraph 2,~~ shall be included in Tier 1 basic own funds for up to ~~15~~ **20** years after the date referred to in Article 309 of Directive 2009/138/EC~~.~~ ~~2. The criteria referred to in paragraph 1 are as follows:~~ ~~(a) The criteria set out in points (b),(c) and (j) of paragraph 1 of Article COF2.~~ ~~(b) The criteria set out in paragraphs (1) and (4) of Article COF4, except that any limited incentives to repay or redeem that basic own-fund item shall not apply before 10 years after the issue date of that basic own-fund item.~~

			Introducing new classification criteria for subordinated debt will add unnecessary complexity and is likely to, instead of ensuring the needed soft transition to Solvency II, cause turbulence in the financial markets and increase the costs of capital, especially in current conditions.	~~(c) The basic own-fund item shall be fully paid in and undated.~~ ~~(d) The basic own-fund item shall provide for the cancellation or deferral of the payment of interest or dividends in relation to that item in the event of financial stress.~~ **Article 74 TOF2** **Tier 2 basic own-funds – Transitional Arrangements** Without prejudice to Article EOF1 and notwithstanding Articles COF1 to COF8, basic own-fund items that were issued prior to the date ~~–~~**referred to in Article 309 of Directive 2009/138/EC, and which according to the Directives referred to in Article 310 of Directive 2009/138/EC could be used to meet the available solvency margin up to 25% of the solvency margin** ~~of adoption of this [Regulation], that meet the criteria set out in paragraph 2,~~ shall be included in Tier 2 basic own funds for up to ~~15~~ **20** years after the date referred to in Article 309 of Directive 2009/138/EC. ~~2. The criteria referred to in paragraph 1 are as follows:~~ ~~(a) The criteria set out in paragraphs (1), (3), (4) and (7) of Article COF4, except that for the purpose of this article exchange or conversion of a basic own-fund item shall be into another basic own-fund item of at least the same quality.~~

				~~(b) The basic own-fund item shall be fully paid in.~~
CEA	075	BSCRx IM24	The requirement to allow for any relevant adverse changes in option take-up behaviour should also take account of positive changes in take-up. The treatment should not be asymmetric.	[...] 2. The recalculation of technical provisions arising as a result of considering the impact of a scenario as referred to in paragraph 1 shall take account of the following: (a) without prejudice to points (c) and (d) of paragraph 1, future management actions following the scenario provided they comply with the requirements set out in Article TP6; (b) any material ~~adverse~~ impact of the scenario or the management actions referred to in point (a) on the likelihood that policy holders will exercise contractual options. [...]
CEA	076	SCRx IM23	**Intangible asset risk module** In our view, rather than having a separate intangible asset risk module, a more pragmatic solution would be to stress intangible assets under the most prudent stress in the market risk module. We have chosen the most prudent stress to reflect the high (and may be unjustified) level of doubt of supervisors with regards to intangible assets. We see no reason for splitting-out intangible assets from other assets, and additionally, this would reduce the complexity of the standard formula. In	~~The Basic Solvency Capital Requirement laid down in Article 104(1) of Directive 2009/138/EC shall include a risk module for intangible asset risk.~~ ~~The Basic Solvency Capital Requirement shall be equal to the following:~~ ~~$Basic\ SCR = \sqrt{\sum_{ij} Corr_{ij} \times SCR_i \times SCR_j} + SCR_{intangibles}$~~ ~~where the summation, $Corr_{ij}$, SCR_i and SCR_j are defined as set out in point (1) of Annex IV of Directive 2009/138/EC and $SCR_{intangibles}$~~

			our view, this change would set a more reasonable risk charge which has been calibrated based on market data. Therefore, we would propose that the definition of non-listed equity be extended to cover intangible assets and consequently the proposed intangibles asset risk module be deleted. Furthermore, we do not understand why this new capital requirement on intangible assets is simply added it to the formula.	~~denotes the capital requirement for intangible asset risk referred to in Article IA1.~~
CEA	077	SCRS1 IM36	**SCR simplifications** ***Para 1*** - In line with Article 109 of the Framework Directive and Ceiops' advice. Level 2 should not prescribe a closed list of simplifications. Any simplification should be allowed provided it can be shown that it will not understate the requirements. Furthermore, proportionality should not only apply in the case that the standard calculation results in an undue burden for the insurer.	1. Insurance and reinsurance undertakings may, for the purposes of Article 109 of Directive 2009/138/EC, use the simplified calculations included in this chapter for a risk module or sub-module of the Solvency Capital Requirement standard formula where such simplified calculations are proportionate to the nature, scale and complexity of the risks faced by the undertaking ~~and~~ **or** where the standard calculation for that risk module or sub-module would be an undue burden for the undertaking. **Insurance and reinsurance undertaking may use other simplified calculations, provided that they are risk sensitive and proportionate to the nature, scale and complexity of the risks underlying the module or sub-module.** 2. For the purpose of paragraph 1, insurance and reinsurance undertakings shall determine whether the simplified calculation is proportionate by carrying out an assessment which shall include : (a) an assessment of the nature, scale and complexity of

				the risks of the insurance or reinsurance undertaking falling within the relevant module or sub-module and its materiality in relation to the risks the insurance or reinsurance undertaking supports; and (b) an assessment in qualitative ~~or quantitative terms, as appropriate~~, of the error introduced in the results of the simplified calculation due to any deviation between the following: – the assumptions underlying the simplified calculation; – the results of the assessment referred to in point (a). 3. A simplified calculation shall not be considered to be proportionate to the nature, scale and complexity of the risks if the error referred to in point (b) of paragraph 2 is material. **Insurance and reinsurance undertakings should not be required to quantify the model error.**
CEA	078	SCRSC1 IM36	**Simplifications for captives** We do not agree that there should be specific measures applicable for captives. The same risks should need the same requirements. No distinction should be made based on the legal nature of the undertaking. All simplifications should be made available for all undertakings complying with SCRS1.	~~**General provisions for simplifications for captives**~~ ~~Subject to the captive insurance or reinsurance undertaking complying with Article SCRS1, simplifications which are stated to be available for captive insurance and reinsurance undertakings shall apply only to captive insurance undertakings and reinsurance undertakings as defined in Article 13 of Directive 2009/138/EC that meet the following requirements:~~ ~~(a) all insured persons and beneficiaries of the insurance obligations are legal entities of the group of the captive~~

				~~insurance or reinsurance undertaking and were also legal entities of that group at the time the relevant contract was entered into;~~ ~~(b) all insured persons and beneficiaries of the underlying direct insurance contract of the reinsurance obligations are legal entities of the group of the captive insurance or reinsurance undertaking and were also legal entities of that group at the time the relevant contract was entered into; and~~ (c) ~~the insurance obligations of the direct captive insurance undertaking and the underlying direct insurance contract of the reinsurance obligations of the insurance or reinsurance captive undertaking do not relate to any compulsory third party liability insurance.~~
CEA	080	NLUR1 IM28	***Para 1c*** **-** For non-life business, the lapse risk stresses are too complex given that this risk is not material or relevant in the vast majority of cases. Further the data from non-life cash flows which are used to calibrate the premium risk implicitly comprise the volatility due to lapses. In developing a separate module for this risk, double counting between premium/ reserve risk and lapse risk must be avoided. Since such an exercise would generate significant practical problems for what is considered to be an immaterial risk in most cases and because of the practical issues outlined above we suggest that this risk module is dropped. ***Para 3*** **-** The CEA finds the correlation between	1. The non-life underwriting risk module shall consist of the following sub-modules: a) the non-life premium and reserve risk sub-module referred to in point (a) of Article 105(2) of Directive 2009/138/EC; b) the non-life catastrophe risk sub-module referred to in point (b) of Article 105(2) of Directive 2009/138/EC; ~~c) the non-life lapse risk sub-module.~~ 2. The capital requirement for the non-life underwriting risk module shall be equal to the following:

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<td>premium/reserve risk and cat risk as too conservative for these risks which can be considered independent. Ceiops indicates also that there is low or zero correlation between these risks and its proposal to set the correlation factor at 25% is not backed by hard evidence. Since the imposition of this correlation is expected to lead to an increase in capital of 7%, we suggest that an increase of such a scale should not be imposed without clear evidence.</td>
<td>$$SCR_{non-life} = \sqrt{\sum_{i,j} CorrNL_{(i,j)} \cdot SCR_i \cdot SCR_j}$$

where the sum covers all possible combinations (i,j) of the sub-modules set out in paragraph 1, $CorrNL_{(i,j)}$ denotes the correlation parameter for non-life underwriting risk for sub-modules i and j and SCR_i and SCR_j denote the capital requirements for risk sub-module i and j respectively.

3. The correlation parameter $CorrNL_{(i,j)}$ referred to in paragraph 2 shall be equal to the item set out in row i and in column j of the following correlation matrix:
<table>
<tr><th>j / i</th><th>Non-life premium and reserve</th><th>Non-life catastrophe</th><th>Non-life lapse</th></tr>
<tr><td>Non-life premium and reserve</td><td>1</td><td>~~0.25~~ <u>0</u></td><td>0</td></tr>
<tr><td>Non-life catastrophe</td><td>~~0.25~~ <u>0</u></td><td>1</td><td>0</td></tr>
<tr><td>Non-life lapse</td><td>0</td><td>0</td><td>1</td></tr>
</table>
</td>
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<tr>
<td>CEA</td>
<td>081</td>
<td>NLUR2</td>
<td><u>Para “whole paragraph”</u></td>
<td>The capital requirement for non-life premium and reserve risk shall be equal to the following:</td>
</tr>
</table>

		IM28	The use of this approximation for the 99.5% exact quintile ρ(σ) of the lognormal law is penalising undertakings, if their σ is lower than 15%. We attach a set of figures detailing how for various levels of volatility the approximation changes.	$SCR_{nl\ premium\ and\ reserve} = \sout{3 \cdot \sigma_{nl} \cdot V_{nl}}$ $\rho(\sigma) \cdot V$ $\rho(\sigma) \cdot V$ with $\rho(\sigma) = \frac{\exp(N_{0.995} \bullet \sqrt{\ln(\sigma^2 + 1)})}{\sqrt{\sigma^2 + 1}} - 1$ where σ_{nl} denotes the standard deviation for non-life premium and reserve risk determined in accordance with Article NLUR4, $N_{0.995}$ **is the 99.5% quintile of the standard normal law** and V_{nl} denotes the volume measure for non-life premium and reserve risk.

				<table><tr><th>Volatilité σ</th><th>Quantile lognormal ρ(σ)</th><th>Ratio ρ(σ)/σ</th></tr><tr><td>1%</td><td>2,6%</td><td>2,60</td></tr><tr><td>2%</td><td>5,3%</td><td>2,63</td></tr><tr><td>3%</td><td>8,0%</td><td>2,66</td></tr><tr><td>4%</td><td>10,8%</td><td>2,69</td></tr><tr><td>5%</td><td>13,6%</td><td>2,72</td></tr><tr><td>6%</td><td>16,5%</td><td>2,75</td></tr><tr><td>7%</td><td>19,4%</td><td>2,78</td></tr><tr><td>8%</td><td>22,5%</td><td>2,81</td></tr><tr><td>9%</td><td>25,5%</td><td>2,84</td></tr><tr><td>10%</td><td>28,7%</td><td>2,87</td></tr><tr><td>11%</td><td>31,8%</td><td>2,90</td></tr><tr><td>12%</td><td>35,1%</td><td>2,93</td></tr><tr><td>13%</td><td>38,4%</td><td>2,95</td></tr><tr><td>14%</td><td>41,8%</td><td>2,98</td></tr><tr><td>15%</td><td>45,2%</td><td>3,01</td></tr><tr><td>16%</td><td>48,7%</td><td>3,04</td></tr><tr><td>17%</td><td>52,3%</td><td>3,08</td></tr><tr><td>18%</td><td>55,9%</td><td>3,11</td></tr><tr><td>19%</td><td>59,6%</td><td>3,14</td></tr><tr><td>20%</td><td>63,3%</td><td>3,17</td></tr><tr><td>21%</td><td>67,1%</td><td>3,20</td></tr><tr><td>22%</td><td>71,0%</td><td>3,23</td></tr><tr><td>23%</td><td>74,9%</td><td>3,26</td></tr><tr><td>24%</td><td>78,9%</td><td>3,29</td></tr><tr><td>25%</td><td>82,9%</td><td>3,32</td></tr><tr><td>26%</td><td>87,0%</td><td>3,35</td></tr><tr><td>27%</td><td>91,2%</td><td>3,38</td></tr><tr><td>28%</td><td>95,4%</td><td>3,41</td></tr><tr><td>29%</td><td>99,7%</td><td>3,44</td></tr><tr><td>30%</td><td>104,0%</td><td>3,47</td></tr></table>
CEA	082	NLUR3 IM28	***Para 1*** - Any volume measure which is directly proportional to the (positive) value of premiums or of premium provisions penalizes undertakings with high expected profits from existing business. So any reasonable volume measure must mirror these	1. The volume measure for non-life premium and reserve risk shall be equal to the sum of the volume measures for premium and reserve risk of the segments set out in Annex NLUR1.

			expected profits i.e. the smaller the expected future profits (or the higher the losses) the higher must be the premium risk. ***Para 2*** - We support the explicit recognition of geographical diversification. ***Para 3*** Although the level 1 text requires 1 year of new business to be taken into account in the SCR calculations, it is important to have consistency between the valuation of Technical Provisions and valuation of the SCR, i.e. the SCR needs to be based on the same Technical Provisions that are shown in the Solvency II balance sheet. Theoretically there are two possible solutions in order to ensure consistency: • Both the SCR and the Technical Provisions allow for one-year of new business. • Neither the SCR nor the Technical Provisions allow for one-year of new business. We stand ready to discuss with the EC and Ceiops the possibilities above. ***Para 6*** - In the standard formula, the capital requirement for covering the reserves volatility is applied in the model to the overall Non Life claim	2. For all segments set out in Annex NLUR1, the volume measure of a particular segment *s* shall be equal to the following: $V_s = \left(V_{(prem,s)} + V_{(res,s)}\right) \cdot \left(0.75 + 0.25 \cdot DIV_s\right)$ where $V_{(prem,s)}$ denotes the volume measure for premium risk of segment *s*, $V_{(res,s)}$ denotes the volume measure for reserve risk of segment *s* and DIV_s denotes the factor for geographical diversification of segment *s*. 3. For all segments set out in Annex NLUR1, the volume measure for premium risk of a particular segment *s* shall be equal to the following: $V_{(prem,s)} = \max(P_s; P_{(last,s)}) + FP_{(existing,s)} + FP_{(future,s)}$ where (a) P_s denotes an estimate of the premiums to be earned by the insurance or reinsurance undertaking in the segment *s* during the following 12 months; (b) $P_{(last,s)}$ denotes the premiums earned by the insurance and reinsurance undertaking in the segment *s* during the last 12 months; (c) $FP_{(existing,s)}$ denotes the expected present value of premiums to be earned by the insurance and reinsurance undertaking in the segment *s* after the following 12 months for existing contracts;

			outstanding net reserves. However parts of claims reserves have absolutely no risk of adverse deviation/volatility for reinsurers and as such should be exempted from any capital requirements for reserve risk for either the cedant (point 1) or the reinsurer (points 2 and 3). 1 - when the retention limit has been reached by the cedant. Then all the risk is passed on to the reinsurer and as such these claims need to be excluded from the reserve risk of the cedant. Obviously these claims should not be exempted from counterparty default risk and reserve risk may still exist at the higher end of the reinsurance/retrocession program (i.e. the claim is higher than the end of the retro/reinsurance capacity) depending on the cover. 2 - when an XS layer has been reserved in full. Contractually each reinsurance layer has a capacity and the reinsurer is only legally bound to pay at maximum the full capacity of that layer. Therefore there is not any possible further downward effect for the reinsurer. Any volatility would be a positive outcome for the claims reserves of the reinsurer, i.e. a claims' reduction. 3 - when an annual aggregate limit on the contract has been reached. This is fairly similar to point 2. For some Proportional contracts as well as for Non Proportional contracts, annual aggregate limits are included in the contractual terms and	(d) $FP_{(future,s)}$ denotes the expected present value of premiums to be earned by the insurance and reinsurance undertaking in the segment *s* after the following 12 months for contracts where the initial recognition date falls in the following 12 months. 4. For all segments set out in Annex NLUR1, insurance and reinsurance undertakings may, notwithstanding paragraph 3, calculate the volume measure for premium risk of a particular segment *s* in accordance with the formula $V_{(prem,s)} = P_s + FP_{(existing,s)} + FP_{(future,s)}$ using the same meaning for terms of the formula as in paragraph 3, provided that the following conditions are met by: (a) the administrative, management or supervisory body of the insurance or reinsurance undertaking has decided that its earned premiums in the segment *s* during the following 12 months should not exceed P_s; (b) the insurance or reinsurance undertaking has established effective control mechanisms to ensure that the limits on earned premiums referred to in point (a) will be met; (c) the insurance or reinsurance undertaking has informed its supervisory authority about the decision referred to in point (a) and the reasons for it. 5. For the purpose of the calculations set out in paragraphs 3

			therefore cap the amount the reinsurance is liable for in any given contractual year. Once this amount is reached again only positive ouctomes are possible for the reinsurer claims reserves.	and 4, premiums shall be net, after deduction of premiums for reinsurance contracts. However, the following premiums for reinsurance contracts shall not be deducted: (a) premiums for per recognisable risk excess of loss reinsurance as referred to in Annex NLUR4; (b) premiums that cannot be taken into account in the calculation of amounts recoverable from reinsurance contracts in accordance with paragraphs 3 and 5 of Article TP22; (c) premiums for reinsurance contracts that do not meet the requirements set out in Articles SCRRM1 to SCRRM3 and SCRRM5. 6. For all segments set out in Annex NLUR1, the volume measure for reserve risk of a segment shall be equal to the best estimate for the provision for claims outstanding for the segment, after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles provided that the reinsurance contracts or special purpose vehicles meet the requirements set out in Articles SCRRM1 to SCRRM3 and SCRRM5 **and after deduction of amounts of capped reserves which cannot increase further due to contractual arrangements, as for example excess loss, annual aggregate limit or attachment point of retro recovery reached**. 7. For all segments set out in Annex NLUR1, the default factor for geographical diversification of a segment shall be 1. However, for any of the segments set out in Annex NLUR1 insurance and reinsurance undertakings may calculate the

				factor for geographical diversification according to Annex NLUR2.
CEA	083	NLUR4 IM28	We strongly recommend checking this proposal (calculating a weighted aggregated sigma and a weighted aggregated volume measure) against a different methodology: determining the SCR on a segment and risk category (premium / reserve risk) level and doing the aggregation of the SCRs afterwards. The calculation of the SCR on the lowest level would provide useful information for the undertakings. We propose to change the order of aggregation within the basic risk: aggregate the reserve risk for all LoBs in a first step, aggregate the premium risk for all LoBs in a second step and finally aggregate the reserve and premium risk on a total basis applying a certain correlation (e.g. 0,5). Changing the aggregation order opens the possibility to apply different correlations between LoBs for reserve and premium risk. This change in aggregation order is appropriate and well justified by the underlying random variables which are used to calibrate the premium risk and the reserve risk. Random variable to derive premium risk is ultimate loss ratios (ultimate losses including administration costs divided by earned premiums). The expected	**Standard deviation for non-life premium and reserve risk** 1. The standard deviation for non-life premium and reserve risk shall be equal to the following: $$\sigma_{nl} = \frac{1}{V_{nl}} \cdot \sqrt{\sum_{s,t} CorrS_{(s,t)} \cdot \sigma_s \cdot V_s \cdot \sigma_t \cdot V_t}$$ where V_{nl} denotes the volume measure for non-life premium and reserve risk, the sum covers all possible combinations (s,t) of the segments set out in Annex NLUR1, $CorrS_{(s,t)}$ denotes the correlation parameter for non-life premium and reserve risk for segment s and segment t set out in Annex NLUR3, σ_s and σ_t denote standard deviations for non-life premium and reserve risk of segments s and t respectively, and V_s and V_t denote volume measures for premium and reserve risk of segments s and t, referred to in Article NLUR3, respectively. 2. For all segments set out in Annex NLUR1, the standard deviation for non-life premium and reserve risk of a particular segment s shall be equal to the following: $$\sigma_s = \frac{1}{V_s} \cdot \sqrt{\sigma^2_{(prem,s)} \cdot V^2_{(prem,s)} + \sigma_{(prem,s)} \cdot V_{(prem,s)} \cdot \sigma_{(res,s)} \cdot V_{(res,s)} +}$$ where V_s denotes the volume measures for premium and reserve risk of segment s referred to in Article NLUR3, $\sigma_{(prem,s)}$ denotes the standard deviation for non-life premium risk of segment s determined in accordance with paragraph

			value of this random variable is not equal 0. Random variable to derive the reserve risk is economical claims development result. The expected value of this random variable is equal 0. Furthermore one can use (and one must use) the same data for calibrating premium and reserve risks in order to calibrate the correlations. The approach to be followed for obtaining the correlations within premium risk is the following: The random variable is the ultimate loss ratio as mentioned above. To obtain the correlation coefficient the following steps are to be taken: 1) For each cash-flow triangle in a given line of business estimate the ultimate losses including tail estimation up to 25 development years. Tail estimation is done with market parameters. 2) For each undertaking and accident year calculate the ultimate loss ratios (ultimate losses divided by earned premiums). 3) Estimate the correlation coefficient in the ultimate loss ratios in two lines of business using the robust estimation technique of Kendall's: Calculate Kendall's tau for the ultimate loss ratio residuals (with variance inverse proportional to the earned premium), calculate the correlation coefficient via formula sin(tau * pi / 2).	3, $\sigma_{(res,s)}$ denotes the standard deviation for non-life reserve risk of segment *s* as set out in Annex NLUR1, $V_{(prem,s)}$ denotes the volume measure for premium risk of segment *s* referred to in Article NLUR3 and $V_{(res,s)}$ denotes the volume measure for reserve risk of segment *s* referred to in Article NLUR3. 3. For all segments set out in Annex NLUR1, the standard deviation for non-life premium risk of a segment is equal to the product of the standard deviation for non-life gross premium risk of the segment set out in Annex NLUR1 and the adjustment factor for non-proportional reinsurance of the segment set out in Annex NLUR4.

			Para 2 **-** This formula seems to implicitly assume a 50% correlation between premium and reserving risk. This should better be spelled out and not hidden. Furthermore, this is a very high correlation for risks that relate to disjoint underwriting years; the only driving forces behind this correlation are calendar year effects, i.e. claims inflation of various sources.	
CEA	084	SCRSC2 IM36	**Simplifications for captives** The same risks should need the same requirements. We do not agree that there should be specific measures applicable for captives.	**Simplified calculation for ~~captive insurance or reinsurance undertakings of the capital requirement for~~ non-life premium and reserve risk** Subject ~~to the captive~~ insurance or reinsurance undertaking complying with Article SCRS1 and SCRSC1, the capital requirement for non-life premium and reserve risk calculated with the simplified calculation shall be equal to: $$SCR_{nl\ premium\ and\ reserve} = \sqrt{\sum_{s} NL_{pr,s}^2 + 0.35 \times \sum_{r \neq c} NL_{pr,r} \times NL_{pr,c}}\ ;$$ Where: $SCR_{nl\ premium\ and\ reserve}$ denotes the capital requirement for premium and reserve risk, $NL_{pr,s} = 0.6\sqrt{V_{(prem,s)}^2 + V_{(prem,s)} \times V_{(res,s)} + V_{(res,s)}^2}$, $NL_{pr,s}$ denotes the capital requirement for premium and reserve risk of segment s, r and c are different segments; $V_{(prem,s)}$ denotes the volume measure for premium risk of segment s calculated according to paragraph 3 of Article NLUR3 and $V_{(res,s)}$ denotes the volume measure for reserve

				risk of a segment calculated according to paragraph 8 of Article NLUR3.
CEA	085	NLUR5 IM41	***Para "whole paragragh"*** The Non Life lapse risk module adds undue complexity for a risk which in most cases is immaterial for non life undertakings.	~~**Non-life lapse risk sub-module**~~ ~~1. The capital requirement for the non-life lapse risk sub-module referred to in point (c) of Article NLUR1(1) shall be the largest of the following capital requirements:~~ ~~(a) the capital requirement for the risk of a permanent increase in non-life lapse rates;~~ ~~[…]~~ ~~7. Irrespective of paragraph 1, where the largest of the capital requirements referred to in points (a) to (c) of paragraph 1 and the largest of the corresponding capital requirements calculated in accordance with Article ALAC2(2) are not based on the same scenario, the capital requirement for the lapse risk sub-module referred to in point (f) of Article 105(3) of Directive 2009/138/EC shall be the capital requirement referred to in points (a) to (c) of paragraph 1 for which the underlying scenario results in the largest corresponding capital requirements calculated in accordance with Article ALAC2(2).~~
CEA	086-103	NLUR8 IM41	The design and the calibration of the Non –Life CAT risk module can be assessed at the earliest when the results of the QIS5 will be available and have been evaluated. The standardized scenarios proposed have not been tested and there is no indication as to the underlying scenarios which have been used to derive the proposed factors for each risk. Further consultation is needed with both	**[We do not have re-drafting suggestions at this stage]**

			reinsurers and direct insurers. Our key concerns on the Non Life Cat risk module are the following: - We are concerned about the level of detailed data and information required. A simpler approach is needed for standardized scenarios. - Reinsurance should appropriately be reflected in capital requirements. In particular, cross regional reinsurance. - For man –made catastrophe, the non linearity between company size and risks, which is currently recognized to some extent for the Motor TPL module, needs to be extended to all other risks. - Undertaking specific scenarios (“USPs”) should be allowed as they would provide for solutions to some of the shortcomings identified with the proposed approach such as: • some risks are not included in the scenarios sections, as third liability risk. For this LoB only the very costly factor based approach is available. • for countries outside the EU there are no scenario available. It raises a significant problem for international group and reinsurers. It would penalize the investment in third countries and increase the unlevel	

			playing field with international competitors. We would suggest developing more CAT scenarios (for countries where the exposure of European insurers is high for instance, as USA). We understand that the whole world could not be treated with standardized scenarios: we would suggest for geographical areas not included in the standardized scenarios package to allow the use of undertaking specific scenario subject to supervisory approval. At least, the factors of the factor-based CAT approach should be significantly reduced. - regarding credit and suretyship cat scenarios: • The recession scenario could double-count premium and reserve risk. • Cycle-sensitive dampening mechanism in the recession scenario is not in line with a 99.5% VaR. • The assumption that 3 largest credit exposures default is overly conservative	
CEA	087	NLUR7 IM41	**We do not believe that the risk exposure measure is appropriate for all lines of business.** Risk exposures are calculated exclusively as sums insured. Annual units would, for example, be more appropriate for motor vehicle insurance where sum	1. The natural catastrophe risk sub-module shall consist of the following sub-modules: (a) the windstorm risk sub-module;

			insured can be unlimited. ***Para 1*** **- The natural catastrophe risk segmentation would be more appropriately split by line of business.** The primary segmentation has been made according to risks (hail, storm, flooding, etc.) rather than according to the common lines of business ("LoBs") under IM13. This is not an appropriate segmentation for all member states (e.g. hail in agriculture, private residential buildings, industrial property and motor vehicle own damage insurance would all be treated differently in practice). The proposed segmentation of risks would also make segmented reporting of the Risk Margin very difficult.	(b) the flood risk sub-module; (c) the earthquake risk sub-module; (d) the hail risk sub-module; (e) the subsidence risk sub-module. [...]
CEA	088	NLUR8 IM41	***Para 1*** **- We believe that allowance should be made for cross regional reinsurance contracts in place.** According to NLUR8, capital requirements for wind storm peril shall be calculated net of reinsurance for each region, and then aggregated into the wind storm SCR. We interpret as a tightening compared to the QIS5-TS. Applying reinsurance by region before aggregating losses from a single event is problematic for (re)insurers with exposure in multiple regions for the following reasons: • Assuming the catastrophe reinsurance programme cover multiple regions, and	**[We do not have re-drafting suggestions at this stage]**

			consist of multiple layers each with a few reinstatements, the lower layers will be affected once per region per event. This could potentially exhaust the lower layers before all regions are covered. • The upper layers may – incorrectly – not be affected at all using this method. • For each region and event, a full retention of the programme will be included in the SCR-calculation, implying multiple counts of retentions. QIS5-TS, Paragraph SCR9.78 states that an undertaking may aggregate a gross wind storm scenario across regions, and then apply the effect of reinsurance. This is much more in line with how cross-regional reinsurance works, as for a wind storm event impacting more than one region, claims from all affected regions will be aggregated to a gross claim for that event, before recovering reinsurance.	
CEA	089	NLUR9 IM41	***Para 1*** **-** This is not consistent with the QIS5-TS, Paragraph 9.81, which allows for cross regional reinsurance.	**[We do not have re-drafting suggestions at this stage]**
CEA	090	NLUR10 IM41	***Para 1*** **-** This is not consistent with the QIS5-TS, Paragraph 9.85, which allows for cross regional reinsurance.	**[We do not have re-drafting suggestions at this stage]**

CEA	091	NLUR11 IM41	***Para 1*** **-** This is not consistent with the QIS5-TS, Paragraph 9.89, which allows for cross regional reinsurance.	**[We do not have re-drafting suggestions at this stage]**
CEA	092	NLUR12 IM41	***Para 1*** **-** This is not consistent with the QIS5-TS, Paragraph 9.89, which allows for cross regional reinsurance.	**[We do not have re-drafting suggestions at this stage**]
CEA	094	NLUR14 IM41	***Para "whole"*** **- The approach for non-proportional property reinsurance (250% of estimated earned premiums) is inadequate** in our view due to reasons given in paragraph SCR.9.56. of the QIS5 Technical specifications, stating: *"The scenarios are not appropriate for non-proportional reinsurance writers. The reason is that the relationship between total insured value and loss damage ratio (1 in 200 loss / total exposure) (and also premium and loss damage ratio) is more variable between reinsurance undertakings and from one year to the next, than for direct or proportional reinsurance writers. The relationship depends on the Level of excess at which non proportional business is written and the pattern of participation by (re)insurance layer. The complexity that would be introduced by attempting to allow for non proportional business would be disproportional to the benefits gained."* For companies which write material amounts of non-proportional reinsurance undertaking-specific scenarios should be allowed in the context of the standard formula or at least partial internal models should be encouraged.	**Sub-module for catastrophe risk of non-proportional property reinsurance** 1. The capital requirement for catastrophe risk of non-proportional property reinsurance shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss in relation to each reinsurance contract that covers reinsurance obligations of line of business 28 as set out in Annex I [of IM13rev1]. The amount of the loss, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, **could be determined using a scenario suggested by the undertaking, after validation by its supervisory authority.** 2. **If the undertaking does not suggest a scenario or if the supervisory authority rejects it, then the instantaneous loss** shall be equal to 250 % of an estimate of the premiums to be earned by the insurance or reinsurance undertaking for the contract in relation to the reinsurance obligations of line of business 28 as set out in Annex I [of IM13rev1]. **~~. For this purpose premiums shall be gross, without deduction~~**

				~~**of premiums for reinsurance contracts**~~.
CEA	095	NLUR15 IM41	***Para"whole"*** **-** For man-made CAT risks a different formula is proposed for each line of business. However, we consider one single closed formula (with parameters calibrated differently for each line of business) to be sufficient for the standardised scenario approach. The idea of such a formula for man-made catastrophes is the non-linear relation between size of the undertaking and risk exposure (lobs: MTPL, TPL, fire). This non-linear relation prevents that the risk of small undertakings will be extremely underrated, and the risks of big ones will be overrated. Individual upper limits of undertakings should be taken into account. So all different scenarios and formulae should be deleted.	**[We do not have re-drafting suggestions at this stage]**
CEA	096	NLUR16 IM41	***Para 1*** **- This equation does not always give intuitive answers** and will need to be tested and analysed further. For example, due to the discontinuity in the distribution caused when policy limits bite most of the time, it is possible that there is no solution to the equation provided. In such cases CEIOPS-DOC-79/10 (p62) states that the correct gross risk charge should be the value S at the lower limit of the discontinuity.	**[We do not have re-drafting suggestions at this stage]**

CEA	099	NLUR19 IM41	***Para 2 b*** **- We find the implementation of these requirements extremely costly (in terms of data collection and reporting, especially for reinsurers)** for the following reasons: • Reporting exposure inside a certain radius requires precise (GPS) coordinates or similar registration for every single insured building. This may be possible in some countries for some products, but definitely not in general due to different registration mechanisms across Europe. • For chains of retail stores there will be a separation between the stores and the stocks/ warehouse. If the stocks are located more than 150 meters from the store is seems that the stocks represent a separate risk centre. Consequently the risk centres must be dealt with separately on an individual basis. • For industrial premises a delimitation of 150/300 meters is not decisive in determining the risk. Large industrial plants may themselves stretch far outside a 300m radius, and sums insured may not be recorded at sections of such a plant. • Sums insured or Estimated Maximum Losses are likely not to be recorded for each location, as this would require on-site valuation by skilled specialists (e.g.	**[We do not have re-drafting suggestions at this stage]**

			engineers). This is costly and therefore only done at the biggest/riskiest locations. • In certain member states only the addresses of headquarters may be recorded and exact locations of stores and warehouse, for example, are not always available. • Requiring accumulation of risk exposure within a given radius would require all direct insurers to report their exact risk locations and sums insured per location to reinsurers, which then need to record the information and aggregate it for their own QIS5 calculation needs.	
CEA	100	NLUR20 IM41	***Para 2 b*** **- We find the implementation of these requirements extremely costly (in terms of data collection and reporting, especially for reinsurers)** for the following reasons: • Reporting exposure inside a certain radius requires precise (GPS) coordinates or similar registration for every single insured building. This may be possible in some countries for some products, but definitely not in general due to different registration mechanisms across Europe. • For chains of retail stores there will be a separation between the stores and the stocks/ warehouse. If the stocks are located more than 150 meters from the store is seems that	**Terrorism risk sub-module** **1.** The capital requirement for terrorism risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous loss of an amount that, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, is equal to 50% of the sum insured of the largest terrorism risk concentration of an insurance or reinsurance undertaking. **When calculating the effect of the net asset value the insurer should also be allowed to use the effect of risk mitigation arrangements and other arrangements used to limit the liability of the insurer.** 2. The largest terrorism risk concentration of an insurance or reinsurance undertaking is the set of buildings with the

			the stocks represent a separate risk centre. Consequently the risk centres must be dealt with separately on an individual basis. • For industrial premises a delimitation of 150/300 meters is not decisive in determining the risk. Large industrial plants may themselves stretch far outside a 300m radius, and sums insured may not be recorded at sections of such a plant. • Sums insured or Estimated Maximum Losses are likely not to be recorded for each location, as this would require on-site valuation by skilled specialists (e.g. engineers). This is costly and therefore only done at the biggest/riskiest locations. • In certain member states only the addresses of headquarters may be recorded and exact locations of stores and warehouse, for example, are not always available. • Requiring accumulation of risk exposure within a given radius would require all direct insurers to report their exact risk locations and sums insured per location to reinsurers, which then need to record the information and aggregate it for their own QIS5 calculation needs.	largest sum insured that meets the following conditions: (a) the insurance or reinsurance undertaking has insurance or reinsurance obligations in lines of business 7 and 19 as set out in Annex I in relation to each building which cover damage due to fire or explosion as a result of terrorist attacks. (b) all buildings are partly or fully located within a radius of 300 meters. 3. For the purpose of paragraph 2, the set of buildings may be covered by one or several insurance or reinsurance contracts.
CEA	102	NLUR22	***Para 1*** **- Treatment of recession as a separate CAT scenario involves a risk of double-counting**	1. The capital requirement for credit and suretyship risk shall be equal to the following:

		IM41	**with the premium and reserve risk sub-module.** Economic downturns are captured in the normal loss history of credit insurers upon which premium and reserve risk is assessed. It is of utmost importance that there is no material double counting with events already considered in the tail of the standard calculation for premium and reserve risk. It is not evident in the proposal how this issue has been addressed. A recession for C&S is not an extraordinary event that requires a separate modelling approach like, e.g., a severe hail-storm for car insurance, or a hurricane for property insurance, etc. A recession therefore should be considered to be part of the tail of the standard model for premium and reserve risk. Consequently, within the context of the standard model for premium and reserve risk, the factors (standard deviations) should be calibrated such that a recession event (e.g. 2009 losses) should not exceed the corresponding percentile (2009 being widely recognised as being a 1-in-50 to 1-in-100 year event) of the standard log-normal distributions for most Credit Insurers. ***Para 2*** **- We question the calibration of this proposal. An assumption of the "instantaneous default of the three largest credit insurance exposures" appears to imply either extremely high correlation, or that a scenario proposed has a likelihood of occurring that is significantly lower than a 1-in-200 year event.** A credit insurer manages its top exposures prudently, implying that	$SCR_{credit} = \sqrt{SCR^2_{large\_default} + SCR^2_{recession}}$ where $SCR_{large\_default}$ is the capital requirement for the risk of a large credit default and $SCR_{recession}$ is the capital requirement for recession risk. 2. The capital requirement for the risk of a large credit default shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous default of the ~~three~~ **single** largest credit insurance exposures of an insurance or reinsurance undertaking. The calculation of the capital requirement shall be based on the assumption that the loss-given-default, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, of each credit insurance exposure is 10 % of the sum insured in relation to the exposure. 3. The determination of the ~~three~~ **single** largest credit insurance exposures of the insurance or reinsurance undertaking referred to in paragraph 2 shall be based on a comparison of the net loss-given-default of the credit insurance exposures, being the loss-given-default after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles. 4. The capital requirement for recession risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous default of [x%] of the credit insurance exposures of insurance and reinsurance undertakings. The calculation of the capital requirement shall be based on the assumption that the loss-

			top exposures will typically have a credit quality that is investment grade or comparable. Based on the QIS5 Technical Specifications (TP 2.162) where a BBB exposure could have a probability of default of 0.5%, default of a single exposure would seem more appropriate than three exposures. Credit Insurers also have the capability to dynamically manage credit exposure which also reduces the already small number of large risks potentially able to hit the non-proportional reinsurance. Hence assuming only a single top exposure default may just about form a relevant CAT scenario (this will depend on the individual Credit Insurer's portfolio). Assuming two or more to default, would either imply that a correlation of 100% is assumed or that the scenario proposed has a likelihood off occurring that is significantly smaller than a 1 in 200 year event. We view this as inappropriate. ***Para 2*** **- It should be clarified what is meant by "exposure"**. Given the context we assume that by "exposure" this paragraph means the sum of live granted credit limits or live Surety bonds. It is important to note, however, that Credit Insurance policies have maximum liability clauses. These maximum liabilities are significantly smaller than the sum of granted credit limits per policy, typically at least by a factor of 10. Hence, in a sufficiently extreme event, losses will no longer be proportional to the total granted credit limits, and aggregate losses will be limited by these maximum liabilities.	given-default, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles, of each credit insurance exposure is [y%] of the sum insured in relation to the exposure. ~~5. Notwithstanding paragraph 4 the capital requirement for recession risk of an insurance or reinsurance undertakings shall not be larger than the following amount:~~ ~~$$C_{recession} = \begin{cases} 2 \cdot P_{credit} & if \quad LR_{credit} < 0.25 \\ (2.25 - LR_{credit}) \cdot P_{credit} & if \quad 0.25 \le LR_{credit} \le 1.25 \\ P_{credit} & if \quad LR_{credit} > 1.25 \end{cases}$$~~ where ~~(a) P_{credit} denotes an estimate of the premiums, after deduction of the amounts recoverable from reinsurance contracts, to be earned by the insurance or reinsurance undertaking in the lines of business 9 and 21 as set out in Annex I and in relation to non-proportional credit and suretyship reinsurance during the following year;~~ (b) ~~LR_{credit} denotes the net loss ratio for credit and suretyship insurance and reinsurance of the insurance or reinsurance~~ undertaking. 6. The net loss ratio for credit and suretyship insurance and reinsurance of an insurance or reinsurance undertaking shall be equal to the ratio of the following amounts: (a) the sum of the claims payments during the last 12 months and the best estimate provision for claims

			Para 4 **-** The calibration of recession risk should avoid any double counting with the standard deviation factors calibrated for premium and reserve risk. ***Para 5*** **- We question the inclusion a cycle-sensitive dampening mechanism,** which we believe is inconsistent with the 99.5th percentile 1-year value-at-risk measure set out in the Directive (which should be independent of the state of the economy). We also do not understand how this measure has been calibrated. It is also unclear how the pro-cyclical measure would affect the overall calibration of default rates (x% in paragraph 4) or losses as a percentage of exposure (y% in paragraph 4) for the recession scenario.	outstanding set up for claims incurred during the last 12 months by the insurance or reinsurance undertaking for the lines of business 9 and 21 as set out in Annex I and in relation to non-proportional credit and suretyship reinsurance; (b) the premiums earned by the insurance or reinsurance undertaking on the lines of business 9 and 21 as set out in Annex I and in relation to non-proportional credit and suretyship reinsurance during the last 12 months. For the purpose of point (a) claims shall be net, after deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles. For the purpose of point (b) premiums shall be net, after deduction of the amounts recoverable from reinsurance contracts.
CEA	104	LUR1 IM24	**Consistency of life risk with other risk modules** As compared with Article 80 for Non-life and Article 124 for health this article is missing a list of sub-risks and the formula for calculating the capital requirements. For consistency reasons, we request that these are added. **Life risk correlations** ***CAT risk*** **-** CAT risk is, by its very nature, independent of other risks. We see no reason why a non-zero correlation should be set between risks which are intuitively independent. Ceiops has not	**1. The life underwriting risk module shall consist of the following sub-modules:** **(a) the life mortality risk sub-module;** **(b) the life longevity risk sub-module;** **(c) the life disability-morbidity risk sub-module;** **(d) the life expense risk sub-module;** **(e) the life revision risk sub-module;** **(f) the life lapse risk sub-module;**

provided any statistical analysis to support this assumption. A correlation of 0 with other risks should be stated, as it was the case in QIS4.

Longevity/mortality risk - Ceiops' final advice on the correlation coefficient between longevity and mortality discusses their reasons for not setting the correlation to -1. The justification provided for the decision instead to set a correlation of -0.25 is very vague and could just as easily justify a correlation coefficient of -0.5 or -0.75.

We believe that the correlation factor should at least be –0.5 as this better reflects the nature of dependence between mortality risk and longevity risk.

The statement in Ceiops' final advice that mortality and longevity risks refer to different age cohorts is not based on any research. In general there is a higher degree of young people with longevity risk and a higher degree of old people with mortality risk than is assumed when assessing this correlation factor.

(g) the life CAT risk sub-module;

2. The capital requirement for the life underwriting risk module shall be equal to the following:

$$SCR_{life} = \sqrt{\sum_{i,j} CorrL_{(i,j)} \cdot SCR_i \cdot SCR_j}$$

where the sum covers all possible combinations (*i*,*j*) of the sub-modules set out in paragraph 1, $CorrL_{(i,j)}$ denotes the correlation parameter for life underwriting risk for sub-modules *i* and *j* and SCR_i and SCR_j denote the capital requirements for risk sub-module *i* and *j* respectively.

3. "Correlation coefficients"

The correlation coefficient $Corr_{i,j}$ referred to in point (3) of Annex IV of Directive 2009/138/EC denotes the item set out in row *i* and in column *j* of the following correlation matrix:

j / *i*	Mortality	Longevity	Disability	Life expense	Revision	Lapse	Life catastrophe
Mortality	1	**-0.75** ~~-0.25~~	0.25	0.25	0	0	**0** ~~0.25~~
Longevity	**-0.75** ~~-0.25~~	1	0	0.25	0.25	0.25	0

				<table><tr><td>Disability</td><td>0.25</td><td>0</td><td>1</td><td>0.5</td><td>0</td><td>0</td><td>**0** ~~0.25~~</td></tr><tr><td>Life expense</td><td>0.25</td><td>0.25</td><td>0.5</td><td>1</td><td>0.5</td><td>0.5</td><td>**0** ~~0.25~~</td></tr><tr><td>Revision</td><td>0</td><td>0.25</td><td>0</td><td>0.5</td><td>1</td><td>0</td><td>0</td></tr><tr><td>Lapse</td><td>0</td><td>0.25</td><td>0</td><td>0.5</td><td>0</td><td>1</td><td>**0** ~~0.25~~</td></tr><tr><td>Life catastrophe</td><td>**0** ~~0.25~~</td><td>0</td><td>**0** ~~0.25~~</td><td>**0** ~~0.25~~</td><td>0</td><td>**0** ~~0.25~~</td><td>1</td></tr></table>
CEA	105	LUR2 IM24	**Mortality risk** ***Para 1*** - The 15% calibration is too high and the move from the QIS4 calibration of 10% has not been sufficiently justified by Ceiops. ***Para 2*** – The current non-symmetric treatment, requiring insurers to only stress those policies creating a loss, is not in line with the economic risk-based framework and produces capital requirements that are far more onerous than the 99.5th percentile, adding prudential margins over the 1 in 200 level. It is not realistic or technically sound to assume that: the stress would only affect those policies for which mortality risk would create capital requirements; while having zero affect on those policies for which	1. Subject to paragraph 2, the capital requirement for the mortality risk sub-module referred to in point (a) of Article 105(3) of Directive 2009/138/EC shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent increase of **10** ~~15~~ % in the mortality rates used for the calculation of technical provisions. ~~2.~~ The increase in mortality rates referred to in paragraph 1 shall **apply to all policies** ~~only apply to those insurance policies for which an increase in mortality rates leads to an increase in technical provisions taking into account the following:~~ ~~(a) multiple insurance policies in respect of the same insured person may be treated as if they were one insurance policy;~~

			mortality risk would create profit. The stress and its correlation with other risks should be calibrated to a 1 in 200 stress level and then applied realistically across the insurers portfolio, as would be the case under Internal Models. Furthermore, this requirement would mean that the natural diversification of well diversified portfolios would not be recognised. We also note that it is burdensome to require insurers to apply stresses to a subset of policyholders, which may move over time and is likely to be different for each risk.	~~(b) where the calculation of technical provisions is based on groups of policies as referred to in Article TP16, the identification of the policies for which technical provisions increase under an increase of mortality rates may also be based on those groups of policies instead of single policies, provided that it would give approximately the same result;~~ (c) ~~with regard to reinsurance policies, the identification of the policies for which technical provisions increase under an increase of mortality rates shall apply to the underlying insurance policies only.~~
CEA	107	UR3 IM24	**<u>Longevity risk</u>** ***<u>Para 1</u>*** - We support the reduction from a 25% stress. However, the current factor is too high. Longevity risk is a key risk for insurers providing pension business and so it is essential that no level of excessive prudence is factored into the calibration over the 99.5% VaR. We question some of the assumptions used by Ceiops in this calibration. A recent study published by the Danish Insurance Association concludes that a 10%-15% longevity risk charge, would be more appropriate: http://www.cea.eu/uploads/DocumentsLibrary/documents/1274268244_assessment-of-longevity-risk.pdf Furthermore, a longevity risk charge which is	1. Subject to paragraph 2, the capital requirement for the longevity risk sub-module referred to in point (b) of Article 105(3) of Directive 2009/138/EC shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent decrease of <u>13</u> ~~20~~ % in the mortality rates used for the calculation of technical provisions. ~~2.~~ The decrease in mortality rates referred to in paragraph 1 shall **<u>apply to all policies</u>** ~~only apply to those insurance policies for which a decrease in mortality rates leads to an increase in technical provisions taking into account the following:~~ ~~(a) multiple insurance policies in respect of the same insured person may be treated as if they were one insurance policy;~~ ~~(b) where the calculation of technical provisions is based~~

			modelled via a “one size fits all” immediate shock will always be a simplification of the realistic effect of longevity risk. Please see the study carried out by Unespa/Towers Perrin: http://www.cea.eu/uploads/DocumentsLibrary/documents/1236954597_unespa_longevity.pdf which shows that longevity improvements vary by age/duration of the policy. We understand that for practicality reasons the immediate shock approximation for longevity risk is proposed. However, we would expect that Undertaking Specific Parameters should be available for those insurers for whom longevity risk is material, so that this can be modelled appropriately ***Para 2*** – The current non-symmetric treatment, requiring insurers to only stress those policies creating a loss, is not in line with the economic risk-based framework and produces capital requirements that are far more onerous than the 99.5th percentile, adding prudential margins over the 1 in 200 level. It is not realistic or technically sound to assume that: the stress would only affect those policies for which mortality risk would create capital requirements; while having zero affect on those policies for which mortality risk would create profit. The stress and its correlation with other risks should be calibrated to a 1 in 200 stress level and then applied realistically across the insurers portfolio, as would be the case	~~on groups of policies as referred to in Article TP16, the identification of the policies for which technical provisions increase under a decrease of mortality rates may also be based on those groups of policies instead of single policies, provided that it would give approximately the same result;~~ ~~(c) with regard to reinsurance policies, the identification of the policies for which technical provisions increase under a decrease of mortality rates shall apply to the underlying insurance policies only.~~

			under Internal Models. Furthermore, this requirement would mean that the natural diversification of well diversified portfolios would not be recognised. We also note that it is burdensome to require insurers to apply stresses to a subset of policyholders, which may move over time and is likely to be different for each risk.	
CEA	109	LUR4 IM24	**Disability risk** ***Para 4*** - An additional shock has been introduced compared to QIS4 of a 20% shock on the recovery rate. No sound study has been carried out by Ceiops to justify this. It is a concern for us, as usually an insured population with a very short-term disability (e.g. 3/4 days of disability, due to flu or a dislocated wrist) has a very good recovery rate (~90%). Shocking it to 70% is very costly. We would suggest the removal of this new shock OR we suggest an alternative calibration as proposed.	The capital requirement for the disability-morbidity risk sub-module referred to in point (c) of Article 105(3) of Directive 2009/138/EC shall be equal to the ~~loss in basic own funds of insurance and reinsurance undertakings that would result from the combination of the following instantaneous permanent changes:~~ **aggregation of the following:** **1.** **a capital requirement corresponding to the loss in basic own funds of insurance and reinsurance undertakings that would result from the following instantaneous permanent changes:** **(a)** an increase of 35 % in the disability and morbidity rates which are used in the calculation of technical provisions to reflect the disability and morbidity experience in the following 12 months **For this shock, the disability and morbidity rates refer to the probability to become disabled and exceed the waiting period of the contract;** (b) an increase of 25 % in the disability and morbidity rates which are used in the calculation of technical

				provisions to reflect the disability and morbidity experience for all months after the following 12 months. **For this shock, the disability and morbidity rates refer to the probability to become disabled and exceed the waiting period of the contract**; **2.** **a capital requirement corresponding to the loss in basic own funds of insurance and reinsurance undertakings that would result from the following instantaneous permanent changes:** (a) **an increase of 20 % in the probability of remaining disabled** ~~a decrease of 20 % in the disability and morbidity recovery rates~~ used in the calculation of technical provisions in respect of the following 12 months and for all months thereafter. **For this shock, the the probability of remaining disabled is the probability conditioned to the fact that the duration in disability has exceeded the waiting period of the contract. For each insured, this shock only applies over the period when the main cause of the termination of the disability is recovery and not death.** **The correlation factor that should be used to aggregate the capital requirements described under (1) and (2) is 0.25.**
CEA	113	LUR7 IM24	**Lapse risk** ***Para 4*** - Proportionality should be considered as these requirements could be very burdensome. Reference to the materiality of the impact is needed	[...] 4. The relevant options for the purposes of paragraph 2 and 3 shall mean all material legal or contractual policy holder rights to fully or partly terminate, surrender, decrease, restrict or suspend insurance cover or permit the insurance policy to

			to avoid a useless calculation. ***Para 6(a)*** - There has been no evidence to support the proposed stresses. 70% seems far too high, especially given the fact that lapses based on market stresses are already captured in the market risk module. Additionally, we note that it is important that there is a clear and appropriate definition of non-retail business, which should cover only wholesale business. Preliminary feedback we have received from QIS5 suggests that the definition may be too wide. We are currently looking into this issue. ***Para 6(b)*** - We have not seen evidence to support this stress. Based on our own analysis which was based on data provided by Watson Wyatt, a stress of between 15% and 20% is more appropriate: http://www.cea.eu/uploads/DocumentsLibrary/documents/1255534197_cea-additional-contribution-on-cp49-mass-lapse-risk.pdf	lapse. Where a right allows the full or partial establishment, renewal, increase, extension or resumption of insurance or reinsurance cover, the change in the option exercise rate referred to in paragraphs 2 and 3 shall be applied to the rate that the right is not exercised **if the effect is expected to be material**. 5. In relation to reinsurance contracts the relevant options for the purposes paragraph 2 and 3 shall cover: (a) the rights set out in paragraph 4 of the policy holders of the reinsurance contracts; (b) the rights set out in paragraph 4 of the policy holders of the insurance contracts underlying the reinsurance contracts; (c) where the reinsurance contracts covers insurance or reinsurance contracts that do not exist yet, the right of the potential policyholders not to write those insurance or reinsurance contracts. 6. The capital requirement for mass lapse risk shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from the combination of the following instantaneous changes: (a) the surrender of 70 % of the insurance policies with a positive surrender strain falling within Article 2(3)(b)(iii) and (iv) of Directive 2009/138/EC, where the policyholder is either: – not a natural person and surrender of the policy

				is not subject to approval by the beneficiaries of the pension fund; or – a natural person acting for the benefit of the beneficiaries under those policies, but excluding policies in respect of which there is a family relationship between that natural person and the beneficiaries, and policies effected for private estate planning or inheritance purposes in circumstances where the number of beneficiaries under the policy does not exceed 20; (b) the surrender of **20** ~~30~~ % of the insurance policies with a positive surrender strain other than those falling within point (a). (c) where reinsurance contracts covers insurance or reinsurance contracts that do not exist yet, the a decrease of 30 % of the number of those future insurance or reinsurance contracts used in the calculation of technical provisions. The stresses referred to in points (a) to (c) shall apply uniformly to all insurance and reinsurance contracts concerned. In relation to reinsurance contracts the stresses referred to in points (a) and (b) shall apply to the underlying insurance contracts. [...]
CEA	115	LUR8	**Life CAT risk**	[...]

		IM24	As per our comments on longevity and mortality risk, biometric shocks should applied to the whole portfolio. Pandemic risk would not choose victims according to their insurance contracts (i.e. kill the holders of savings or death contracts but save the life of holders of annuities contracts).	~~2.~~ The increase in mortality rates referred to in paragraph 1 shall **apply all to all policies** ~~only apply to those insurance policies for which an increase in mortality rates to reflect the mortality experience in the following 12 months leads to an increase in technical provisions taking into account the following:~~ ~~(a) multiple insurance policies in respect of the same insured person may be treated as if they were one insurance policy;~~ ~~(b) where the calculation of technical provisions is based on groups of policies as referred to in Article TP16, the identification of the policies for which technical provisions increase under an increase of mortality rates may also be based on those groups of policies instead of single policies, provided that it would give approximately the same result;~~ (c) ~~With regard to reinsurance policies, the identification of the policies for which technical provisions increase under an increase of mortality rates shall apply to the underlying insurance policies only~~
CEA	117	HUR1 IM40	***Para 1*** - It needs to be ensured that the wording proposed in this IM is consistent with the wording used in the QIS5-TS, SCR.8. Health underwriting risk, p. 164. Furthermore, for consistency between this IM and Annex I of IM13rev1 the descriptions for the lines of business set out in Annex I of IM13 also have to be amended.	1. The health underwriting risk module shall consist of the following sub-modules: **a)** the ~~non life health~~ insurance underwriting risk sub-**module for health insurance which is not pursued on a similar technical basis to that of life insurance ("Non-SLT Health");** **b)** the ~~life health~~ insurance underwriting risk sub-module **for health insurance pursued on a similar technical**

Para 3 - The CEA finds the correlation between UW risk and cat risk as too conservative for these risks which can be considered independent.

Ceiops says also that there is low or zero correlation between these risks and the comments they make to put the factor at 25% are not backed by hard evidence.

The correlation between CAT-risk and the underwriting risks 0.25 should be changed to the more relevant 0.

basis to that of life insurance ("SLT Health");

(a) the health catastrophe risk sub-module.

2. The capital requirement for the health underwriting risk module shall be equal to the following:

$$SCR_{health} = \sqrt{\sum_{i,j} CorrH_{(i,j)} \cdot SCR_i \cdot SCR_j}$$

where SCR_{health} denotes the capital requirement for health underwriting risk, SCR_i and SCR_j denote the capital requirements for risk sub-module i and j respectively, and where the sum denotes all possible pairs (i,j) of the sub-modules set out in paragraph 1.

3. The correlation coefficient CorrH(i,j) referred to in paragraph 2 denotes the item set out in row i and in column j of the following correlation matrix:

j / *i*	~~Non-life health~~ **Non SLT Health** underwriting	~~Life health~~ **SLT Health** underwriting	Health catastrophe
~~Non-life health~~Non **SLT**	1	0.5	~~**0.25**~~ **0**

					Health underwriting			
					~~Life health~~SLT Health underwriting	0.5	1	~~**0.25**~~ **0**
					Health catastrophe	~~**0.25**~~ **0**	~~**0.25**~~ **0**	1

4. Insurance and reinsurance undertakings shall apply

(a) the ~~non-life health~~ **Non SLT Health** underwriting risk sub-module to health insurance and reinsurance obligations included in lines of business 1 to 3, 13 to 15 and 25 as set out in Annex I [of IM13rev1];

(b) the ~~life health~~ **SLT Health** underwriting risk sub-module to health insurance and reinsurance obligations included in lines of business 31, 35, 39 and 44 as set out in Annex I [of IM13rev1];

(c) the health catastrophe risk sub-module to health insurance and reinsurance obligations as referred to in Article TP27(3).

5. The health underwriting risk module shall consist of the following sub-modules:

(a) the NSLT health underwriting risk sub-module;

(b) the SLT health underwriting risk sub-module;

(c) the health catastrophe risk sub-module.

6. The capital requirement for the health underwriting risk module shall be equal to the following:

$$SCR_{health} = \sqrt{\sum_{i,j} CorrH_{(i,j)} \cdot SCR_i \cdot SCR_j}$$

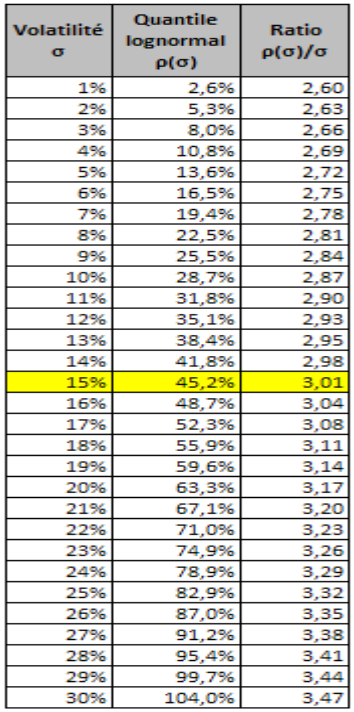
where the sum covers all possible combinations (*i*,*j*) of the sub-modules set out in paragraph 1, $CorrH_{(i,j)}$ denotes the correlation parameter for health underwriting risk for sub-modules *i* and *j*, and SCR_i and SCR_j denote the capital requirements for risk sub-module *i* and *j* respectively.

7. The correlation parameter CorrH(i,j) referred to in paragraph 2 shall be equal to the item set out in row i and in column j of the following correlation matrix:

j / *i*	NSLT health underwriting	SLT health underwriting	Health catastrophe
NSLT health underwriting	1	0.5	~~0.25~~ **0**

				SLT health underwriting: 0.5 / 1 / ~~0.25~~ **0** Health catastrophe: ~~0.25~~ **0** / ~~0.25~~ **0** / 1 8. Insurance and reinsurance undertakings shall apply: (a) the NSLT health underwriting risk sub-module to health insurance and reinsurance obligations included in lines of business 1 to 3, 13 to 15 and 25 as set out in Annex I [of IM13rev1]; (b) the SLT health underwriting risk sub-module to health insurance and reinsurance obligations included in lines of business 31, 35, 39 and 45 as set out in Annex I [of IM13rev1]; (c) the health catastrophe risk sub-module to health insurance and reinsurance obligations.
CEA	118	HUR2 IM 35	***Para 1(b)*** **-** For NSLT health, the lapse risk stresses are too complex given that this risk is not material or relevant in the vast majority of cases. Further the data from non-life cash flows which are used to calibrate the premium risk implicitly comprise the volatility due to lapses. In developing a separate module for this risk, double counting between premium/ reserve risk and lapse risk must	**NSLT health underwriting risk sub-module** 1. The NSLT health underwriting risk sub-module shall consist of the following sub-modules: a. the NSLT health premium and reserve risk sub-module;

			be avoided. Since such an exercise would generate significant practical problems for what is considered to be an immaterial risk in most cases and because of the practical issues outlined above we suggest that this risk module is dropped.	~~b. the NSLT health lapse risk sub-module.~~
CEA	119	HUR3 IM35	***Para "whole paragraph"*** The use of this approximation for the 99.5% exact quintile ρ(σ) of the lognormal law is penalising undertakings, if their σ is lower than 15%. We attach a set of figures detailing how for various levels of volatility the approximation changes.	**NSLT health premium and reserve risk sub-module** The capital requirement for the NSLT health premium and reserve risk sub-module shall be equal to the following: SCR_{NSLTh} = $_{pr}$ ~~$3 \cdot \sigma_{NSLTh} \cdot V_{NSLTh}$~~ $\rho(\sigma) \cdot V$ with $\rho(\sigma) = \frac{\exp(N_{0.995} \bullet \sqrt{\ln(\sigma^2 + 1)})}{\sqrt{\sigma^2 + 1}} - 1$ where σ_{NSLTh} denotes the standard deviation for NSLT health premium and reserve risk determined in accordance with Article HUR5 and V_{NSLTh} denotes the volume measure for NSLT health premium and reserve risk. $N_{0.995}$ **is the 99.5% quintile of the standard normal law**

Volatilité σ	Quantile lognormal ρ(σ)	Ratio ρ(σ)/σ
1%	2,6%	2,60
2%	5,3%	2,63
3%	8,0%	2,66
4%	10,8%	2,69
5%	13,6%	2,72
6%	16,5%	2,75
7%	19,4%	2,78
8%	22,5%	2,81
9%	25,5%	2,84
10%	28,7%	2,87
11%	31,8%	2,90
12%	35,1%	2,93
13%	38,4%	2,95
14%	41,8%	2,98
15%	45,2%	3,01
16%	48,7%	3,04
17%	52,3%	3,08
18%	55,9%	3,11
19%	59,6%	3,14
20%	63,3%	3,17
21%	67,1%	3,20
22%	71,0%	3,23
23%	74,9%	3,26
24%	78,9%	3,29
25%	82,9%	3,32
26%	87,0%	3,35
27%	91,2%	3,38
28%	95,4%	3,41
29%	99,7%	3,44
30%	104,0%	3,47

CEA	120	HUR4 IM	***Para 1*** - Any volume measure which is directly proportional to the (positive) value of premiums or of premium provisions penalizes undertakings with high expected profits from existing business. So any reasonable volume measure must mirror these expected profits i.e. the smaller the expected future profits (or the higher the losses) the higher must be the premium risk. ***Para 3*** - Although the level 1 text requires 1 year of new business to be taken into account in the SCR	**[We do not have re-drafting suggestions at this stage]**

			calculations, it is important to have consistency between the valuation of Technical Provisions and valuation of the SCR, i.e. the SCR needs to be based on the same Technical Provisions that are shown in the Solvency II balance sheet. Theoretically there are two possible solutions in order to ensure consistency: • Both the SCR and the Technical Provisions allow for one-year of new business. • Neither the SCR nor the Technical Provisions allow for one-year of new business. We stand ready to discuss with the EC and Ceiops the possibilities above.	
CEA	121	HUR5 IM35	***Para 2*** **-** This formula seems to implicitly assume a 50% correlation between premium and reserving risk. This should better be spelled out and not hidden like now. Furthermore, this is a very high correlation for risks that relate to disjoint underwriting years; the only driving forces behind this correlation are calendar year effects, i.e. claims inflation of various sources.	**[We do not have re-drafting suggestions at this stage**]
CEA	122	HUR6 IM 35	***Para "whole paragraph"*** The EC is referring to premium risk only in this article. The experience of the Dutch insurers, which use such a risk equalisation system, shows that the	**[We do not have re-drafting suggestions at this stage**]

			RES should also be considered for reserve risk. ***<u>Para 2(h)</u>*** **-** The 50% limit of the reduction is not justified and should be removed. ***<u>Para 2 (i)</u>*** **–** There should not be a closed list of methodologies for calculating the standard deviation. A method which may be appropriate for one market or company may not be appropriate for another market or company. This is even more the case for health products and risk equalization systems which vary greatly from one member state to another. Therefore, companies should be able to use their own methods where they better reflect their risk profile and as such we do not see any valid reason why their use should be de facto restricted to pre-defined lists of methods.	
CEA	123	HUR7 IM35	***<u>Para "whole paragraph"</u>*** For Health Non SLT business, the lapse risk stresses are too complex given that this risk is not material or relevant in the majority of cases. Furthermore, in some markets medical expense insurance is compulsory so any lapse risk is even further reduced. As such, this risk module should be dropped for Health Non SLT.	**[Delete art 123]**
CEA	124	HUR8	**<u>Life health risk correlations</u>**	4. The life health underwriting risk module shall consist of the following sub-modules:

		IM35	***Longevity/mortality risk*** - Ceiops' final advice on the correlation coefficient between longevity and mortality discusses their reasons for not setting the correlation to -1. The justification provided for the decision instead to set a correlation of -0.25 is very vague and could just as easily justify a correlation coefficient of -0.5 or -0.75. We believe that the correlation factor should at least be –0.5 as this better reflects the nature of dependence between mortality risk and longevity risk. The statement in Ceiops' final advice that mortality and longevity risks refer to different age cohorts is not based on any research. In general there is a higher degree of young people with longevity risk and a higher degree of old people with mortality risk than is assumed when assessing this correlation factor.	(h) the health mortality risk sub-module; (i) the health longevity risk sub-module; (j) the health disability-morbidity risk sub-module; (k) the health expense risk sub-module; (l) the health revision risk sub-module; (m) the SLT health lapse risk sub-module; 5. The capital requirement for the life underwriting risk module shall be equal to the following: $$SCR_{life} = \sqrt{\sum_{i,j} CorrL_{(i,j)} \cdot SCR_i \cdot SCR_j}$$ where the sum covers all possible combinations (i,j) of the sub-modules set out in paragraph 1, $CorrL_{(i,j)}$ denotes the correlation parameter for life health underwriting risk for sub-modules i and j and SCR_i and SCR_j denote the capital requirements for risk sub-module i and j respectively. 6. "Correlation coefficients" The correlation coefficient $Corr_{i,j}$ referred to in point (3) of Annex IV of Directive 2009/138/EC denotes the item set out in row i and in column j of the following correlation matrix:

j / *i*	Mortality	Longevity	Disability	Life expe	Revision	Lapse	Life catastr

				nse			ophe
Mortality	1	-0.75 ~~-0.25~~	0.25	0.25	0	0	0 ~~0.25~~
Longevity	-0.75 ~~-0.25~~	1	0	0.25	0.25	0.25	0
Disability	0.25	0	1	0.5	0	0	0 ~~0.25~~
Life expense	0.25	0.25	0.5	1	0.5	0.5	0 ~~0.25~~
Revision	0	0.25	0	0.5	1	0	0
Lapse	0	0.25	0	0.5	0	1	0 ~~0.25~~
Life catastrophe	0 ~~0.25~~	0	0 ~~0.25~~	0 ~~0.25~~	0	0 ~~0.25~~	1

CEA	125	HUR9 IM35	**Health Mortality risk** ***Para 1*** - The 15% calibration is too high and the move from the QIS4 calibration of 10% has not been sufficiently justified by Ceiops.	1. The capital requirement for Health mortality risk sub-module shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent increase of **10** ~~15~~ % in the mortality rates used for the calculation of technical

			Para 2 – The current non-symmetric treatment, requiring insurers to only stress those policies creating a loss, is not in line with the economic risk-based framework and produces capital requirements that are far more onerous than the 99.5th percentile. It is not realistic or technically sound to assume that: the stress would only affect those policies for which mortality risk would create capital requirements; while having zero effect on those policies for which mortality risk would create profit. The stress and its correlation with other risks should be calibrated to a 1 in 200 year event stress level and then applied realistically across the insurers portfolio, as would be the case under Internal Models. Furthermore, this requirement would mean that the natural diversification of well diversified portfolios would not be recognised. We also note that it is burdensome to require insurers to apply stresses to a subset of policyholders, which may move over time and is likely to be different for each risk. Mortality, as longevity shocks should be done for all contracts at the same time. Undertakings have a lot of "groups of policies", to calculate separately the mortality shock to see when technical provision would increase is very burdensome. Furthermore, stating that mortality or longevity would only deviate when it increase technical provision seems	provisions. 2 The increase in mortality rates referred to in paragraph 1 shall apply to all policies ~~only apply to those insurance policies for which an increase in mortality rates leads to an increase in technical provisions taking into account the following:~~ (a) insurance policies on the same insured person may be treated as if they were one insurance policy; (b) where the calculation of technical provisions is based on groups of policies as referred to in Article TP16, the identification of the policies for which technical provisions increase under an increase of mortality rates may also be based on those groups of policies instead of single policies, provided that it would give approximately the same result; (c) with regard to reinsurance policies, the identification of the policies for which technical provisions increase under an increase of mortality rates shall apply to the underlying insurance policies only.

			not technically sounded. This measure would not recognize the natural diversification of well-diversified portfolios face to biometrics risks.	
CEA	126	HUR10 IM35	**Health Longevity risk** ***Para 1*** - We support the reduction from a 25% stress. However, the current factor is too high. Longevity risk is a key risk for insurers providing pension business and so it is essential that no level of excessive prudence is factored into the calibration over the 99.5% VaR. We question some of the assumptions used by Ceiops in this calibration. A recent study published by the Danish Insurance Association concludes that a 10%-15% longevity risk charge, would be more appropriate: http://www.cea.eu/uploads/DocumentsLibrary/documents/1274268244_assessment-of-longevity-risk.pdf Furthermore, a longevity risk charge which is modelled via a "one size fits all" immediate shock will always be a simplification of the realistic effect of longevity risk. Please see the study carried out by Unespa/Towers Perrin: http://www.cea.eu/uploads/DocumentsLibrary/documents/1236954597_unespa_longevity.pdf which shows that longevity improvements vary by age/duration of the policy.	1. The capital requirement for the longevity risk sub-module shall be equal to the loss in basic own funds of insurance and reinsurance undertakings that would result from an instantaneous permanent decrease of **13** ~~20~~ % in the mortality rates used for the calculation of technical provisions. 2 The decrease in mortality rates referred to in paragraph 1 shall **apply to all policies** ~~only apply to those insurance policies for which a decrease in mortality rates leads to an increase in technical provisions taking into account the following:~~ (a) multiple insurance policies in respect of the same insured person may be treated as if they were one insurance policy; (b) where the calculation of technical provisions is based on groups of policies as referred to in Article TP16, the identification of the policies for which technical provisions increase under a decrease of mortality rates may also be based on those groups of policies instead of single policies, provided that it would give approximately the same result; (c) with regard to reinsurance policies, the identification of the policies for which technical provisions increase

			We understand that for practicality reasons the immediate shock approximation for longevity risk is proposed. However, we would expect that Undertaking Specific Parameters should be available for those insurers for whom longevity risk is material, so that this can be modelled appropriately In addition, the stress factor of 25 % is too high when the calculation of Best Estimate already takes into account a future reduction in mortality, for example using a Lee-Carter-model. ***Para 2*** – The current non-symmetric treatment, requiring insurers to only stress those policies creating a loss, is not in line with the economic risk-based framework and produces capital requirements that are far more onerous than the 99.5th percentile, adding prudential margins over the 1 in 200 level. It is not realistic or technically sound to assume that: the stress would only affect those policies for which mortality risk would create capital requirements; while having zero affect on those policies for which mortality risk would create profit. The stress and its correlation with other risks should be calibrated to a 1 in 200 stress level and then applied realistically across the insurers portfolio, as would be the case under Internal Models. Furthermore, this requirement would mean that the natural diversification of well diversified portfolios would not be recognised.	under a decrease of mortality rates shall apply to the underlying insurance policies only.

			We also note that it is burdensome to require insurers to apply stresses to a subset of policyholders, which may move over time and is likely to be different for each risk.	
CEA	128	HUR12 IM35	This article is not very clear. Apparently it is trying to cover the situation where there is an increase in the claim frequency and/or claim costs and a change in the rate of claim cost inflation assumed for medical expense insurance written on a long-term basis (as in Germany). This section should make it much clearer on what it is referring to. Further, we fail to see clearly how a decrease in the claim frequency and lower future inflation would lead to an increase in technical provisions.	**[We do not have re-drafting suggestions at this stage]**
CEA	133	HUR16 IM35	**SLT health Lapse risk** ***Para 4*** - This statement could be very burdensome for second-rate impact. The reference to the materiality of the impact is needed to avoid useless calculation.	[...] **1.** The relevant option exercise rates for the purposes of paragraph 2 and 3 are all legal or contractual policy holder options to fully or partly terminate, decrease, restrict or suspend the insurance or reinsurance cover. Where an option allows the full or partial establishment, renewal, increase, extension or resumption of insurance or reinsurance cover, the change in the option exercise rate referred to in paragraphs 2 and 3 should be applied to the rate that the option is not exercised **if the effect is material.** [...]

CEA	134-137	HUR17 to HUR20	The design and the calibration of the Health CAT risk module can be assessed at the earliest when the results of the QIS5 will be available and have been evaluated. The standardized scenarios proposed have not been tested and there is no indication as to the underlying scenarios which have been used to derive the proposed factors for each risk. Further consultation is needed with both reinsurers and direct insurers. Our key concerns on the Health Cat risk module are the following: - We are concerned about the level of detailed data and information required. A simpler approach is needed for standardized scenarios. - Reinsurance should appropriately be reflected in capital requirements. In particular, cross regional reinsurance. - Undertaking specific scenarios ("USPs") should be allowed as they would provide for solutions to some of the shortcomings identified with the proposed approach. - We disagree with the 25% correlation between Cat risk and other risks. Cat risk should have zero correlation with other risks.	**[We have no re-drafting suggestions at this stage]**
CEA	138	RECAI1	**ECAIs** Each supervisory authority is unlikely to have	Where insurance and reinsurance undertakings determine credit quality by reference to the credit assessments of External Credit Assessment Institutions ('ECAIs') the ECAIs shall comply with

		IM34	sufficient resources to carry out proper diligence. Controlling rating agencies is not their core business, and so these requirements could be very demanding. We would propose instead, that if an ECAI is registered as a credit rating agency in accordance with Regulation (EC) No 1060/2009, then this rating should be usable under SII, unless Eiopa has publicly justified otherwise.	requirements set out in this subsection. An external credit assessment shall be used to determine the capital requirements only if the ECAI which provides it has been recognised as eligible for those purposes by EIOPA ('an eligible ECAI'). EIOPA shall recognise an ECAI as eligible only if it is satisfied that its assessment methodology complies with the requirements of objectivity, independence, ongoing review and transparency, and that the resulting credit assessments meet the requirements of credibility and transparency. For those purposes, EIOPA shall take into account the technical criteria set out in Annex VI, Part 2 of Directive 2006/48/EC where "credit institutions" shall be replaced by "insurance or reinsurance undertakings". Where an ECAI is registered as a credit rating agency in accordance with Regulation (EC) No 1060/2009 of 16 September 2009 of the European Parliament and of the Council on credit rating agencies, **insurance and reinsurance undertakings can base the credit rating used to determine capital requirements on the credit rating provided by this credit rating agency. However, EIOPA can specify that the credit ratings provided by a specific credit rating agency are not usable. This decision should be publicly available and properly justified** ~~EIOPA shall consider the requirements of objectivity, independence, ongoing review and transparency with respect to its assessment methodology to be satisfied.~~ ~~EIOPA shall make publicly available an explanation of the recognition process, and a list of eligible ECAIs.~~
CEA	143	MR2 IM27	**Market risk correlations** ***"A" factor -*** Our previous paper looking at historic market risk correlations (based on data provided by	1. The market risk module laid down in Article 105(5) of Directive 2009/138/EC shall include a risk module for illiquidity premium risk.

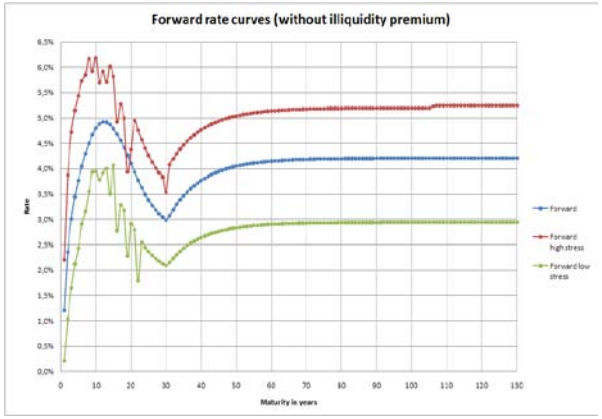
			Watson Wyatt) proposed that this correlation should be in the range (0.1 to 0.5) / -(0.1 to 0.5). The current proposal is not in line with this historic data. ***Equity/property factor -*** In our comments to CP74, we provided a study which shows that a correlation factor of 0.25 is appropriate. 0.75 is excessive. ***Equity/spread factor -*** The last crisis has shown that the 0.25 correlation used in QIS4 is too low. However, the 0.75 is excessive, we support 0.5. ***Property/spread factor –*** 0.5 appears too prudent. ***Currency risk*** - This does not take account of the fact that currency risk is a 2-sided risk and so could cause a loss or a profit in the balance sheet. Thus the correlation factor could range from -1 to 1. The medium correlation factor would then be 0 rather than 0.25.	2. The market risk module shall be equal to the following: $SCR_{market} = \sqrt{\sum_{i,j} Corr_{i,j} \cdot SCR_i \cdot SCR_j}$ where SCR_i denotes the sub-module i and SCR_i denotes the sub-module j, and where 'i,j' means that the sum of the different terms shall cover all possible combinations of i and j. In the calculation, SCR_i and SCR_i are replaced by the following: - $SCR_{interest\ rate}$ denotes the interest rate risk sub-module, - SCR_{equity} denotes the equity risk sub-module, - $SCR_{property}$ denotes the property risk sub-module, - SCR_{spread} denotes the spread risk sub-module, - $SCR_{concentration}$ denotes the market risk concentrations sub-module, - $SCR_{currency}$ denotes the currency risk sub-module, - $SCR_{illiquidity\ premium}$ denotes the illiquidity premium risk sub-module. 3. The factor $Corr_{i,j}$ in paragraph 2 denotes the item set out in row i and in column j of the following correlation matrix:

j i	Interest rate	Equity	Property	Spread	Concentration	Currency	Illiquidity premium
Interest rate	1	A	A	A	0	~~0.25~~ **0**	0
Equity	A	1	~~0.75~~ **0.25**	~~0.75~~ **0.5**	0	~~0.25~~ **0**	0
Property	A	~~0.75~~ **0.25**	1	0.5	0	~~0.25~~ **0**	0
Spread	A	~~0.75~~ **0.5**	0.5	1	0	~~0.25~~ **0**	-0.5
Concentration	0	0	0	0	1	0	0
Currency	~~0.25~~ **0**	~~0.25~~ **0**	~~0.25~~ **0**	~~0.25~~ **0**	0	1	0
Illiquidity premium	0	0	0	-0.5	0	0	1

The factor A shall be equal to **-0.3** ~~0~~ when the capital requirement for interest rate risk referred to in point (a) of Article 105(5) is the capital requirement referred to in point (a) of Article IRR1. Otherwise, the factor A shall be equal to **0.3** ~~0.5~~.

CEA	144	MR3 IM	**<u>Look-through approach</u>** The complete look-through approach is too burdensome and is not practicable for funds which are not sufficiently transparent. First, as it is mentioned in SCR.5.11 of QIS5, the scope of the look-through approach should depend on the materiality of the market risk to capture. Secondly, alternative simplified methods should be proposed as mentioned in SCR.5.13 & SCR.5.13 of QIS5: *SCR.5.13. Where a collective investment scheme is not sufficiently transparent to allow a reasonable allocation of the investments, reference should be made to the investment mandate of the scheme. It should be assumed that the scheme invests in accordance with its mandate in such a manner as to produce the maximum overall capital requirement. For example, it should be assumed that the scheme invests assets in each rating category, starting at the lowest category permitted by the mandate, to the maximum extent. If a scheme may invest in a range of assets exposed to the risks assessed under this module, then it should be assumed that the proportion of assets in each exposure category is such that the overall capital requirement is maximised.*	**[No re-drafting proposals at this stage]**

			SCR.5.14. As a third choice to the look-through and mandate-based methods, undertakings should consider the collective investment scheme as an equity investment and apply the global equity risk stress (if the assets within the collective investment scheme are only listed in the EEA or OECD) or other equity stress (otherwise).	
CEA	145	IRR1 IM27	**Interest rate risk – invariance of curve** **[Please see our key priority issues paper]** The capital requirement for interest rate risk is inappropriate for the extrapolated part of the curve The relative invariance of the long-term rate is not taken into account via reduced stresses in the SCR. However, shocks should be based on the volatility of the extrapolated curve. Therefore, we request that the current text in the Implementing Measure should be applied only up to the last liquid point in the curve and that this should be reflected in the draft Implementing Measures. Furthermore, we note that the assumption of a fixed charge beyond 30 years in fact results in an inconsistency with the MVM for non-hedgeable risk, as the risk is double counted. Ceiops highlighted in the draft QIS5 specifications that it would be reviewing the stresses to allow for the invariance of the UFR – however we saw no	**[No re-drafting proposals at this stage]**

			change in the final QIS5 specifications. Level 2 measures should not be drafted in such as way as to mean that more work on this issue cannot be taken into account. **Interest rate risk – inconsistent shocks** Furthermore, the below graph shows that the current non-monotonic sequence of shocks is not appropriate. The change of monotony from 16 to 22 years leads to a stress-up forward rate which is actually lower than the unstressed forward rate at the maturity of the 19th year.  	
CEA	146	IRR3 IM27	Only participations in financial and credit institutions that are not included in the scope of group supervision should be deducted from the own funds of the participating undertakings.	1. [...] 2. Notwithstanding paragraph 1, the impact of the increase in the term structure of interest rates on participations as defined in Article 92(2) of Directive 2009/138/EC in financial and credit institutions **not included in the scope of group supervision** shall be considered only to the extent

				such impact increases the basic own funds.
CEA	147	IRR3 IM27	***Para 1*** - We have seen no economic justification for this minimum stress rule and request that it is deleted. ***Para 3*** - Only participations in financial and credit institutions that are not included in the scope of group supervision should be deducted from the own funds of the participating undertakings.	1. [...] For maturities not specified above, the value of the decrease shall be linearly interpolated from the decreases specified in (a) to (r). For maturities shorter than 1 year, the decrease shall be of 75 %. ~~Notwithstanding the points (a) to (r), the decrease of interest rates at any maturity shall not be lower than one percentage point.~~ In case interest rates after the decrease are negative, it shall be assumed that these interest rates are nil. [...] 3. Notwithstanding paragraph 1, the impact on participations as defined in Article 92(2) of Directive 2009/138/EC in financial and credit institutions **not included in the scope of group supervision** of the decrease in the term structure of interest rates shall be considered only to the extent such impact increases the basic own funds.
CEA	148	SCRSC3 IM36	**Simplifications for captives** The same risks should need the same requirements. We do not agree that there should be specific measures applicable for captives.	1. Subject to the ~~captive~~ insurance or reinsurance undertaking complying with Article SCRS1 and SCRSC1 , the capital requirement for interest rate risk referred to in point (a) of Article 105(5) of Directive 2009/138/EC calculated with the simplified calculation [...] 2. Subject to the ~~captive~~ insurance or reinsurance undertaking complying with Article SCRS1 and SCRSC1, the capital requirement calculated with the simplified calculation [....] 3. Subject to the ~~captive~~ insurance or reinsurance undertaking complying with Article SCRS1 and SCRSC1 , the capital

				requirement calculated with the simplified calculation [....]
CEA	149	ER1 IM16/27	**Scope of type 1 equities** ***Para 2*** - Currently the definition of type 1 equities appears too narrow. This classification could also be appropriate for equities listed on several other markets. We note that the list of OECD countries pseudo-static and can take up to several years to update. The last time the OECD list was updated was back in 2001. Therefore, considering all exceptions to EEA or OECD equities as type 2 is not appropriate. For instance, Hong Kong and Singapore, two well established and developed economies are not members of the OECD and would be considered as type 2 equities and attract a higher charge. ***Para 3*** – For the treatment of Intangible assets, please see our comments to IM23/ Para 182 of the consolidated IM. We request that for those few intangibles that are valued under the current IM proposals, these are treated as type 2 equities. Additionally, we note that the use of the term "other alternative investments" is unclear. What instruments are referred to here?	1. The equity risk sub-module laid down in Article MR2 shall include a risk module for type 1 equities and a risk module for type 2 equities. 2. Type 1 equities are equities listed in regulated markets in the countries which are members of the EEA or the OECD. 3. Type 2 equities comprise equities listed in stock exchanges in the countries which are not members of the EEA or the OECD, equities which are not listed, private equities, hedge funds, commodities**, intangible assets,** and other alternative investments. They shall also comprise all investments other than those covered in the interest rate risk sub-module, the property risk sub-module or the spread risk sub-module.
CEA	150	ER3	**"Strategic" participations**	**Standard equity risk sub-module**

		IM16/27	**[Please see our key priority issues paper]** ***Para 1(a) and 2(a)*** - We do not support the proposal to define "strategic" participations - all participations are strategic by their very nature. Please see our comments to IM27/ Para 152 of the consolidated IM. **Participations in financial and credit institutions** **[Please see our key priority issues paper]** ***Para 4*** – We do not support the proposals to deduct participations in financial and credit institutions. Please see our comments to IM17/ Para 71 of the consolidated IM.	1. The capital requirement for type 1 equities referred to in Article ER1 shall be equal to the loss in the basic own funds that would result from an instantaneous decrease of: (a) 22 % in the value of equity investments in related undertakings within the meaning of Article 212 of Directive 2009/138/EC, listed in regulated markets in the countries which are members of the EEA or the OECD~~,~~ ~~which are of a strategic~~ **~~nature~~** **provided that any required elimination of the double use of eligible Own Funds is carried out under group supervision;** (b) the sum of 39 % and SA in the value of type 1 equities other than those referred to in (a). 2. The capital requirement for type 2 equities referred to in Article ER1 shall be equal to the loss in the basic own funds that would result from an instantaneous decrease of: (a) 22 % in the value of equity investments in related undertakings within the meaning of Article 212 of Directive 2009/138/EC ~~which are of a strategic nature~~ **provided that any required elimination of the double use of eligible Own Funds is carried out under group supervision,** and other than those included in point (a) of paragraph 1; (b) the sum of 49 % and SA in the value of type 2 equities, other than those referred to in (a). 3. The factor SA referred to in (b) of paragraph 1 and in (b) of paragraph 2 shall be calculated according to Article SA.

				~~4. Notwithstanding paragraphs 1 and 2, there shall be no instantaneous decrease in the value of participations as defined in Article 92(2) of Directive 2009/138/EC in financial and credit institutions for the purpose of calculating the capital requirements for type 1 and type 2 equities.~~
CEA	151	ER2 IM27	**<u>Duration-based equity risk</u>** ***<u>Para 2</u>*** - It is important to ensure that the proposed duration-based equity stress is consistent with the standard stress. For this reason, we believe that it would be appropriate to have differential levels of the duration-based equity stress, based on the types of equity invested in, in line with the proposals for the standard stress. Our proposed re-drafting is based on the assumption that the spread between the duration-based and standard shock is the same for each equity type. **<u>Participations in financial and credit institutions</u>** **[Please see our key priority issues paper]** ***<u>Para 4</u>*** – We do not support the proposals to deduct participations in financial and credit institutions. Please see our comments to IM17/ Para 71 of the consolidated IM.	[...] 2. Notwithstanding Article ER3, where the insurance or reinsurance undertaking has received supervisory approval to apply the provisions set out in Article 304 of Directive 2009/138/EC, the capital requirement for type 2 equities referred to in Article ER1 shall be equal to the loss in the basic own funds that would result from an instantaneous decrease of: (a) 32 ~~22~~ % in the value of the type 2 equities corresponding to the business referred to in point (i) of paragraph 1 of Article 304 of Directive 2009/138/EC; [...] ~~4. Notwithstanding paragraphs 1 and 2, there shall be no instantaneous decrease in the value of participations as defined in Article 92(2) of Directive 2009/138/EC in financial and credit institutions for the purpose of calculating the capital requirements for type 1 and type 2 equities.~~

CEA	152	ER4 IM27	**“Strategic” participations** **[Please see our key priority issues paper]** We do not support the proposal to define “strategic” participations - all participations are strategic by their very nature. • In our view, the proposal in the IMs is inconsistent with the Level 1 text. • An investment by an insurance or reinsurance undertaking in more than 20% of the equity of a company is a substantial commitment and not one that is made with the intention of selling the stake. Such investments are intrinsically of a long term nature. • We note also that the requirements in Level 1 for the definition of a participation (>20% holding) are higher than in common corporate laws (usually >10%), which reinforces the strategic nature by default for all participations defined under Solvency II. • Given that participations which are subject to group supervision are treated properly at group level, only a simple approach needs to be adopted at solo level. The detail required to prove that a participation is strategic seems excessive and disproportionate given	~~*Article 152 ER4*~~ ~~(Art. 105(5)(b) of Directive 2009/138/EC)~~ ~~**Strategic participations**~~ ~~For the purposes of paragraphs 1(b) and 2(b) of Article ER2 and paragraphs 1 (a) and 2(a) of Article ER3, equity investments of a strategic nature shall mean equity investments where the insurance or reinsurance undertaking demonstrates:~~ ~~(a) that the value of such equities is likely to be materially less volatile for the following 12 months than the value of other equities over the same period as a result of both the nature of such investments and the influence exercised by the participating undertaking in the related undertaking; and~~ ~~(b) that the nature of the investment is strategic, taking into account all relevant factors, including:~~ ~~i. the existence of a clear decisive policy to continue holding the participation for long term period;~~ ~~ii. the consistency of such strategy with the main policies guiding or limiting the actions of the undertaking;~~ ~~iii. the insurance or reinsurance undertaking’s ability to continue holding the participation in the related undertaking;~~ ~~iv. the existence of a durable link; and~~ ~~v. where the insurance or reinsurance participating~~

			the end use - a single shock for all participations is simple to apply and can be applied consistently across undertakings and Member States. • Applying a 22% shock to participations should be seen as parallel to the fact that a 22% shock has been considered appropriate for the duration based equity shock, which is a shock applied to equities held for a long time. ***Para (a)*** – We should note additionally, that the wording under this paragraph seems strange. The reduced shock is due to the fact that the horizon of time for calibration of the VaR is greater than one year, in no way it is due to the fact that the participation is less volatile. This is the same concept as the duration-based equity risk shock.	~~company is part of a group, the consistency of such strategy with the main policies guiding or limiting the actions of the group.~~
CEA	153	SA IM27	In order the undertakings can calculate the symmetric adjustment at more regular intervals, it is important for insurers to know how the adjustment is calculated.	[...] 6. EIOPA shall calculate and publish at least monthly the symmetric adjustment **and the data used in the calculation**.
CEA	154	PR1 IM27	**Property risk** ***Para 1*** - The proposed stress of 25% may need to be refined as it may be too high for some segments of the market and so a country specific stress may be more appropriate dependent on the location of the property.	1. The capital requirement for property risk referred to in point (c) of Article 105(5) shall be equal to the loss in the basic own funds that would result from an instantaneous decrease of 25 % in the value of investments in real estate. 2. Investments referred to in paragraph 1 shall not include investments in companies engaged in real estate project

<table>
<tr><td></td><td></td><td></td><td></td><td>development or similar activities.</td></tr>
<tr><td>CEA</td><td>156</td><td>SR2

IM34</td><td><u>Para 3</u> - It should be clarified what duration is meant in this case (e.g. Macaulay duration/ modified duration), we assume that this should refer to modified duration as per Para 2.

Furthermore, we request clarification around the use of the unconventional credit quality assessment scale (0-6). We would propose to keep the typical rating categories, or at least map back to these i.e. AAA = prime; AA = high grade; A = upper medium grade; BBB = lower medium grade; BB = speculative; B = highly speculative...</td><td>1. The capital requirement for spread risk on bonds shall be equal to the loss in the basic own funds that would result from an instantaneous decrease of $duration_i.FUP_i$ in the value of each bond i.

2. $duration_i$ shall be the modified duration of the bond denominated in years. It shall never be lower than 1 or higher than a maximum duration specified in paragraph 3. For variable interest rate bonds, $duration_i$ shall be equivalent to the modified duration of a fixed interest rate bond of the same maturity and with coupon payments equal to the forward interest rate.

3. Bonds for which a credit assessment by a nominated ECAI is available shall be assigned a risk factor FUP_i for the increase in spreads of bonds and a maximum <u>modified</u> duration according to the following table in accordance with the assignment by EIOPA of the credit assessments of eligible ECAIs to seven steps in a credit quality assessment scale.

<table>
<tr><td>Credit quality step</td><td>0</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td></tr>
<tr><td>Risk factor FUP_i</td><td>0.9 %</td><td>1.1 %</td><td>1.4 %</td><td>2.5 %</td><td>4.5 %</td><td>7.5 %</td><td>7.5 %</td></tr>
<tr><td>Maximum duration (in years)</td><td>36</td><td>29</td><td>23</td><td>13</td><td>10</td><td>8</td><td>8</td></tr>
</table>
</td></tr>
</table>

CEA	159	SR3 IM34	**Spread risk - Structured finance instruments** A requirement to calculate the capital requirement in two different ways (based on the rating of the instrument / based on a look-through approach), and then take the higher of the two, is excessively burdensome. The calculation should be based on the rating of the instrument only, unless there is no rating available. Furthermore, we note also that, comparing the current proposals for structured bonds and vanilla corporate bonds gives some strange results. Sometimes for the same risk factors, the capital requirements for one are above the other and vice versa.	The capital requirement for spread risk on structured finance instruments shall be equal to ~~the higher of the following capital requirements~~: (a) The capital requirement for the risk of an increase in spreads of structured finance instruments as set out in Article SR4; (b) The capital requirement for the risk of an increase in spreads of the assets underlying the structured finance instruments as set out in Article SR5 **if the credit assessment for the structured finance instrument by a nominated ECAI is not available.** ~~Irrespective of paragraph 1, where the largest of the capital requirements referred to in points (a) and (b) of paragraph 1 and the largest of the corresponding capital requirements calculated in accordance with Article ALAC2(2) are not based on the same scenario, the capital requirement for spread risk on structured finance instruments shall be the capital requirement referred to in points (a) and (b) of paragraph 1 for which the underlying scenario results in the largest corresponding capital requirements calculated in accordance with Article ALAC2(2).~~
CEA	163	SR7	**Spread risk - Covered bonds** **[Please see our key priority issues paper]** ***Para 1*** - The preferential treatment for covered bonds (as defined in Article 22(4) of Directive 85/611/EEC), relative to corporate bonds, is welcomed. However, the treatment is still too onerous and is not in line with the secure nature of	1. Notwithstanding Article SR2, exposures in the form of covered bonds as defined in Article 22(4) of Directive 85/611/EEC shall be assigned a risk factor *FUPi* for the increase in spreads of bonds of 0.6 % and a maximum duration of 53 years provided the corresponding exposures in the form of covered bonds have been assigned to the credit quality step 0 in accordance with Subsection UECAI and with the assignment by EIOPA of the credit assessments of eligible

these investments.

Additionally, the privileged treatment of covered bonds should not only be applicable to covered bonds with a AAA rating.

Spread risk - OECD/EEA central bank /government borrowings

Para 4 - Ceiops final advice on spread risk proposed that OECD as well as EEA central bank and government borrowings should have a zero stress. We request that this is specified in Level 2.

Additionally, a potential issue remains: for subsidiaries in non-EEA countries, which invest in local governments bonds, sometimes because the local regulation forces them to do so, the cost of capital for these bonds is high. It questions the possibility for local subsidiaries to invest the money of their policyholders in their own government debt. We would suggest excluding from spread risk the exposure of government bonds issued by the state of the subsidiary.

Exposures backed by governments or local authorities

Para 6 – Exposures which are backed by or guaranteed by governments or local authorities should be given the same treatment as exposures issued by these bodies, as the risk of the instruments is comparable.

ECAIs to seven steps in a credit quality assessment scale.

[...]

4. Notwithstanding paragraph 2 and Article SR2, exposures to ~~Member~~ **OECD or EEA** States' central government and central banks denominated and funded in the domestic currency of that central government and central bank shall be assigned a risk factor *FUPi* for the increase in spreads of bonds of 0 %.%. **The same treatment applies to third countries central governments and central banks for undertaking's subsidiaries located in this third country.**

5. Notwithstanding paragraph 2 and Article SR2, exposures to central governments and central banks other than those referred to in paragraph 4, denominated and funded in the domestic currency of that central government and central bank, and for which a credit assessment by a nominated ECAI is available shall be assigned a risk factor *FUPi* for the increase in spreads of bonds and a maximum duration according to the following table in accordance with the assignment by EIOPA of the credit assessments of eligible ECAIs to seven steps in a credit quality assessment scale.

Credit quality step	0	1	2	3	4	5	6
Risk factor FUP_i	0 %	0 %	1.1 %	1.4 %	2.5 %	4.5 %	4.5 %
Maximum duration (in years)	n.a.	n.a.	29	23	13	10	10

			Participations in financial and credit institutions **[Please see our key priority issues paper]** ***Para 9*** – We do not support the proposals to deduct participations in financial and credit institutions. Please see our comments to IM17/ Para 71 of the consolidated IM.	6. Exposures to **, or backed by,** regional governments and local authorities of the Community as published by EIOPA shall be treated as exposures to the central government in whose jurisdiction the Exposures to regional governments and local authorities of the Community as published by EIOPA shall be treated as exposures to the central government in whose jurisdiction they are established where there is no difference in risk between such exposures because of the specific revenue-raising powers of the former, and the existence of specific institutional arrangements the effect of which is to reduce the risk of default. **Exposures to regional governments and local authorities which are not treated as exposures to central governments shall be assigned a rating according to the credit quality step to which exposures to the central government of the jurisdiction in which the institution is incorporated are assigned in accordance with the table in paragraph 5.** 7. Notwithstanding paragraph 2 and Article SR2, exposures to multilateral development banks shall be assigned a risk factor *FUPi* for the increase in spreads of bonds of 0 %. 8. Notwithstanding paragraph 2 and Article SR2, exposures to international organisations listed in Annex VI Part I of Directive 2006/48/EC shall be assigned a risk factor *FUPi* for the increase in spreads of bonds of 0 %. ~~9. Notwithstanding Article SR2, participations as defined in Article 92(2) of Directive 2009/138/EC in financial and credit institutions shall be assigned a risk factor *FUPi* for the increase in spreads of bonds of 0 %.~~

CEA	165	CO1 IM34	**Concentration risk – ratings to use** ***Para 3*** - Sometimes only the head of the group is rated. The subsidiary will benefit from the group solvency and so our proposal would seem to be a logical addition.	1. The net exposure at default to a counterparty is the sum of the exposures at default to this counterparty considered as a single name exposure. 2. The weighted average credit quality step on a single name exposure shall be equal to the natural number closest to the average of the credit quality steps of the individual exposures to the counterparty, weighted by the net exposure at default in respect of that exposure to that counterparty. 3. For the purpose of paragraph 3, individual exposures for which a credit assessment by a nominated ECAI is available shall be assigned a credit quality step in accordance with the assignment by EIOPA of the credit assessments of eligible ECAIs to seven steps in a credit quality assessment scale. ~~and~~ Exposures for which ~~exposures for which~~ a credit assessment by a nominated ECAI is not available shall be assigned a credit quality step of 5**, unless the un-rated exposure is the subsidiary of a rated parent undertaking, in which case the rating of the ultimate parent undertaking should be used.**
CEA	166	CO2 IM34	**Concentration risk - formula** ***Para 2*** – We request that a specific formula for the determination of $Conc_i$ is included in this paragraph.	1. [...] 2. The capital requirement for market risk concentration on a single name exposure i Conci shall be equal to the loss in the basic own funds that would result from an instantaneous decrease of XSi.gi in the value of the assets corresponding to the single name exposure i, except the assets referred to in point (d) of paragraph 2 of Article CO3, where: (a) XS_i is the excess exposure referred to in

<table>
<tr><td></td><td></td><td></td><td></td><td>Article CO3;

(b) g_i is the risk factor for market risk concentration referred to in Articles CO5 and CO6.

<u>$Conc_i = Assets * XS_i * g_i$</u></td></tr>
<tr><td>CEA</td><td>167</td><td>CO3

IM34</td><td>Only participations in financial and credit institutions that are not included in the scope of group supervision should be deducted from the own funds of the participating undertakings.</td><td>1. [...]

2. [...]

(a) [...]

(b) [...]

(c) participations as defined in Article 92(2) of Directive 2009/138/EC in financial and credit institutions <u>when these participations are included in the scope of group supervision</u>;

(d) [...]

3. [...]</td></tr>
<tr><td>CEA</td><td>168</td><td>CO4

IM34</td><td><u>Concentration risk – thresholds</u>

Changes from QIS5 - It is not clear why these parameters have changed compared to those used in QIS5. In QIS5, credit quality steps 1, 2 and 3 were all assigned a 3% threshold, but now only steps 0 and 1 have this threshold. Comparing against the proposed risk factors in the next article, it seems that at least the threshold for rating 2 is incorrect?</td><td>1. Single name exposures shall be assigned a threshold to derive the excess exposure according to the following table in accordance with their weighted average credit quality steps.

<table><tr><td>Weighted average credit quality step</td><td>0</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td><td>6</td></tr><tr><td>Threshold to derive the excess</td><td>~~3~~</td><td>~~3~~</td><td>~~1.5~~</td><td>~~1.5~~</td><td>~~1.5~~</td><td>~~1.5~~</td><td>~~1.5~~</td></tr></table></td></tr>
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<td></td>
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<td>This again highlights the need to have a clear mapping of the unconventional credit quality scale used in this Level 2 drafting compared to the assessments currently used in the market (e.g. AAA, AA etc) - as mentioned in our comments to Article 156.

Changes from QIS4 - It is not clear why these parameters have changed compared to those used in QIS4. We have seen no calibration analysis to support this change. We request that the QIS4 figures are retained.</td>
<td>
<table>
<tr><td>exposure CTi</td><td>~~%~~ 5 %</td><td>~~%~~ 5 %</td><td>~~%~~ 5%</td><td>~~%~~ 3%</td><td>~~%~~ 3%</td><td>~~%~~ 3%</td><td>~~%~~ 3%</td></tr>
</table>
</td>
</tr>
<tr>
<td>CEA</td>
<td>169</td>
<td>CO5

IM34</td>
<td>Para 2 - In principle, we are in favour of measures which will reduce over-reliance on external rating and as such are in favour of the use of counterparties’ solvency II or equivalent 3rd countries solvency ratios when external ratings are not available. The approach using the counterparty’s solvency ratio presents some practical difficulties. For instance, it may be the case that information on the counterparty’s solvency ratio is not available when it is needed and that the last available solvency ratio may have to be used as a proxy. Therefore, it needs to be made clearer that the approach using the counterparty’s solvency ratio is an alternative to be used when ratings are not available and that the default approach is the one using credit ratings when these are available.

Furthermore, it crucial that the default probabilities</td>
<td>
1. Single name exposures shall be assigned a risk factor gi for market risk concentration according to the following table in accordance with their weighted average credit quality steps.
<table>
<tr><td>average step</td><td>0</td><td>1</td><td>2</td><td>3</td><td>4</td><td>5</td></tr>
<tr><td></td><td>12 %</td><td>12 %</td><td>21 %</td><td>27 %</td><td>73 %</td><td>73 %</td></tr>
</table>
2. Notwithstanding paragraph 1, unrated single name exposures which are insurance or reinsurance undertakings shall be assigned a risk factor g_i for market risk concentration according to the following:

(a) Where the eligible amount of own funds to cover the Solvency Capital Requirement is less than or equal to 75 % of the Solvency Capital Requirement, the risk factor g_i for market risk concentration shall be 73 %;
</td>
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</table>

			assigned to counterparties solvency ratio are consistent with the ones assigned to rating classes. This is a key issue that needs to be addressed if EU undertakings are not to be put at competitive disadvantage compared to 3rd country and other financial sectors' counterparties for which it is most likely that external ratings will be used.	(a) Where the eligible amount of own funds to cover the Solvency Capital Requirement equals the Solvency Capital Requirement, the risk factor g_i for market risk concentration shall be 50 %; (b) Where the eligible amount of own funds to cover the Solvency Capital Requirement equals 125 % of the Solvency Capital Requirement, the risk factor g_i for market risk concentration shall be 27 %; (c) Where the eligible amount of own funds to cover the Solvency Capital Requirement equals 150 % of the Solvency Capital Requirement, the risk factor g_i for market risk concentration shall be 21 %; (d) Where the eligible amount of own funds to cover the Solvency Capital Requirement is above 175 % of the Solvency Capital Requirement, the risk factor g_i for market risk concentration shall be 12 %. For values of the eligible amount of own funds to cover the Solvency Capital Requirement not specified above, the value of the risk factor *gi* for market risk concentration shall be linearly interpolated from the values specified in (a) to (d). [...]
CEA	170	CO6 IM34	**<u>Concentration risk - OECD/EEA central bank /government borrowings</u>** Ceiops final advice on concentration risk proposed that OECD as well as EEA central bank and	1. Notwithstanding Article CO4, exposures in the form of covered bonds as defined in Article 22(4) of Directive 85/611/EEC shall be assigned a threshold to derive the excess exposure of 15 %, provided the corresponding exposures in the form of covered bonds have been assigned to the credit

			government borrowings should have a zero stress. Government borrowings by countries such as the USA, Canada, Japan etc. should not be considered as corporate bonds. Additionally, a potential issue remains: for subsidiaries in non-EEA countries, which invest in local governments bonds, sometimes because the local regulation forces them to do so, the cost of capital for these bonds is high. It questions the possibility for local subsidiaries to invest the money of their policyholders in their own government debt. We would suggest excluding from spread risk the exposure of government bonds issued by the state of the subsidiary. **Concentration risk – bank deposits** ***Para 7*** - This text suggests that bank deposits would be subject to a concentration risk charge unless the deposits are guaranteed by the government. Government guarantees to bank deposits is capped at a very low amount. As a result of this insurers would be required to hold capital against very liquid assets – this is nonsensical. Furthermore, bank deposits are already charged for counterparty default risk.		quality step 0 or 1 in accordance with Subsection UECAI and with the assignment by EIOPA of the credit assessments of eligible ECAIs to seven steps in a credit quality assessment scale. Notwithstanding Article CO1(1) and (2), such exposures in the form of covered bonds shall be considered as single name exposures without taking into account other exposures at default to the same counterparties. Similarly, other exposures at default to the same counterparties as the counterparties of these exposures in the form of covered bonds shall be considered as separate single name counterparties. 2. Notwithstanding Article CO4 and CO5, exposures to a single property shall be assigned a threshold to derive the excess exposure of 10 % and a risk factor g_i for market risk concentration of 12 %. 3. Notwithstanding Article CO5, exposure to the European Central Bank shall be assigned a risk factor gi for market risk concentration of 0 %. 4. Notwithstanding Article CO5, exposures to ~~Member~~ **OECD or EEA** States' central government and central banks denominated and funded in the domestic currency of that central government and central bank shall be assigned a risk factor g_i for market risk concentration of 0 %. **The same treatment applies to third countries central governments and central banks for undertaking's subsidiaries located in this third country.** 5. Notwithstanding Article CO5, exposures to central governments and central banks other than those referred to in paragraph 4, denominated and funded in the domestic

currency of that central government and central bank, shall be assigned a risk factor g_i for market risk concentration according to the following table in accordance with their weighted average credit quality steps.

Weighted average credit quality step	0	1	2	3	4	5	6
Risk factor g_i	0 %	0 %	12 %	21 %	27 %	73 %	73 %

6. Exposures to regional governments and local authorities of the Community as published by EIOPA shall be treated as exposures to the central government in whose jurisdiction they are established where there is no difference in risk between such exposures because of the specific revenue-raising powers of the former, and the existence of specific institutional arrangements the effect of which is to reduce the risk of default.

~~7.~~ Notwithstanding Article CO5, exposures in the form of bank deposits shall be assigned a risk factor gi for market risk concentration of 0 ~~%, provided they meet the following requirements:~~

~~(a) the full value of the exposure is covered by a government guarantee scheme in the~~

				~~Community;~~ ~~(b) the guarantee is applicable to the insurance or reinsurance undertaking without any restriction;~~ (c) ~~there is no double counting of such guarantee with any other element of the SCR calculation~~. 8. Notwithstanding Article CO5, exposures to multilateral development banks shall be assigned a risk factor gi for market risk concentration of 0 %. 9. Notwithstanding Article CO5, exposures to international organisations listed in Annex VI Part I of Directive 2006/48/EC shall be assigned a risk factor gi for market risk concentration of 0 %. 10. Notwithstanding Article CO5, exposures referred to in paragraphs (a), (b), (c) and (d) of Article CO3 shall be assigned a risk factor gi for market risk concentration of 0 %.
CEA	172	CR1 IM27	**Pegged currencies** ***Para 5*** - The criteria for allowing a special treatment of currencies pegged to the Euro are not clear. **Participations** ***Para 7*** - Only participations in financial and credit institutions that are not included in the scope of	[...] 5. For currencies which are pegged to the euro, the factor referred to in paragraphs 3 and 4 shall be replaced by appropriate factors as determined by EIOPA taking into account the following criteria: (a) whether the currency participates in the European Exchange Rate Mechanism (ERM II) or a decision from the Council recognizes pegging arrangements

			group supervision should be deducted from the own funds of the participating undertakings.	between this currency and the euro; or (b) whether the pegging arrangement is established by the law of its country. [...] 7. Notwithstanding paragraphs 4 and 5, the impact of the decrease in the value of the foreign currency against the local currency on participations as defined in Article 92(2) of Directive 2009/138/EC in financial and credit institutions **not included in the scope of group supervision** shall be considered only to the extent such impact increases the basic own funds.
CEA	174-181	IM42	***Para "Whole section"*** The requirements in the counterparty default risk are extremely complex. The requirement related to the separate quantification of the risk mitigating benefits for each risk mitigation instrument, is burdensome as companies are likely to use numerous such instruments. This is particularly burdensome to SMEs as the use of risk mitigation instruments is a key way in which they can achieve diversification effects (e.g. through the use of reinsurance) and remain competitive. The complexity of this risk module should be significantly reduced. Per counterparty calculations should not always be necessary.	**[We do not have re-drafting suggestions at this stage]**

			- Calculations have to be noticeably simplified, e.g. by a factor approach or other far reaching simplifications. Thus, this section has to be completely rewritten. - The bare minimum of improvement would be to maintain the simplifications provided in QIS5 (Option 2).	
CEA	174	IM42	***Para 2(b)*** - Cash at bank is assigned to the counterparty default risk, while "deposits with credit institutions" is assigned to the spread risk module. We recommend a clearer distinction between these two terms to prevent double counting. ***Para 2(c)*** - We question the use of a threshold for determining type 1 or type 2 exposures. By definition and structurally, calculations for type 1 exposures better fit with the risk profile and better catch the counterparty risk. Undertakings should be allowed to carry out those calculations even if the number of counterparties exceeds 15. ***Para 3(b)*** - • The exposure to policyholders should be net of any seizure (of technical provisions for instance) that would occur if the policyholder is bankrupt. • The treatment of mortgage loans is not clear.	1. The capital requirement for counterparty default risk shall be equal to the following: $SCR_{def} = \sqrt{SCR_{def,1}^2 + 1.5 \cdot SCR_{def,1} \cdot SCR_{def,2} + SCR_{def,2}^2}$, where SCR_{def} denotes the capital requirement for counterparty default risk, $SCR_{def,1}$ denotes the capital requirement for counterparty default risk on type 1 exposures as referred to in paragraph 2, $SCR_{def,2}$ denotes the capital requirement for counterparty default risk on type 2 exposures as referred to in paragraph 3. 2. Type 1 exposures are exposures in relation to: (a) Risk mitigation contracts including reinsurance arrangements, securitisations and derivatives; (b) Cash at bank; (c) Deposits with ceding undertakings, where the number of single name exposures exposures ~~does not exceed 15~~ **is reasonable to carry out the calculation without excessive burden;**

			It would be necessary for the value of the property backing the mortgage to be treated as collateral in the LGD formulas. However, this is not specified. Without this clarification, the proposal to treat mortgage loans in the counterparty default risk module rather than the spread risk module will be inappropriate. Furthermore, what is the treatment of mortgage loans where no policyholder is the debtor? Are they covered in the bond part of spread risk module? This could be double-counting. What would be the sense of differentiating? The essential aspect to be considered is the real estate collateral, while it is less important who is the debtor. ***Para 3(d)*** **-** We question the use of a threshold for determining type 1 or type 2 exposures. By definition and structurally, calculations for type 1 exposures better fit with the risk profile and better catch the counterparty risk. Undertakings should be allowed to carry out those calculations even if the number of counterparties exceeds 15. ***Para 6(b)*** **-** We request clarification. What SPVs have to be included? Does this refer to (re)insurance business transferred to SPVs or also to investments where the issuer is a SPV (e.g. ABS/MBS)?	(d) Commitments received by the insurance or reinsurance undertaking which have been called up but are unpaid, where the number of single name exposures does not exceed 15, including called up but unpaid ordinary share capital and preference shares, called up but unpaid legally binding commitment to subscribe and pay for subordinated liabilities, called up but unpaid initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings, called up but unpaid guarantees, called up but unpaid letters of credit, called up but unpaid claims which mutual or mutual-type associations may have against their members by way of a call for supplementary contributions; and (e) Legally binding commitments which the undertaking has provided or arranged and which may create payment obligations depending on the credit standing or default of a counterparty including guarantees, letters of credit, letters of comfort which the undertaking has provided. (f) **Deposits which resemble "cash at bank" because of their very short term nature (less than 3 months) should be considered in the scope**. 3. Type 2 exposures are all credit exposures which are not covered in the spread risk sub-module and which are not type 1 exposures, including: (a) Receivables from intermediaries **net of items that would be legally or contractually ceased in case of**

				bankruptcy; (b) Policy holder debtors and mortgage loans **net of items that would be legally or contractually ceased in case of bankruptcy**; (c) Deposits with ceding undertakings, where ~~the number~~ **there are too many** of single name exposures ~~exceeds 15~~ **to carry out the calculation without excessive burden**; and (d) Commitments received by the insurance or reinsurance undertaking which have been called up but are unpaid, where ~~the number~~ **there are too many** of single name exposures ~~exceeds 15~~ **to carry out the calculation without excessive burden**, including called up but unpaid ordinary share capital and preference shares, called up but unpaid legally binding commitment to subscribe and pay for subordinated liabilities, called up but unpaid initial funds, members' contributions or the equivalent basic own-fund item for mutual and mutual-type undertakings, called up but unpaid guarantees, called up but unpaid letters of credit, called up but unpaid claims which mutual or mutual-type associations may have against their members by way of a call for supplementary contributions. 4. Insurance and reinsurance undertakings may, at their discretion, consider all exposures referred to in points (c) and (d) of paragraph 3 as type 1 exposures, regardless of the number of single name exposures. 5. If a letter of credit, a guarantee or an equivalent risk

				mitigation technique is provided to fully secure an exposure and this risk mitigation technique meets the requirements of Articles SCRRM1 to SCRRM7, then the provider of that letter of credit, guarantee or equivalent risk mitigation technique may be considered as the counterparty on the secured exposure for the purpose of assessing the number of single name exposures. 6. The following credit risks shall not be covered in the counterparty default risk module: (a) the credit risk transferred by a credit derivative; (b) the credit risk on debt issuance of a special purpose vehicle as defined in Article 13(26) of Directive 2009/138/EC; (c) the underwriting risk of credit and suretyship insurance as referred to in Classes 14 and 15 of Annex I of Directive 2009/138/EC. 7. Investment guarantees on insurance contracts provided to policy holders by a third party shall be treated as derivatives in the counterparty default risk module. 8. For the calculation of the capital requirement for counterparty default risk, exposures which belong to the same group, as defined in Article 212 of Directive 2009/138/EC or to the same financial conglomerate as defined in Article 2(14) of Directive 2002/87/EC shall be treated as a single name exposure.

CEA	175	CDR2 IM42	***Para 1 & 2*** - The time horizon within the standard formula is a 12 months thus the insurer is always able to negotiate a contract with another counterparty. So in our opinion the RM should be similar to the reinstatement premium or premium to be paid to buy a similar cover. As the formula is now, the LGD is overstated. ***Para 2*** - Typo ***Para 1 & 2*** - Determining RM is very complex as it requires high calculation efforts, while the basic assumption behind RM is wrong: For most OTC derivatives, where the counterparty might potentially default, a substitute counterparty can be found easily – the hedge is not lost (with the exception of unhedged market risk exposure for the time between default of the first counterparty and new arrangement with the second counterparty). Therefore, we recommend that adding RM to LGD should only be necessary for very special big hedging arrangements with single counterparties and should not be necessary in general. Furthermore, the 90% was not justified by Ceiops in their final level 2 advice – this is far too onerous. We do not support this proposal.	1. The loss-given-default on a single name exposure shall be equal to the sum of the loss-given-default of each of the individual exposures to the counterparty. The loss-given-default shall be net of the liabilities towards this single name exposure provided that those liabilities and individual exposures can be set off in case of default of the single name exposure and the requirements of Articles SCRRM1 and SCRRM2 are met in relation to that right of set-off. No netting shall be allowed for if the liabilities are expected to be met before the credit exposure is cleared. 2 The loss-given-default of a reinsurance arrangement or securitisation shall be equal to the following: $LGD = \max\left(50\% \cdot \left(\text{Recoverables} + RM_{re}\right) - Factor.Collatera$ where *Recoverables* denotes the best estimate of amounts recoverable from the reinsurance arrangement or securitisation and the corresponding debtors, *RMre* denotes the risk mitigating effect on underwriting risk of the reinsurance arrangement or securitisation, *Collateral* denotes the risk-adjusted value of collateral in relation to the reinsurance arrangement or securitisation and *Factor* denotes a factor to take into account the economic effect of the collateral in relation to the reinsurance arrangement or securitisation in case of any credit event related to the counterparty. Where the reinsurance arrangement is with a ~~reinsurance undertaking or~~ third country reinsurance undertaking and that counterparty has tied up an amount for collateralisation commitments greater than 60 % of its assets, the loss-given-default shall be equal to the following:

				$LGD = \max\left(90\% \cdot \left(\text{Recoverables} + RM_{re}\right) - Factor'.Collatera$ where *Factor'* denotes a factor to take into account the economic effect of the collateral in relation to the reinsurance arrangement or securitisation in case of any credit event related to the counterparty.
CEA	177	CDR4 IM42	***Para "Article 177"*** **-** This article leads to an overall complexity of the counterparty default risk. The shock suggested is moreover over calibrated (one year magnitude shock) for collaterals that may be adjusted on a weekly or monthly basis. To take into account both a week market shock and potentially bankruptcy of the depositary, we suggest an overall haircut of 10%	**Risk adjusted value of collateral and factor to take into account the economic effect of the collateral** ~~1.~~ The risk-adjusted value of a collateral provided by way of security, as referred to in Article SCRRM6 (2) (b), shall be equal **to 90% of** ~~the difference between~~ the value of the assets held as collateral, valued in accordance with Article 75 of Directive 2009/138/EC, ~~and the market risk of the assets held as collateral, as referred to in paragraph 5, provided the following requirements are met:~~ ~~(a) the insurance or reinsurance undertaking has (or is a beneficiary under a trust where the trustee has) the right to liquidate or retain , in a timely manner, the collateral in the event of the default, insolvency or bankruptcy or other credit event related to the counterparty ("the counterparty requirement"), and~~ ~~(b) the insurance or reinsurance undertaking has (or is a beneficiary under a trust where the trustee has) the right to liquidate or retain , in a timely manner, the collateral in the event of the default, insolvency or bankruptcy or other credit event related to a third party holding the collateral on behalf of the counterparty ("the third party requirement").~~

				~~2. Where the requirement (a) of paragraph 1 is met and the requirements in Articles SCRRM6 and SCRRM7 are met and only the requirement set out in point (b) of paragraph 1 is not met, the risk-adjusted value of a collateral provided by way of security, as referred to in Article SCRRM6 (2) (b), shall be equal to 90 % of the difference between the value of the assets held as collateral according to Article 75 of Directive 2009/138/EC and the market risk of the assets held as collateral, as referred to in paragraph 5.~~ ~~3. Where either the requirement (a) of paragraph 1 is not met or the requirements in Articles SCRRM6 and SCRRM7 are not met, the risk-adjusted value of a collateral provided by way of security, as referred to in Article SCRRM6 (2) (b), shall be zero.~~ ~~4. The risk-adjusted value of a collateral of which full ownership is transferred, as referred to in Article SCRRM7 (2) (a), shall be equal to the difference between the value of the assets held as collateral, valued in accordance with Article 75 of Directive 2009/138/EC, and the market risk of the assets held as collateral, as referred to in paragraph 5, provided the requirements in SCRRM6 are met.~~
CEA	178	CDR6 IM42	***Para 2*** - The wording has to be changed to cover all possible solvency ratios, not only those exactly equal to particular percentages. Moreover, the QIS5 steps of 80% and 90% should be maintained. ***Para 2 & 4*** - In principle, we are in favour of	2. Notwithstanding paragraph 1, single name exposures which are insurance or reinsurance undertakings, **for which a credit assessment by a nominated ECAI is not available,** shall be assigned a probability of default according to the following: (a) Where the eligible amount of own funds to cover the

			measures which will reduce over-reliance on external rating and as such are in favour of the use of counterparties' solvency II or equivalent 3rd countries solvency ratios when external ratings are not available. The approach using the counterparty's solvency ratio presents some practical difficulties. For instance, it may be the case that information on the counterparty's solvency ratio is not available when it is needed and that the last available solvency ratio may have to be used as a proxy. Therefore, it needs to be made clearer that the approach using the counterparty's solvency ratio is an alternative to be used when ratings are not available and that the default approach is the one using credit ratings when these are available. Furthermore, it crucial that the default probabilities assigned to counterparties solvency ratio are consistent with the ones assigned to rating classes. This is a key issue that needs to be addressed if EU undertakings are not to be put at competitive disadvantage compared to 3rd country and other financial sectors' counterparties for which it is most likely that external ratings will be used. ***Para 9*** - The time period of 3 months is overly conservative. It is not uncommon for receivables to be paid after 3 months - this would not automatically signal that the intermediary has any credit difficulty. We would suggest a period of 12	Solvency Capital Requirement is less than or equal to 80 % of the Solvency Capital Requirement, the probability of default shall be 4.175 %; (b) Where the eligible amount of own funds to cover the Solvency Capital Requirement ~~equals 85%~~ **is above 80 %** of the Solvency Capital Requirement, the probability of default shall be 2 %; (c) Where the eligible amount of own funds to cover the Solvency Capital Requirement ~~equals 95%~~ **is above 90 %** of the Solvency Capital Requirement, the probability of default shall be 1 %; (d) Where the eligible amount of own funds to cover the Solvency Capital Requirement ~~equals 100%~~ **is above 100 %** of the Solvency Capital Requirement, the probability of default shall be 0.5 %; (e) Where the eligible amount of own funds to cover the Solvency Capital Requirement ~~equals 125~~**% is above 125 %** of the Solvency Capital Requirement, the probability of default shall be 0.2 %; (f) Where the eligible amount of own funds to cover the Solvency Capital Requirement ~~equals 150%~~ **is above 150 %** of the Solvency Capital Requirement, the probability of default shall be 0.1 %; (g) Where the eligible amount of own funds to cover the Solvency Capital Requirement ~~equals 175~~**% is above 175 %** of the Solvency Capital Requirement, the probability of default shall be 0.05 %;

months would better discriminate between situations reflecting a specific credit risk, not already captured in the general risk factor, compared to simple administrative delays in paying.

(h) Where the eligible amount of own funds to cover the Solvency Capital Requirement is above 200 % of the Solvency Capital Requirement, the probability of default shall be 0.025 %.

For values of the eligible amount of own funds to cover the Solvency Capital Requirement not specified above, the value of the probability of default shall be linearly interpolated from the values specified in (a) to (h).

4. Single name exposures for which a credit assessment by a nominated ECAI is not available, which are third country insurance or reinsurance undertakings, situated in a country whose solvency regime is deemed to be equivalent to that laid down in Directive 2009/138/EC in accordance with Articles 172, 227 or 260 of Directive 2009/138/EC and which comply with the solvency requirements of those equivalent third-countries, shall be assigned a assigned a probability of default

Solvency ratio	>200 %	]175%,200%]	]150%,175%]	]125%,150%]
Probability of default PDi	0.025 %	0.050%	0.1%	0.2%

~~of 0.5%~~ **depending of their local solvency ratio:**

Solvency ratio	]100%,125 %]	]90%,100 %]	]80%,90 %]	≤80□

				Probability of defau□t PDi | 0.5□ | 1% | 2% | 1□%

9. Paragraphs 1 to 9 shall only apply to Type 1 exposures. The probability of default on receivables from intermediaries which are due for more than **12** ~~three~~ months shall be equal to 90 % and the probability of default on other type 2 exposures shall be equal to 15 %.

CEA	179	CDR7 IM42	***Para 2*** - No justification given for such assessment.	**Type 1 exposures** 1. Where the standard deviation of the loss distribution of type 1 exposures is lower than **or equal to** 5.46 % of the total losses given default on all type 1 exposures, the capital requirement for counterparty default risk on type 1 exposures shall be equal to the following: $SCR_{def,1} = 3 \cdot \sigma$ where σ denotes the standard deviation of the loss distribution of type 1 exposures. ~~2. Where the standard deviation of the loss distribution of type 1 exposures is higher than 5.46 % of the total losses given default on all type 1 exposures and lower than 20 % of the total losses given default on all type 1 exposures, the capital requirement for counterparty default risk on type 1 exposures shall be equal to the following:~~ ~~$SCR_{def,1} = 5 \cdot \sigma$~~

				where σ denotes the standard deviation of the loss distribution of type 1 exposures..
CEA	180	CDR8 IM42	***Para 1(a)*** **-** This formula assumes that the counterparties are not independent, which is in contradiction with recital 45. ***Para 1(b)*** **-** This formula assumes that the counterparties are not independent, which is in contradiction with recital 45.	**Variance of the loss distribution of type 1 exposures** 1. The variance of the loss distribution of type 1 exposures as referred to in paragraph 4 of Article CDR7 shall be equal to the sum of the following: (a) $V_{inter} = \sum_j \sum_k \frac{PD_k(1-PD_k)PD_j(1-PD_j)}{(1.25)(PD_k+PD_j)-PD_kPD_j} \cdot LGD_{PDj} \cdot L$ where V_{inter} denotes the variance of the loss distribution of type 1 exposures distributed by probabilities of default of the corresponding counterparties, LGD_{PDj} and LGD_{PDk} denotes the total losses given default on all type 1 exposures from counterparties bearing a probability of default *PDj* and *PDk* respectively and where the sum denotes all possible pairs (*j*,*k*) of probabilities of default of counterparties corresponding to type 1 exposures. (b) $V_{intra} = \sum_j \frac{1.5PD_j(1-PD_j)}{2.5-PD_j} \sum_i \left(LGD_{PDj,i}\right)^2$ where V_{intra} denotes the variance of the loss distribution of type 1 exposures from counterparties having the same probabilities of default, $LGD_{PDj,i}$ denotes the loss-given-default on the type 1

				exposures from the counterparty *i* bearing a probability of default *PDj* and where the sum on *i* denotes all independent counterparties and the sum on *j* denotes all possible probabilities of default of counterparties corresponding to type 1 exposures.
CEA	182	IA1 IM23	**<u>Intangible asset risk</u>** The 80 % risk charge on intangibles is too high. This is especially so considering the very strict requirements for the valuation of intangible assets set out in IM3 (which mean that very few intangibles will be valued and so are already effectively stressed at 100%) and also the fact that no diversification with other risks is assumed. The 80% charge does not appear to have been calibrated based on statistical analysis and there is no justification for the assumption that this shock is fully correlated to all other risks. We do understand that it is obviously very hard to calibrate this risk charge, however, all risk factors should be based on a transparent statistical analysis of the 99.5^{th} %. Logically**,** it would be very difficult to understand how the volatility of an intangible asset can be the double that of a non-listed/developing-country equity for example. In our view, a more pragmatic solution would be to stress intangible assets under the most prudent	The capital requirement for intangible asset risk shall be equal to the following: $SCR_{intangibles} = 80\,\% \cdot V_{intangibles}$ where $SCR_{intangibles}$ denotes the capital requirement for the intangible assets risk, and $V_{intangibles}$ denotes the amount of intangible assets as recognised and valued according to Articles V2 and V5 [of IM3].

			stress in the market risk module. This would remove the need for a separate risk module, as we see no reason for splitting-out intangible assets from other assets, and so it would reduce the complexity of the standard formula. This change would also set a more reasonable risk charge which has been calibrated based on market data. Therefore, we would propose that the definition of non-listed equity be extended to cover intangible assets (and therefore stressed at 49% +/- symmetric adj) and consequently this new risk module be removed.	
CEA	183	OR1 IM22	***Para "whole section"*** We believe that the increase in the parameters from QIS4 is not sufficiently justified with clear evidence and is based on assumptions which result in introducing too much prudency in the calibration of the operational risk module In particular, the CEA interpretation of Article 103 of the Directive is that the simplicity of the SCR formula makes no reference as to whether or not to include implicit average levels of diversification in the calibration. The spirit of the Directive is that diversification should be allowed in line with an economic approach. We understand that the increases in operational risk factors were based on an analysis of sample companies' internal model operational risk capital	**Operational risk module** 1. The capital requirement for the operational risk module shall be equal to the following: $SCR_{Operational} = \min(0.3 \cdot BSCR; Op) + 0.25 \cdot Exp_{ul}$ where $SCR_{Operational}$ denotes the capital requirement for operational risk, *BSCR* denotes the Basic Solvency Capital Requirement, *Op* denotes the basic capital requirement for operational risk charge and Exp_{ul} denotes the amount of expenses incurred during the previous 12 months in respect of life insurance contracts where the investment risk is borne by policy holders.

			requirements. This approach should not be the primary basis for increasing the operational risk charge, since the internal models analysed only reflect a limited number of insurers in a small number of countries and do not represent the full insurance market in Europe. Furthermore, this does not compare like with like as internal models acknowledge diversification in operational risk, so the factors used in a handful of internal models should not be relevant for the standard formula, where diversification is not taken into account. In conclusion, there are no sound theoretical evidence for increasing the capital charge proposed in QIS4 ***Para 2*** - The CEA believes that the calibration of the operational SCR is too conservative. ***Para 2 "first formula"*** - The formula taking the higher of the operational risk charge on premiums and the operational risk charge on technical provisions introduces a further (un-quantified) level of conservatism which may not be consistent with the 99.5th percentile over one year VaR criterion. ***Para 2 "second formula"*** - The factor applied to earned life premiums (excluding unit-linked premiums) is **+33%** higher compared to QIS4. In QIS4 the factor was 3%. The factor applied to earned non-life premiums is **+50%** higher compared to QIS4. In QIS4 the	2. The basic capital requirement for operational risk shall be determined as follows: $Op = \max\left(Op_{premiums}; Op_{provisions}\right)$ where $Op_{premiums}$ is the capital requirement for operational risks based on earned premiums and $Op_{provisions}$ is the capital requirement for operational risks based on technical provisions. The capital requirement for operational risks based on earned premiums shall be calculated as follows: $Op_{premiums} = 0.04 \cdot (Earn_{life} - Earn_{life\text{-}ul}) +$ $0.03 \cdot Earn_{non\text{-}life} +$ $\max (0; 0.04 \cdot (Earn_{life} - 1.2 \cdot pEarn_{life} - (Earn_{life\text{-}ul} - 1.2 \cdot pEarn_{life\text{-}ul}))) +$ $\max (0; 0.03 \cdot (Earn_{non\text{-}life} - 1.2 \cdot pEarn_{non\text{-}life}))$ where: – $Earn_{life}$ denote the premium earned during the previous 12 months for life insurance obligations, without

			factor was 3%. Furthermore, the CEA strongly disagrees with the additional operational risk capital charge applied to annual increases in earned premiums**.** We expect earned premiums to often exceed prior year earned premiums. There does not appear to be any sound justification for the factor applied to year-on-year changes in earned premiums (there is also no corresponding operational risk charge for the banking sector), which would introduce undue volatility in the operational risk SCR from one year to the next. If the operational risk charge does not adequately reflect the risk profile of an undertaking, this should be captured under Pillar 2. Furthermore, supervisors would be able to apply a capital add-on for operational risk. ***Para 2 "third formula"*** The factor applied to life technical provisions (excluding unit-linked business) is +50% higher compared to QIS4.In QIS 4, the factor was 0.3%. The factor applied to Non Life technical provisions is +50% higher compared to QIS 4. In QIS 4 the factor was 2%. ***Para "whole section"*** The operational risk capital requirement should be adjusted to recognise an undertaking's internal risk management framework	deducting premium ceded to reinsurance; – $Earn_{life\text{-}ul}$ denotes the premium earned during the previous 12 months for life insurance obligations where the investment risk is borne by the policy holders without deducting premium ceded to reinsurance; – $Earn_{non\text{-}life}$ denotes the premium earned during the previous 12 months for non-life insurance obligations, without deducting premiums ceded to reinsurance; – $pEarn_{life}$ denotes the premium earned during the 12 months prior to the previous 12 months for life insurance obligations, without deducting premium ceded to reinsurance; – $pEarn_{life\text{-}ul}$ denotes the premium earned during the 12 months prior to the previous 12 months for life insurance obligations where the investment risk is borne by the policy holders without deducting premium ceded to reinsurance; – $pEarn_{non\text{-}life}$ denotes the premium earned during the 12 months prior to the previous 12 months for non-life insurance obligations, without deducting premiums ceded to reinsurance. The capital requirement for operational risks based on technical provisions shall be calculated as follows: $Op_{provisions} = 0.0045 \cdot \max(0; TP_{life} - TP_{life\text{-}ul}) + 0.03 \cdot \max(0; TP_{non\text{-}life})$

			In order to encourage best practice in operational risk management and to improve consistency with the banking sector (BCBS June 2006, International Convergence of Capital Measurement and Capital Standards A Revised Framework, 665. (ii) Qualitative standards), we suggest that the EC consider an adjustment to the calculation of the standard formula operational risk capital requirement by allowing for an additional factor to be applied to the unadjusted operational risk SCR, which depends on the adequacy and quality of an undertaking's operational risk management procedures. An additional X% reduction of the operational risk charge shall be allowed to the (re)insurance undertaking that meets the following qualitative standards: (a) The undertaking must have an independent operational risk management function that is responsible for the design and implementation of the undertaking's operational risk management framework. (b) The undertaking's internal operational risk management system must be considered as an integral part of the risk management processes of the undertaking. (c) There must be regular reporting of operational risk exposures and loss experience to business unit	where – TP_{life} denotes the technical provisions for life insurance obligations. For the purpose of this calculation, technical provisions shall not include the risk margin and shall be without deduction of recoverables from reinsurance contracts and special purpose vehicles – $TP_{life\text{-}ul}$ denotes the technical provisions for life insurance obligations where the investment risk is borne by the policy holders. For the purpose of this calculation, technical provisions shall not include the risk margin and shall be without deduction of recoverables from reinsurance contracts and special purpose vehicles – TP_{nl} denotes the technical provisions for non-life insurance obligations. For the purpose of this calculation, technical provisions shall not include the risk margin and shall be without deduction of recoverables from reinsurance contracts and special purpose vehicles For the purpose of the definitions set out in this paragraph, life insurance and non-life insurance obligations shall be defined in the same way as that set out in Article TP26 and Annex I [of IM13].

			management, senior management, and to the board of directors. (d) The undertaking's operational risk management system must be well documented and perform regular reviews of the operational risk management processes and measurement systems. All values and components mentioned in paragraphs 1 and 2 for calibrating the operational risk should be reviewed on a regular basis.	
CEA	184-190	IM25	***Para "Whole section"*** Specification is needed of the definition of basis risk and clarifications with regard to the requirements for SPVs and ratings with reinsurers from third countries.	
CEA	184	SCRRM1 IM25	***Para 1(c)*** - This requirement should not exclude SPV structures. ***Para 2 ("and beyond")*** - For clarification. ***Para 2*** - Risk mitigation techniques must be recognised with the mitigation effect it has at the time of the SCR calculation, not pro rata temporis with its remaining maturity. Once the arrangement has expired, if there is no longer a risk mitigation effect, and if, as a result, the SCR has changed significantly, a new SCR calculation would be required.	**General Provisions** 1. Risk-mitigation techniques used by an insurance or reinsurance undertaking shall only be taken into account when calculating the Basic Solvency Capital Requirement where, in addition to the requirements set out in Article 101(5) of Directive 2009/138/EC, the following conditions are met: (a) the arrangement is legally effective and enforceable in all relevant jurisdictions; (b) the insurance or reinsurance undertaking has taken all appropriate steps to ensure the effectiveness of the

			We also note that in some cases there may be virtually no risk that the company will not be able to keep the hedging effect after the maturity. For example, for an interest rate future with physical delivery of the underlying bond at maturity, there is virtually no risk that the hedging effect will not remain after the maturity of the future. ***Para 3 (e) and (f)*** - These conditions are indeed extremely problematic e.g. with regard to the recognition of Variable Annuity Hedging, where hedges are adjusted daily based on equity index development (i.e., event outside the control of a company) which can trigger a hedge adjustment. If Para. 3 (a) and 3 (g) are fulfilled, then we would propose that the extent or level of replaced risk mitigation ***could*** be conditional on future events. The exclusion of dynamic hedging and future management actions is far more prudent than a 99.5th VaR. These methods should be recognised within the SCR. Solvency II should not discourage insurers from setting up dynamic hedging programs. ***Para 3(h)*** - This condition should only apply in normal market conditions.	arrangement and to address related risks and is able to monitor the effectiveness of the arrangement and the related risks on an ongoing basis; (c) the insurance or reinsurance undertaking has, in the event of the default, insolvency or bankruptcy of a counterparty or other credit event set out in the transaction documentation to the arrangement, a direct claim on that counterparty; and (d) there is no double counting of risk-mitigation effects in own funds and in the calculation of the Solvency Capital Requirement or within the calculation of the Solvency Capital Requirement. 2. Only risk-mitigation techniques that are in force for at least the next 12 months **and beyond** and which meet the criteria set out in this Section shall be fully taken into account in the Basic Solvency Capital Requirement, unless the contractual arrangements governing the risk-mitigation techniques are in force and the insurance or reinsurance undertaking intends to replace that risk mitigation technique at the time of its expiry with a similar arrangement and the conditions set out in paragraph 3 are met. In all other cases, the risk-mitigation effect of risk-mitigation techniques that are in force for a period shorter than 12 months and which meet the criteria set out in this Section shall be taken into account in the Basic Solvency Capital Requirement ~~pro rata temporis for the shorter of the full term of the risk exposure or~~ **for** the period that the risk-mitigation technique is in force. 3. The conditions to be met in relation to a risk-mitigation technique referred to in the first subparagraph of paragraph 2

				are: (a) the insurance or reinsurance undertaking has a written policy on the replacement of that risk mitigation technique; ~~(e) the replacement of the risk mitigation technique shall not take place more regularly than on a monthly basis;~~ ~~(f) the replacement of the risk mitigation technique is not conditional on any future events, which are outside of the control of the insurance or reinsurance undertaking. Where the replacement of the risk mitigation technique is conditional on any future events, that are within the control of the insurance or reinsurance undertaking, then the conditions should be clearly documented in the written policy referred to in point (a);~~ (g) the replacement of the risk mitigation technique shall be realistic and consistent with the insurance or reinsurance undertaking's current business practice and business strategy. Insurance and reinsurance undertakings shall be able to verify that the replacement is realistic through a comparison of the assumed replacements with replacements taken previously by the insurance or reinsurance undertaking; (h) the risk that the risk-mitigation technique can not be replaced due to an absence of liquidity in the market is not material;

				(i) the costs of replacing the risk mitigation technique over a period of 12 months are reflected in the technical provisions; and (d) the replacement of the risk-mitigation technique would not be contrary to requirements that apply to future management actions set out in TP6 (5).
CEA	185	SCRRM2 IM25	***Para 1(a)*** **-** *'In all circumstances'* alludes to the exclusion of all instruments with basis risk. Risk transfers can still be effective provided that basis risk is not material compared to the mitigation effect or if the risk is material that the basis risk can be appropriately reflected in the SCR. Assessment of the effectiveness of the risk transfer should be linked to the economic substance of the technique used and not to the term *'in all circumstances'*. We note that there also seems to be overlap between points (a) and (b). ***Para 2*** **-** In line with Article 101 (5) of the Level 1 text on risk mitigation techniques, we suggest to write "*properly captured*". This is open to extreme interpretations, one can always come up with new circumstances. Based on the principle of proportionality only **material** new risk should be captured. ***Para 2*** **-** For consistency with the first part of the sentence(we reuse "material").	**Effective Transfer of Risk** 1. Effective Transfer of R Risk-mitigation techniques used by an insurance or reinsurance undertaking that meet the requirements in Article SCRRM1 shall only be taken into account when calculating the Basic Solvency Capital Requirement where the contractual arrangements relating to the transfer of risk ensure that: (a) the transfer of risk is legally effective and enforceable ~~in all circumstances~~; and (b) the transfer of risk is clearly defined and incontrovertible. 2. The contractual arrangement shall ensure that the extent of the cover provided by the risk-mitigation technique is clearly defined. The contractual arrangement shall not result in the creation **material** of new risks, unless these are properly reflected in the Basic Solvency Capital Requirement. Where basis risk, being the risk that the exposure that the risk-mitigation technique covers does not correspond to the risk exposure of the insurance or reinsurance undertaking, is material the insurance or reinsurance undertaking shall not take that risk mitigation technique into account unless that

			We support this paragraph. This new wording, compared to the previous draft IM, is clearer and allows more flexibility in the treatment of basis risk under the standard formula. It is appreciated that material basis risk should not exclude the recognition of the risk mitigation instrument provided it is properly reflected in the SCR. This is also consistent with the approach for internal models and so will not mean a disadvantage for users of the standard formula (as was the case in the first draft IM). However, the materiality criteria is not defined and there is no guidance as to the calculation of the basis risk. Clarification in this area is requested.	**material** basis risk is captured in the calculation of the Basic Solvency Capital Requirement. 3. The determination that the transfer of risk is effective in all circumstances in accordance with paragraph 1 (a) shall take into account: (c) whether the contractual arrangement is subject to any conditions which could undermine the effective transfer of risk, the fulfilment of which is outside the direct control of the insurance or reinsurance undertaking; and (d) whether there are any connected transactions which could undermine the effective transfer of risk.
CEA	186	SCRRM3 IM25	***Para "Beginning of the article"*** The definition should not restrict the innovation of new underwriting risk transfer mechanisms. ***Para 1*** - For clarity. ***Para 1(a)*** - At the moment of entering into the transaction it may not possible to know exactly whether the counterparty complies with the SCR. This is only known at the point in time for which published solvency figures are released by the counterparty. ***Para 1(a)*** **- A requirement for the counterparty to comply with the SCR could lead to pro-**	**Insurance Risk-Mitigation** Where insurance or reinsurance undertakings transfer underwriting risks using reinsurance contracts or special purpose vehicles **or other mechanisms**, then in addition to the requirements set out in Articles SCRRM1 and SCRRM2, the following criteria shall be met on an ongoing basis in order for the risk-mitigation technique to be taken into account in the Basic Solvency Capital Requirement: 1. **Where risk is transferred to an insurance or reinsurance undertaking, those** ~~Counterparties to reinsurance contracts~~ shall be: (a) an insurance or reinsurance undertaking which complies with the ~~Solvency~~ **Minimum** Capital Requirement; **or an insurance or reinsurance**

			cyclical and systemic effects. If one reinsurer does not cover its SCR, the solvency position of all of its clients would suddenly be lower as the reinsurance arrangement would not be able to be taken in account in their SCRs. This could lead to a domino effect of insolvencies. We strongly suggest that the requirement should be linked to the MCR rather than the SCR. Alternatively, the requirement could be that: even if the reinsurer does not cover its SCR, it has a recovery plan in force which has been validated by its supervisor. ***Para 1(c)*** **-** We do not support this requirement. All risk mitigation techniques should be allowed for according to their genuine risk transfer capacity. The requirements for a minimum credit quality is not in line with the spirit of the Framework Directive. Clauses should not be introduced that could discourage the use of effective risk mitigation techniques. A more economic approach would be that the rating of the counterparty is reflected in the undertaking's SCR on a continuous scale, with lower rating giving less risk-reduction. The rating would also be reflected in the default risk module correspondingly.		**undertaking which does not comply with the SCR but for which the recovery period has not ended** (b) a third-country insurance or reinsurance undertaking, situated in a country whose solvency regime is deemed to be equivalent to that laid down in Directive 2009/138/EC in accordance with Articles 172 or 227 of Directive 2009/138/EC and which complies with the solvency requirements of that equivalent third-country; or (c) a third country insurance or reinsurance undertakings, which is not situated in a country whose solvency regime is deemed to be equivalent to that laid down in Directive 2009/138/EC in accordance with Articles 172 or 227 of Directive 2009/138/EC with a credit quality which has been assigned to credit a third country insurance or reinsurance undertakings, which is not situated in a country whose solvency regime is deemed to be equivalent to that laid down in Directive 2009/138/EC in accordance with Articles 172 or 227 of Directive 2009/138/EC with a credit quality which has been assigned to credit quality step 3 or lower in accordance with Subsection UECAI and with the assignment by the supervisory authorities of the credit assessments of eligible ECAIs to seven steps in a credit quality assessment scale. qualitystep 3 or lower in accordance with Subsection UECAI and with the assignment by the supervisory authorities of the credit assessments of eligible ECAIs to seven steps in a credit quality assessment scale.step 3 or lower in accordance with Subsection UECAI and with the assignment by the supervisory authorities of the credit

			Para 4 - This requirement should only be applicable to the standard formula. Article 101 (5) of the Level 1 text includes as a general provision that risk mitigation techniques should be allowed provided that credit risk or other risks arising from the use of these techniques are properly reflected in the SCR. The lack of recognition of finite reinsurance or other comparable arrangements could be appropriate under the Standard Formula, in order to ensure that excessively complexity of the Standard Formula is avoided. However, there should NOT be a general exclusion of these techniques under Solvency II. It should be possible for undertakings to take account of the effect of these risk mitigation techniques in their SCR using Internal Models, provided that the risks arising from the use of such techniques are properly reflected in those models.	assessments of eligible ECAIs to seven steps in a credit quality assessment scale. 2. Where risk is transferred to a special purpose vehicle, as defined in Article 13 (26), the requirements established under Article 211(2) or where applicable the Member State law referred to in Article 211(3) of Directive 2009/138/EC shall be met for the risk-mitigation technique to be taken into account in the Basic Solvency Capital Requirement. In the event, that the requirements set out in Article SPV10 for the special purpose vehicle to be fully-funded are at any time not fully met, the protection offered by the insurance risk-mitigation technique may be partially recognised, provided that the insurance or reinsurance undertaking can demonstrate that compliance with the fully-funded requirement will be restored within three months. For this purpose, the recognised risk-mitigation effect of the technique shall be reduced by the percentage of the aggregated maximum risk exposure of the special purpose vehicle, referred to in Article SPV10, not covered by the assets of the special purpose vehicle. 3. Where risk is transferred in a securitisation using a legal entity, other than a special purpose vehicle, the risk-mitigation technique shall only be taken into account in the Basic Solvency Capital Requirement where the insurance or reinsurance undertaking has demonstrated to the satisfaction of the supervisory authority that requirements equivalent to those set out in Article 211 of Directive 2009/138/EC are fully met by the legal entity to which the risk is transferred. 4. Finite reinsurance, as defined in Article 210 (3) of Directive 2009/138/EC, or similar arrangements where the lack of

				effective risk transfer of risk is comparable shall not be deemed to meet the requirements in Article SCRRM2 and shall not be recognised in the calculation of the non-life and health premium and reserve risk sub-modules **under the standard formula.** **5 Where the insurance risk-mitigation technique uses other instruments than reinsurance contracts or special purpose vehicles or does not comply with the requirements set forth in paragraph (2) or (3) above, the risk-mitigation technique shall only be taken into account in the Solvency Capital Requirements where the conditions of Article SCRRM 4 or Article SCRRM 6 are met.**
CEA	187	SCRRM4 IM25	***Para 3*** **-** All risk mitigation techniques should be allowed for according to their genuine risk transfer capacity. Excluding financial instruments with a particular rating is not the right way to draw a realistic picture of the solvency position and is not in the spirit of the Directive. A more economic approach would be that the rating of the counterparty is reflected in the undertaking's SCR on a continuous scale, with lower rating giving less risk-reduction. The rating would also be reflected in the default risk module correspondingly. We request more information on UECAI and ECAI.	**Financial Risk-Mitigation** Where insurance or reinsurance undertakings transfer risk, other than in the cases referred to in Article SCRRM3, including transfers through the purchase or issuance of financial instruments, the following criteria shall be met, in addition to the requirements set out in Articles SCRRM1 and SCRRM2, in order for the risk-mitigation technique to be taken into account in the Basic Solvency Capital Requirement: 1. the risk mitigation technique meets the requirements of the insurance or reinsurance undertaking's risk management policies, as referred to in Article 44 (2) of Directive 2009/138/EC; 2. the risk mitigation technique can be valued reliably in accordance with Article 75 of Directive 2009/138/EC; and ~~3. the counterparties to the risk mitigation technique or, in the~~

				~~case of a risk mitigation technique that is a financial instrument the financial instrument, shall have a credit quality which has been assigned to credit quality step 3 or lower in accordance with Subsection UECAI and with the assignment by the supervisory authorities of the credit assessments of eligible ECAIs to seven steps in a credit quality assessment scale.~~
CEA	188	SCRRM5 IM25	***Para 1(a)*** - We understand that the requirements of article SCRRM7 should apply only if a collateral arrangement exists. If not, we do not understand why collateral arrangements ***have to*** exist in all cases for risk-mitigation techniques. The imposition of collateral arrangements is a constraint which is not in line with the economic spirit of the Framework Directive. If no collateral exists, then the SCR for counterparty risk would be higher, but in no case should collateral arrangements be compulsory. ***Para 1(b)*** Similar to the previous comment, it should not be compulsory for risk mitigation techniques to be supported by further techniques.	**Status of the counterparties** 1. Notwithstanding the requirements in Articles SCRRM3 (1) and SCRRM4 (3), the risk mitigation technique shall be taken into account when calculating the Basic Solvency Capital Requirement where either of the following situations exists: (a) in addition to the risk mitigation technique meeting the requirements set out in Articles SCRRM1 and SCRRM2, **when** collateral arrangements exist **they** ~~that~~ meet the definition and requirements in Article SCRRM6 and, where relevant, the segregated assets meet the requirements in Article SCRRM7; or (b) **when** the risk mitigation technique is accompanied by another risk mitigation technique, ~~where~~ the further technique, whether viewed separately or in combination with the first technique meets Articles SCRRM1 and SCRRM2 and where the counterparties to the further technique meet the requirements in Articles SCRRM3 (1) and SCRRM4 (3). 2. For the purposes of paragraph 1, where the value of the collateral is less than the total risk exposure, the collateral

				arrangement shall only be taken into account to the extent that the collateral covers the risk exposure.
CEA	189	SCRRM6 IM25	***Para (a)*** - This should not prevent SPV structures as long as they are set up in a way that ensures liquidation of collateral for the benefit of the insurance or reinsurance undertaking. ***Para (b)*** - Bespoke assets that may not be liquid, but nevertheless allow timely satisfaction of the secured claim, should be admissible. E.g. bespoke puttable notes by government backed or supranational entities (KfW, IBRD, EBRD, etc).	**Collateral Arrangements** 1. The recognition of collateral arrangements in the calculation of the Basic Solvency Capital Requirement shall in addition to the requirements in Articles SCRRM1 and SCRRM2 be subject to the following criteria being met: (a) The insurance or reinsurance undertaking shall have the right to liquidate or retain **or to ensure that the special purpose vehicle liquidates or retains directly or via a security trustee,** **in** a timely manner, the collateral in the event of the default, insolvency or bankruptcy or other credit event of the counterparty; and (b) Collateral shall be sufficiently liquid and sufficiently stable in value**, or if not sufficiently liquid, they shall otherwise allow the timely satisfaction of the secured claim.** ~~to provide appropriate certainty as to the protection achieved.~~
CEA	190	SCRRM7 IM25	***Para (a)*** - All risk mitigation techniques should be allowed for according to their genuine risk transfer capacity. Excluding financial instruments with a particular rating is not the right way to draw a realistic picture of the solvency position and is not in the spirit of the Directive. A more economic approach would be that the rating of the counterparty is reflected in the undertaking's SCR on a continuous scale, with lower rating giving less	**Segregation of Assets** 1. Where a collateral arrangement meets the definition in Article SCRRM6(2)(b) and involves the pledging of assets, the collateral taker shall take reasonable steps to ensure that the third party segregates the assets held as collateral from its own assets. 2. Where, in accordance with paragraph 1 a risk mitigation

			risk-reduction. The rating would also be reflected in the default risk module correspondingly. ***Para (a)*** - We request more information on UECAI and ECAI.	technique is covered by segregated assets, then, in addition to the requirements in Articles SCRRM1, SCRRM2 and SCRRM6, the following criteria shall be met: ~~(a) the segregated assets are held with a deposit-taking institution that has a credit quality which has been assigned to credit quality step 3 or lower in accordance with Subsection UECAI and with the assignment by the supervisory authorities of the credit assessments of eligible ECAIs to seven steps in a credit quality assessment scale;~~ (b) the segregated assets are individually identifiable and shall only be changed or substituted with the consent of the insurance or reinsurance undertaking or a person acting as trustee in relation to the insurance or reinsurance undertaking's interest in such assets **or pursuant to pre-determined investment guidelines**; (c) **the insurance or reinsurance undertaking or a person acting as trustee in relation to the insurance or reinsurance undertaking's interest in such assets shall have the right to liquidate or retain, in a timely manner, the segregated assets in the event of the default, insolvency or bankruptcy or other credit event of the counterparty**; (d) the segregated assets shall be sufficiently liquid and sufficiently stable in value**, or otherwise allow timely satisfaction of the secured claim,** to provide appropriate certainty as to the protection achieved; and (e) the segregated assets shall not be used to pay **at least**

				the same priority, or to provide collateral **in at least the same rank** in favour of, any person other than the insurance or reinsurance undertaking or as directed by the insurance or reinsurance undertaking.
CEA	192	*ALAC2* *IM29*	**Modular approach vs Single Equivalent Scenario** We support the fact that the modular approach is the approach specified in the Implementing Measures. Based on the preliminary feedback we have received from QIS5, the Single Equivalent Scenario does not appear to be a workable solution for the standard formula.	[...] 2 The net Basic Solvency Capital Requirement shall be calculated in the same way as the Basic Solvency Capital Requirement but with the following changes: (a) point (c) of Article BSCRx(1) shall not apply; (b) instead of the capital requirement for counterparty default risk on type 1 exposures referred to in Article CDR1(1), the calculation shall be based on the capital requirement that is equal to the loss in the basic own funds that would result from an instantaneous loss, due to default events relating to type 1 exposures, of the amount of the capital requirement for counterparty default risk on type 1 exposures referred to in Article CDR1(1); (c) the scenario based calculations of the life underwriting risk module, the SLT health underwriting risk sub-module, the health catastrophe risk sub-module, the market risk module and the counterparty default risk module and the scenario-based calculation set out in point (b) shall take into account the impact of the scenario on future discretionary benefits included in technical provisions; this shall be done on the bases of assumptions on future management actions that

				comply with Article TP6. [...]
CEA	193	*ALAC3* *IM29*	**Loss absorbency of DT** ***Para 2*** - The original drafting is redundant when this is already covered within IM3. ***Para 4*** - How would it be required to be "consistent with the contribution of the modules and sub-modules of the standard formula to the BSCR" which implies the use of a specific allocation method (covariance method) as used in the standard approach? Why does it explicitly discuss the standard formula SCR? What about Internal Model users?	[...] 2 For the purpose of paragraph 1, the value of deferred taxes shall be calculated in accordance with Article V7. Where the loss referred to in paragraph 1 would result in the setting up of deferred tax assets, insurance and reinsurance undertakings shall take into account the magnitude of the loss and its impact on the undertaking's financial situation when **valuing** ~~assessing whether it is probable that future taxable profit will be available against which~~ the deferred tax asset ~~can be utilised~~ in accordance with Article V7(2). [...] 4 Where it is necessary to allocate the loss referred to in paragraph 1 to its causes in order to calculate the adjustment for the loss-absorbing capacity of deferred taxes, insurance and reinsurance undertakings shall allocate the loss to the risks that are captured by the Basic Solvency Capital Requirement and the capital requirement for operational risk. The allocation shall be consistent with the contribution of the modules and sub-modules of the standard formula to the Basic Solvency Capital Requirement.
CEA	194	*RFFSCR1* IM33	**RFF – materiality thresholds** We think that a materiality threshold for the adjustments to ring-fenced fund should apply. This should reflect the proportionality principle as set	1. An adjustment to the calculation of the Solvency Capital Requirement standard formula for ring-fenced funds is required if Article RFFOF1 applies. **2. Without prejudice to Paragraph 1, an adjustment to the**

			out in Art. 29 Par. 3 of the Level I text and as required in Art. 29 Par. 4 for all implementing measures. Furthermore, consistent with RFFSCR2, no SCR calculation should be required for undertakings < 5 Mio. € premium, etc.		**SCR for a ring-fenced fund is not required where the insurance or reinsurance undertaking can demonstrate to the satisfaction of the supervisory authority that the adjustment is not proportionate to the nature, scale and complexity of the risks inherent in the ring-fenced fund compared to the risks inherent in the business of the whole insurance or reinsurance undertaking.** **3. Where the ring-fenced considered as a separate undertaking would be excluded of the scope of Directive 2009/138/EC according Article 4 of Directive 2009/138/EC, no adjustment is required.** 4. Insurance and reinsurance undertakings calculating the Solvency Capital Requirement on the basis of the standard formula shall follow the method for making the adjustment to the calculation of the Solvency Capital Requirement standard formula for ring-fenced funds that is set out in Article RFFSCR2.
CEA	195	RFFSCR2 IM33	***Para 1*** - To calculate the national SCR "in the same manner" as the SCR of a separate undertaking is a very strong requirement/wording. Simplifications should be allowed. ***Para 2*** - What about unrestricted Own Funds? Does this text mean that all transferable (non-restricted) own funds that could arise from the liabilities of the ring-fenced fund are automatically considered as part of the eligible own funds of the company?	1.	Where a ring-fenced fund exists, insurance and reinsurance undertakings shall calculate a notional Solvency Capital Requirement for each ring-fenced fund, as well as for the remaining part of the undertaking, in **a consistent** ~~the same~~ manner as if those ring-fenced funds and the remaining part of the undertaking were separate undertakings. 2. Where the calculation of the capital requirement for a risk module or sub-module of the Basic Solvency Capital Requirement is based on the impact of a scenario on the basic own funds of the insurance or reinsurance undertaking, the impact of the scenario on the basic own funds at the level of the ring-fenced fund and the remaining part of the

			Para 4 - This drafting has created confusion for some members. We understand the intention of this paragraph is the following, in line with Ceiops' final advice: - In the case of bi-directional scenarios (i.e. interest rate risk, spread risk etc), the most onerous of the up or down scenario is determined at entity level and this is then this is assumed to be the relevant scenario to calculate capital requirements for each ring-fenced fund. We request that the text is clarified in this manner. ***Para 7 and 8*** - We strongly object to these paragraphs. Diversification of risks means that all risks do not happen at the same time and as a consequence when the business is more diversified the SCR should be decreased. Why should the existence of ring-fenced funds lead to simultaneous occurrence of risk events? Importantly, we note that this is not in line with Ceiops' final advice on ring-fenced funds which is much less penalising. The final advice on CP68 states that: Para 3.35 *"c) For each of gross/net, the total capital charge for the individual risk is given by the sum of the capital charges calculated at the level of each ring-*	undertaking shall be calculated. The basic own funds at the level of the ring-fenced fund are those restricted own–fund items referred to in Article RFFOF1 that meet the definition of basic own funds set out in Article 88 of Directive 2009/138/EC for that ring-fenced fund. [...] 4. Notwithstanding paragraph 1, the notional Solvency Capital Requirements for the ring-fenced funds shall be determined by reference to the scenario-based calculations under which basic own funds for the undertaking as a whole are most negatively affected. [...] 7. Insurance and reinsurance undertakings shall assume that there is ~~no~~ diversification of risks between each of the ring-fenced funds and the remaining part of the insurance or reinsurance undertaking **unless supervisory authorities demonstrate sufficient evidence that there is no diversification and then ask to the undertaking to** ~~and shall~~ calculate their Solvency Capital Requirement as the sum of the notional Solvency Capital Requirements for each of the ring-fenced funds and for the remaining part of the undertaking. ~~8. Where the insurance or reinsurance undertaking can demonstrate to the satisfaction of the supervisory authority that the assumption stated in paragraph 7 is inappropriate in the specific circumstances of the ring-fenced fund, the insurance or reinsurance undertaking shall calculate its Solvency Capital Requirement by aggregating the notional~~

			fenced fund and that calculated at the level of the remaining sub-portfolio of business; *d) For each of gross/net, the total capital charges for each individual risk are then aggregated using the usual procedure of the standard formula to derive the total SCR."* Cases where diversification exists are much more frequent than cases where diversification should not be recognised. Consequently, the burden of proof should be inverted: supervisors, after justification, could ask undertakings not recognise diversification.	~~Solvency Capital Requirements of the ring-fenced funds and the remaining part of the undertaking only to the extent that diversification effects can be observed as between and among the relevant ring-fenced funds or parts of the undertaking.~~
CEA	196	USP1 IM26	***Para "Whole section"*** The process to derive USP has to make wider allowance for some expert judgment provided this is documented and explained. Indeed, mechanical application of pre-defined methods to derive USPs will in many cases lead to unsatisfactory results as it is expected that data patterns are irregular in many cases. Therefore, to assess the data and results there should always be an element of judgement (either based on own data or based on benchmarks). ***Para 1*** - The set of standard parameters that are allowed to be replaced by undertaking-specific parameters should be enhanced. At the very least, lapse and expense risk as covered in the life underwriting risk module should be included.	~~1. The following subset of standard parameters may be replaced by undertaking-specific parameters:~~ **USPs should be applicable for:** • **operational risk module** • **life underwriting risk module** • **non life underwriting risk module** • **health underwriting risk module** • **counterparty default risk module**

			The Directive has forbidden the use of USP only for market risks. So excluding life underwriting risks and others would not be consistent with the Level 1 text. For those risks, as we do not have yet credibility factors to implement, we suggest to let them be determined with a Level 3 BTS.	
CEA	197 and 200	USP2 and USP5	The approval procedure and data criteria should not counterproductive by setting much too high barriers and thereby limiting the use of USPs The use of USP should be supervised in a flexible manner. The approval process needs to be designed along the lines of the required flexibility. We stand ready to further discuss with the EC on how this can best be done.	**[we do not have any re-drafting suggestion at this stage]**
CEA	198	USP3 IM26	***Para 1*** **- What are the standardized methods?** By definition, USPs should be allowed where they better reflect the risk profile of undertakings and as such we do not see any valid reason why their use should be de facto restricted to pre-defined lists of methods to be used and risks to be modelled. The restriction of methods to the "standard methods" proposed will, in most cases, make it impossible to obtain valid results, as these ,standard methods have significant limitations. We believe that there is not an optimal alternative that could be selected as the only alternative to determine USP.	**Standardised methods to calculate the undertaking-specific parameters** 1. Insurance and reinsurance undertakings shall calculate the standard deviation of the undertaking by using, for each parameter, ~~a standardised~~ method or a combination of methods **subject to the approval of supervisors**. 2. The standard deviations of the undertaking for non-life premium risk and NSLT health premium risk calculated using the standardised method or methods shall be adjusted for each segment set out in Annex NLUR1 and Annex HUR1 respectively using the adjustment factor for non-proportional reinsurance referred to in paragraph 3 of Article NLUR4.

			There are pros and cons for each of the presented alternatives. As a consequence, we are not in favour of a closed list of methods.	3. Where the undertaking is able to use more than one ~~standardised~~ method, the method that provides the most accurate result for the purpose of fulfilling the calibration requirements included in Article 101 (3) of Directive 2009/138/EC shall be used.
CEA	199	USP4 IM26	***Para 1 a) -*** See our comment to art 198 ***Para 1 b)*** - Consideration should be given to the introduction of requirements depending on the type of business which is being considered. Furthermore, a typical characteristic of some lines of business such as health insurance is that the products and legislation are changing rapidly. In this kind of environment, recent data is far more relevant than older data and as such should be given more weight in the estimations of premium and reserve risks.	**Credibility factors to calculate the undertaking-specific parameter for premium and reserve risk** 1. Where the time series of data to calculate the undertaking-specific standard deviations for premium or reserve risk referred to in points (a) and (b) of Article USP1(1) is not long enough to provide a reliable estimation, the undertaking-specific parameters shall be equal to a weighted average of: (a) an estimate derived using a ~~standardised~~ method or combination of methods based on that time series of data; (b) the standard formula parameter. **2.** The weight for the estimate referred to in paragraph 1 shall reflect the reliability of the data **and should depend on the type of business which is being considered.**
CEA	200 bis	IM26	***New article on Transitional Arrangements for USPs*** We believe there will be many cases where companies will not have sufficient data in order to	**Article USP6** **Transitional arrangements** **The length of time series taken into account when determining**

			comply with these requirements when Solvency II comes into force and will therefore not be able to use as many entity specific parameters, which by definition better reflect their business. Therefore, we propose that a sliding transitional mechanism could be put in place in order to ensure a smooth transitioning to Solvency II.	**credibility factors should initially be reduced when allowing for undertaking specific parameters. Undertakings are allowed to use a 100% credibility factor with a reduced number, x, of historical data when Solvency II comes into force. This reduced number of years for historical data (x) will increase each subsequent year, until the number of years required by legislation is reached.**
CEA	201	PCR1 IM37	***Para "whole paragraph"*** There is currently no reliable statistical data for extreme events therefore 'tail' dependencies might require further qualitative insights from experts.	*Information to be provided to EIOPA* Supervisory authorities shall provide the quantitative data necessary for determining dependencies between risks referred to in paragraph 6 of Article SRS5 to EIOPA on an annual basis.
CEA	202	PCR1 IM37	***Para 1*** **-** It is not the case that undertakings hold all the necessary information to assess and update correlation parameters. Some of the information will be undertaking specific and some will specifically relate to the market. Supervisory authorities should only request from (re)insurers, undertaking specific data. Also, this kind of information should not be part of systematic reporting to the supervisor. Freely available data, e.g. on market and credit risks (Bloomberg, Datastream) should be collected directly by EIOPA itself. ***Para 1*** **-** To comply with the 99.5% requirement of Art. 101 (4) of Directive 2009/138/EC, Section 16 has to be extended to an updating/review process not only for correlation parameters but also for all	**Analysis by EIOPA** **Article 202 PCR1 Analysis by EIOPA:** 1. EIOPA shall analyse quantitative data and **appropriate undertaking specific data** ~~any other appropriate information~~ in order to give an opinion to the Commission on whether**, and if so what, updates of other aspects of the standard formula, including other parameters, calibrations, and assumptions are necessary.** ~~and if so what, updates to correlation parameters in the standard formula of the Solvency Capital Requirement are necessary in accordance with Article 111(d) of Directive 2009/138/EC.~~ 2. EIOPA shall provide the first opinion on updating no later than 1 January 2018 and shall then provide further opinions on updating every **3**~~10~~ years from the date the first opinion is

			other aspects of the standard formula, including the review of other parameters, calibrations, and assumptions. This comment is also reflected in our proposed redrafting for Recital 59. ***Para 2*** - Calibrations are based on market observations, which may change significantly over time. ***Para 3*** - The phrase "at least" could result in an unlevel playing field through supervisors applying national add-ons.	provided. 3. EIOPA shall consider ~~at least~~ the following in preparing its analysis: **(a)** **whether the application of the standard formula by insurance and reinsurance undertakings, before any updates have been applied, would result in an overall Solvency Capital Requirement which complies with Article 101 of Directive 2009/138/EC;** ~~(a)~~ **(b)** whether the application of the updated correlation parameters **or other updated aspects of the standard formula** by insurance and reinsurance undertakings would result in an overall Solvency Capital Requirement which complies with the principles in Article 101 of Directive 2009/138/EC; and ~~(b)~~ **(c)** whether dependencies between risks are non-linear or there is a lack of diversification under extreme scenarios in which case EIOPA shall consider alternative measures of dependence for the purposes of calibrating updates to the correlation parameters.
CEA	203	IM1 IM4	***Para 2(a) (i)*** -The applicant does not know how long the approval process will take. However, the undertaking specifies a starting day in the request for approval. This starting day may be adjusted if necessary. See also Article IM6(3)(a). We find this language clearer. ***Para 2(a) (iii)*** - If the application is an accurate reflection of the model, it is by definition complete. We find that it should be the supervisory authorities	1. The application by an insurance or reinsurance undertaking to calculate the Solvency Capital Requirement using an internal model shall be provided to the supervisory authorities in writing in the official language or one of the official languages of the Member State in which the insurance or reinsurance undertaking has its head office or in a language the use of which the supervisory authorities have given prior approval for. 2. In the application to use an internal model to calculate the Solvency Capital Requirement, insurance and reinsurance

			who assess whether the application is complete, not the administrative, management or supervisory body of the insurance or reinsurance undertaking. ***Para 2(b)*** - The first sentence covers all internal models, full internal models as well as partial internal models, where as the second sentence provides additional requirements in the case of partial internal models. Requiring the internal model in the first sentence to cover all the material risks would not make it applicable to partial internal models. ***Para 2(c)*** - The meaning of the word "integration" is unclear. ***Para 2(f)*** - The approval of the internal model should focus on the internal model and its use. Clearly the internal model can potentially be used in supporting e.g. the compliance function. However the approval of the internal model (also given the restricted timeline) should not be overloaded with check of the adequacy of the internal control system of the undertaking. There are other supervisory processes to assess the adequacy of the internal control system. ***Para 2(e)*** - There can be many other outputs of the internal model not related to the SCR. Only those elements which are relevant to the SCR calculation need to be included. ***Para 2(h)*** - The Solvency II Directive does not	undertakings shall submit, as a minimum, documentary evidence that the internal model fulfils the requirements set out in Articles 101, 112 and 120 to 126 of Directive 2009/138/EC. Insurance and reinsurance undertakings shall include, at least, the following documents in their application to use a full or partial internal model: (a) a cover letter requesting the use of an internal model to calculate the Solvency Capital Requirement. The cover letter shall be signed by the administrative, management or supervisory body of the insurance or reinsurance undertaking and include, at least: i. a request for approval to use an internal model to calculate the Solvency Capital Requirement starting from a**n assumed** specified day and a general explanation of the internal model including a brief description of the structure of the model and the **risks and business units** cover~~age~~**ed ~~of~~ by** the model; ~~ii. a confirmation of the period prior to the application for which the internal model has been appropriately used in their risk management system and decision making processes~~; **A description of which aspects of the internal model, the internal model has been in use in risk management and decision making processes prior to the application**. iii. a confirmation that the application ~~is complete and~~ is an accurate reflection of the internal model and that no material facts have been omitted. (b) an explanation of how the internal model covers ~~all~~ the material and quantifiable risks of the insurance or reinsurance undertaking. Where the application for the

			require undertakings to have a separate fully functioning validation team, and from CEIOPS advice and consultation papers we have always understood that this is explicitly not supervisors' intention. Article TSIM 18 (3)(g) requires the validation policy to specify an assessment of the independence of the validation process and this is a sufficient control on independence. ***Para 2(i)*** - No such policies are required for internal model approval: 1. We agree that liquidity management standards are an essential element defining the risk management function in the system of governance. However liquidity and solvency are two different aspects for the well-being of an undertaking: excess solvency does not help when liquidity is lacking and excess liquidity does not help if the company is insolvent. The liquidity policy should therefore not be required as a document in the internal model approval. However it might make sense to include it as a means of evidencing the use test if the internal model has in addition to the SCR calculation a role in assessing contingent liquidity. 2. There is no requirement for a P&L policy in the directive. Clearly there is need for a manual and process documentation, but calling this a policy is clearly stressing term. Moreover it is not clear why the detailed operations of the P&L process	approval relates to a partial internal model the explanation shall be limited to the material and quantifiable risks within the scope of the partial internal model and the insurance or reinsurance undertaking shall also provide an explanation of how the additional conditions referred to in Article 113 of Directive 2009/138/EC have been satisfied; (c) an explanation of the adequacy and effectiveness of the **use of the internal model as set out in Article 120 of Directive 2009/138/EC** ~~integration of the internal model into the risk management function~~ and of how the internal model allows the insurance or reinsurance undertaking to identify, measure, monitor, manage and report risks. For this purpose, the application shall include the relevant extracts of the risk management policy set out in Article 41(3) of Directive 2009/138/EC; (d) an assessment together with a justification by the insurance or reinsurance undertaking of the material strengths, weaknesses, limitations or shortcomings of the internal model, including a self assessment of the compliance with the relevant requirements. The insurance or reinsurance undertaking shall also outline its plan for the future improvement of the internal model in order to address identified weaknesses, limitations or shortcomings or to develop or, where applicable, extend the internal model; (e) the technical characteristics of the internal model, including a detailed description of the structure of the internal model, together with a list and justification of

			are prerequisite for assessing the internal model. ***Para 2 h*** - Article 124 of Directive 2009/138/EC requires a regular validation cycle. Para 2. (h) - seems to go beyond this requirement by requesting an "independent validation". We understand that "independence" in this context refers to the fact that operation and validation of internal models results should be conceptually and process-wise independent and that no separate validation unit is required.		the assumptions underlying that internal model where an adjustment to these assumptions would result in a significant change in the ~~output of the internal model~~ **SCR**; (f) an explanation **of how the internal model is used to support** ~~the adequacy of~~ the internal control system of the insurance or reinsurance undertaking taking into account the structure and coverage of the model; (g) an explanation of the adequacy of the resources, skills and objectivity of the people responsible for the development and validation of the internal model; (h) a report describing the last ~~independent~~ validation of the internal model and its results in accordance with Article 124 of Directive 2009/138/EC; (i) the policy for changing the internal model referred to in Article IM2, the data policy referred to in Article TSIM10~~, the liquidity policy referred to in Article TSIM14, the specification of the profit and loss attribution policy referred to in Article TSIM17 a~~nd the validation policy referred to in Article TSIM18; (j) when an insurance or reinsurance undertaking uses a model or data obtained from a third party as referred to in Article 126 of Directive 2009/138/EC a demonstration that the use of such external model or data does not compromise the ability of the insurance or reinsurance undertaking to meet the requirements set out in Article 101, 112 and 120 to 125 of Directive 2009/138/EC and the suitability for the use within

				internal model; (k) an estimation of the Solvency Capital Requirement calculated with the internal model and with the standard formula for the last reported period. (l) the identification of those parts of the business of the insurance or reinsurance undertaking which has been classified as major business unit in accordance with the third paragraph of Article TSIM17, and a justification for doing so; (m) in the case of partial internal models a justification of the integration technique proposed.
CEA	204	IM2 IM4	The CEA notes that there is no basis in the Directive 2009/138/EC for implementing measures on Article 115. IM2 should therefore be deleted. ***Para 1*** - The process to determine when the internal model is changed is part of the governance system, but not of the policy for changing the internal model. Here only the procedure to change the model is included. It is important that the policy applies to any change, as this decreases the overall burden for the company. This way there is only one approval by the regulators for the policy to change the model (not for every change covered by the policy). Otherwise an approval for every change outside the policy has	*Article 204 IM2* *(Article 115 Directive 2009/138/EC)* **Policy for changing the internal model** 1. The policy for changing the internal model shall cover the procedure to be followed **when the undertaking change its internal model**. ~~to determine whether a change in the internal model is needed as a consequence of any relevant change in the system of governance, the compliance with the requirements to use the internal model, the method of calculation of the Solvency Capital Requirement and any relevant change to the risk profile of the undertaking.~~ **The policy shall define the notion of major and minor changes**

			to be obtained. The important point is that only major changes require an individual approval process as laid out in the redrafting suggestion ***Para 2*** - Requiring a policy for any changes may trigger a large number of approval processes. Only material changes should be covered. ***Para 3 and 4*** - See new proposed paragraphs. The original version would create significant practical issues. For example any new business unit would trigger a 6-9 month process. This would prevent all reorganisations of regulated legal entities that use an internal model	**which will be applied to any change of the internal model.** **The policy shall specify when a combination of minor changes shall be considered a major change.** **For any major change, the procedure laid down in Article IM3 shall apply.** 2. Any ~~possible~~ relevant change as referred to in paragraph 1 not covered by the scope of the policy for changing the internal model requires an amendment of that policy approved by the supervisory authorities in accordance with the procedure laid down paragraphs 6 to 8. ~~3. The policy for changing the internal model shall not cover the inclusion of new elements in the internal model, such as additional risks or business units, which are not covered by the internal model. Inclusion of new elements in the internal model shall follow the approval procedure laid down in Article IM3.~~ ~~4. The policy shall identify when a change of the internal model will be considered as major or minor and when a combination of minor changes shall be considered a major change. Where a combination of minor changes is considered a major change, the procedure laid down in Article IM3 for major changes shall apply.~~ 5. The policy shall set out the system of governance requirements in relation to changes to the internal model, including internal approval of changes, internal communication, documentation and validation of changes. 6. The application by an insurance or reinsurance undertaking to

				change the policy for changing the model shall be provided to the supervisory authorities in writing in the language laid down in paragraph 1 of Article IM1. The application shall be signed by the administrative, management or supervisory body of the insurance or reinsurance undertaking including the justification to change the policy for changing the ~~IM~~ **internal model**. **7.** Supervisory authorities shall decide on the application to change the policy for changing the internal model ~~within six months from the receipt of the complete application~~ **according to the procedure laid out in Articles IM4, IM5 and IM6.** 8. Supervisory authorities shall give approval only if they are satisfied with the coverage and procedures described in the policy for changing the internal model.
CEA	205	IM3 IM4	The CEA notes that there is no basis in the Directive 2009/138/EC for implementing measures on Article 115. Reference to 115 should therefore be deleted. The CEA would appreciate further guidance on the definition of minor and major changes at level 2. This will help to maximise the harmonisation of policies for changes of internal models supervisors will approve across MS. An example of a major change could be material additional risk models and an example of a minor change could be the regular updates of parametric assumptions. ***Para 3*** - It should not require 6 months to approve a	*Article 205 IM3* *(Article ~~115~~ **112 and 113** Directive 2009/138/EC)* **Changes to the internal model** 1. The application by an insurance or reinsurance undertaking of a prior supervisory approval of a major change of the internal model shall be provided to the supervisory authorities in writing in the language set out in paragraph 1 of Article IM1 and shall include documentary evidence that after applying the major changes to the internal model the requirements set out in Article 101, 112 and 120 to 126 of Directive 2009/138/EC are fulfilled. Insurance and reinsurance undertakings shall include, at least, the documents set out in paragraph 2 of IM 1 that are

			major change when 6 months are also foreseen for the initial approval. Furthermore, six month for the approval of a major change can lead to a disruption of the calculation of the capital requirements. ***Para 3*** - The internal model has to be used in the system of governance on a continuous basis. To avoid disruptions of the SCR calculation the company should not be forced to use the standard formula if the supervisory authorities fail to make a decision in the required time frame. ***Para 4*** - This provision seems to require them to carry out full internal model calculations quarterly. If this is indeed the intention, these requirements appear very onerous and we have received concerns from members as to the practicality of the proposals.	affected as a consequence of applying the major change to the internal model and sufficient information about the qualitative and quantitative impacts of the change to the approved internal model. 2. Supervisory authorities shall assess the application of a prior supervisory approval of a major change of the internal model in accordance with the procedure laid down in Article IM4. 3. Supervisory authorities shall decide on the application of a prior supervisory approval of a major change of the internal model in ~~six~~ **three** months from the receipt of the complete application in accordance with Article IM6. The decision of the supervisory authorities may include the terms and conditions and the transitional plan laid down in Articles IM7 and IM8. **Supervisory authorities may decide, on a case-by-case basis, to grant a prior temporary approval of a major change in the full or partial internal model on a temporary basis. The temporary approval can be withdrawn at any time if the insurance or reinsurance undertaking fails to comply or ceases to comply with required conditions.** 4. Insurance or reinsurance undertakings shall report minor changes to the internal model to the supervisory authorities ~~quarterly~~ **annually** or more frequently where appropriate. Minor changes to the internal model shall be communicated in a summarised report that describes both the quantitative and qualitative impacts of each change and the cumulative quantitative and qualitative effects of the changes on the approved internal model.
CEA	206	IM4	***Para 1*** - This amendment becomes necessary because it applies to changes of the model and also	1 Once the supervisory authorities have received the application for an internal model, the supervisory authorities shall assess whether

		IM4	to changes of the policy to change an internal model. ***Para 4*** - Not all documents will be available in electronic form. For example, documentation on elements of the internal model based on software supplied by an external service provider may not be available to the insurance or reinsurance undertaking in an electronic form. ***Para 5*** - This information would allow the insurance or reinsurance undertaking to supply any missing information or take other appropriate action. ***Para 6*** - This last condition may cause additional delay.	the application is complete. The supervisory authorities shall determine whether the application is complete within 30 days from the day of the receipt of the application. For this purpose, an application shall be considered as complete if it includes all the **relevant** documentation set out in Article IM1(2) . 2 The insurance or reinsurance undertaking shall ensure that all documents referred to in Article 125 of Directive 2009/138/EC are made available, including in **where possible** electronic form, to the supervisory authorities throughout the assessment of the application. 3 In order to assess whether the internal model fulfils the requirements referred to in Articles 101, 112 and 120 to 126 of Directive 2009/138/EC and in the case of a partial internal model Article 113 of Directive 2009/138/EC, the supervisory authorities shall take all the necessary actions in order to make a reasoned decision on the application. The assessment of the application shall permit ongoing communication with the insurance or reinsurance undertaking and may include requests for adjustments to the internal model **and the reasons for these requests** and for a transitional plan as set out in Article 113 of Directive 2009/138/EC. 4 If the supervisory authorities determine that adjustments to the internal model are needed, they shall notify this to the insurance or reinsurance undertaking. In this case, the insurance or reinsurance undertaking may request a suspension of the six months approval period referred to in Article 112 of Directive 2009/138/EC and the approval period shall continue once the insurance or reinsurance undertaking has made the necessary adjustments ~~and the supervisory authorities have received an amended application providing documentary evidence of the~~

				~~adjustments.~~ The supervisory authorities shall then inform the insurance or reinsurance undertaking of the new expiry date of the approval period.
CEA	208	IM6 IM4	***Para 2*** - We have strong concerns that an internal model shall not be considered as approved if the supervisory authority fails to reach a decision within six months**.** Many companies have started the pre-application process for internal model validation. Based on first experiences, the process is very resource-intensive and time consuming. An internal model may thus not be approved within the timeframe foreseen in the Directive and the Level 2 Implementing Measures, for example if supervisory authorities or the college need more time to reach a decision. Therefore, under certain circumstances, a company should be allowed to use its internal model for calculating the SCR until the supervisor reaches a decision to avoid the whole model being held up because a small part is still in the process of approval. This should be provided the following conditions are satisfied: • Any delay is not due to a lack of cooperation or readiness to cooperate by the company; • The supervisory authority has a good understanding about the internal model and the overall structure is considered	1. Supervisory authorities shall refuse the application for an internal model if they are not satisfied in accordance with the application or any further additional information requested that the internal model fulfils the requirements set out in Articles 101, 112 and 120 to 126 of Directive 2009/138/EC or in addition in Article 113 of Directive 2009/138/EC in the case of a partial internal model. 2. Insurance and reinsurance undertakings shall not consider their application for an internal model approved until the receipt of the decision from the supervisory authorities. The failure of the supervisory authorities to make a decision within the period referred to in Article 112 of Directive 2009/138/EC shall **mean that the undertaking may use its internal model for calculating the SCR until the supervisor reaches a decision** ~~not result in the application being considered as approved~~. 3. When the supervisory authorities have assessed the application and reached a reasoned decision, they shall, without delay, notify the decision in writing to the insurance or reinsurance undertaking. The decision shall include: (a) if the supervisory authorities approve the application, the starting date from which the model shall be used to calculate the Solvency Capital Requirement and the scope and coverage of the internal model and if the use of the internal model is subject to terms and conditions as referred to in Article IM7, the terms and conditions together with the reasons for those terms and

			appropriate; and • The company has provided sufficient information to ensure the fulfilment of the use test.	conditions; (b) if the supervisory authorities reject the application, the reason for the refusal. The supervisory authorities may specify those parts of the internal model that would satisfy the requirement to use a partial internal model to calculate the Solvency Capital Requirement. This specification shall not be considered by the insurance or reinsurance undertaking as an approval to use a partial internal model.
CEA	209	IM7 IM4	***Para 1*** - The CEA would welcome further explanation of the nature of the terms and conditions envisaged. ***Para 3*** - Insurance and reinsurance undertakings should be expected to make the necessary changes to the model to avoid failures to comply with terms and conditions.	1. Supervisory authorities may approve an application to use an internal model to calculate the Solvency Capital Requirement subject to terms and conditions. In this case supervisory authorities may require the insurance or reinsurance undertaking to submit a plan of how it will meet those terms and conditions and report its progress in meeting that plan according to the frequency specified by the supervisory authorities. 2. [...] 3 ~~Insurance and reinsurance undertakings shall notify the supervisory authorities of any failure or likely failure to comply with the terms and conditions~~. Supervisory authorities shall notify to the insurance or reinsurance undertaking when they are not satisfied with the fulfilment of the terms and conditions, stating the reasons. Where the failure to satisfy the terms and conditions means that the supervisory authorities are not satisfied with the fulfilment of the requirements set out in Articles 101, 112 and 120 to 126 of Directive 2009/138/EC or in addition in Article 113 of Directive 2009/138/EC in the case of a partial internal model Article 118 of Directive 2009/138/EC shall apply and the insurance or reinsurance

				undertaking may be required to calculate the Solvency Capital Requirement according to the standard formula laid down in the Title I, Chapter VI, Section 4 and Subsection 2 of Directive 2009/138/EC.
CEA	212	TSIM2 IM5	Different granularities are needed for different decision-making processes.	Insurance and reinsurance undertakings shall ensure that the design of the internal model is aligned with their business and shall ensure that at least: (c) the internal model is capable of producing outputs that are **sufficiently** ~~at least as~~ granular **to support material** ~~as the~~ decision-making processes of the insurance or reinsurance undertaking. As a minimum, the outputs of the internal model shall **be able to** differentiate between material lines of business and between risk categories;
CEA	213	TSIM3 IM5	Requiring each of the persons who effectively run the undertaking to demonstrate individually an overall understanding of the IM is unduly demanding and unrealistic.	The administrative, management or supervisory body of the insurance or reinsurance undertaking and the other persons who effectively run the undertaking shall **collectively** be able to demonstrate an overall understanding of the internal model. In addition, the other persons who effectively run the undertaking shall be able to demonstrate a sufficiently detailed understanding of the parts of the internal model used in the area for which they are responsible. Overall understanding of the internal model shall mean knowledge about: (i) the **known** limitations of the internal model;

CEA	214	TSIM4 IM5	The model should be widely used. However, it is not possible to use it for all decision making processes. The CEA finds that it would be more appropriate not to provide any examples.	The internal model shall be used to support the relevant decision-making processes in the insurance or reinsurance undertaking, including the setting of the business strategy. **However, the business strategy itself is not part of the use test.** The internal model shall be used by insurance and reinsurance undertakings to assess the impact of potential, material decisions ~~including the expected profit or loss and the variability of the profit or loss resulting from of these decisions.~~
CEA	215	TSIM5 IM5	***Para (a)*** - It is difficult to see how partial internal models will comply with the criteria outlined in Art 215 TSIM5, in particular the requirement for "all material risks identified by the risk management system are covered by the internal model". Partial internal models may have material lines of business which are not included in the model for whatever reason. ***Para(c)*** - We find that our proposed drafting is clearer.	**(a)** ~~all material quantifiable risks identified by the risk management system are covered by the internal model;~~ **all material risks identified within the scope of the internal model are covered by the internal model;** (k) the outputs of the internal model, including the measurement of diversification effects, are ~~taken into account~~ **input in the formulation** ~~in formulating~~ risk strategies, including the development of risk tolerance limits and risk mitigation strategies; (c) ~~the relevant outputs of the internal model are covered by the internal reporting procedures of the risk management system;~~ **the reporting procedures of the risk management function are aligned to and consistent with the relevant outputs of the internal model;**
CEA	216	TSIM6 IM5	***Para 3*** Insurance and reinsurance undertakings should only be required to be able to provide qualitative explanations and not quantitative justifications.	3 Insurance and reinsurance undertakings may use the approach set out in paragraph 2 provided that they are able to ~~justify~~ **explain** that the results taken from the previous calculation of the Solvency Capital Requirement would not be materially different from the results of a new calculation.

			Para 4 Article 216(4) adds a new requirement for internal model users, which seems to require them to carry out full internal model calculations quarterly. If this is indeed the intention, these requirements appear very onerous and we have received concerns from members as to the practicality of the proposals. Whilst internal model users will have to satisfy the use test and, as such, will be using their internal model regularly, this does not mean that full internal model runs will be frequently carried out. Obviously, for specific risks which are very volatile such as market risk, very frequent full calculations will be carried out. However, for risks which are relatively stable over the short term, full calculations would be unnecessary and excessively burdensome. We therefore oppose the requirement for a full quarterly calculation. We add that it is not clear why this requirement has been added for internal model users when it is not a requirement for standard formula users.	~~4 The simplified calculation of the Solvency Capital requirement shall not be applied where calculations of the Solvency Capital Requirement in accordance with Articles 102 and 129 of Directive 2009/138/EC are required~~.
CEA	218	TSIM8 IM5	***Para 3(b)*** - We interpret the word relevant in TSIM 8 (3) (b) and elsewhere in IM5 as referring mainly to materiality considerations. We would welcome a statement clarifying this interpretation. ***Para 3(e)*** - All models have model error. Trying to amend the probability distribution to deal with it is hard-to-impossible. This point is more sensibly	3 Insurance and reinsurance undertakings shall choose the actuarial and statistical techniques with a view to ensuring that: (b) the outputs of the internal model indicate relevant changes in the risk profile of the insurance or reinsurance undertaking; ~~(c) the outputs of the internal model are stable in relation to~~

			dealt with by testing (which is part of validation). We propose to delete the paragraph. If this proposal is not acceptable, we propose that "undue" is replaced by "material". "Undue" in is ambiguous, as different persons will have different understandings of precisely what it means. Materiality is a well-understood concept in insurance and normally has to be defined by each undertaking, which would add clarity. ***Para 4*** - In the probability distribution forecast, the model can be quite different from the valuation model, e.g. mortality shock risk is dominated by pandemic risk, and pandemic risk does not play a role in valuation.	~~changes of the input data that do not correspond to a relevant change of the risk profile of the insurance or reinsurance undertaking~~; (d) the internal model reflects the complexity of the risk profile of the insurance or reinsurance undertaking and captures all the relevant characteristics of its risk profile; (e) the techniques are adapted to the data used for the internal model; ~~(f) the outputs of the internal model do not include an undue model error or estimation error and that, where practicable, the probability distribution forecast takes these errors into account;~~ (g) the derivation of the outputs of the internal model can be made transparent. 4 Insurance and reinsurance undertakings shall be able to ~~demonstrate that~~ **explain how** the methods used to calculate the probability distribution are consistent with the methods used for the valuation of assets and liabilities according to Articles 75 to 86 of Directive 2009/138/EC.
CEA	220	TSIM10 IM5	Insurance data is never "perfect" and realistically never will be. Furthermore, most models will theoretically require more data than will be available. It is therefore necessary to be careful to avoid specifying data requirements that are unattainable. ***Para 3(d)*** - Professional judgement is an essential	3. In relation to the data used in the internal model, insurance and reinsurance undertakings shall establish, implement and maintain a data policy which covers at least the following areas: ... **d) the instances where professional judgement may be relied upon in respect of data issues.**

			element in the collection and interpretation of data which needs to be considered. ***Para 6(c)*** - The models used for assessing insurance liabilities should be consistent with the data available and not the other way around. This can avoid selecting a simple method that reduces data requirements significantly.	6. Insurance and reinsurance undertakings nay not consider the data used in the internal model to be appropriate unless at least the following conditions are met: [....] c) ~~the data are consistent with the assumptions underlying the actuarial and statistical techniques that are applied to them in the internal model;~~ the underlying assumptions of the actuarial **and statistical techniques that are applied in the model are consistent with the available data;** d) the data **are** appropriate~~ly~~ **to assess** ~~reflect~~ the risks to which the insurance or reinsurance undertaking is exposed. 7. Any assumptions made in the collection, processing and application of data shall be consistent with the data to which they relate and shall comply with the requirements set out in Article TSIM9. 8. The data used in the internal model shall be updated with a frequency that is **appropriate for** ~~consistent with that~~ of the use of the internal model in accordance with the use test referred to in Article 120 of Directive 2009/138/EC. 9. Insurance and reinsurance undertakings shall ensure that the data are used consistently over time in the internal model unless departure is justified and disclosed.

CEA	221	TSIM11 IM5	In line with Article TSIM12(1) "...the internal model covers all material quantifiable risks ...".	2. The ability of the internal model to rank risks shall exist for all material **quantifiable** risks covered by the internal model.
CEA	223	TSIM13 IM5	The expression "lack of diversification" implies a presumption of absence of diversification under extreme scenarios. No such presumption should be used – the true VaR 99,5 % should be sought after. Thus, "degree of diversification" is more appropriate.	4. The system used for measuring diversification effects shall take into account any non-linear dependence and any material ~~lack~~ **degree** of diversification under extreme scenarios.
CEA	224	TSIM14 IM5	Many reinsurance contracts apply on a global basis. The requirement to ensure that they are enforceable in "all relevant jurisdictions" is unrealistic and raises the question of how and by whom a jurisdiction is determined to be "relevant". We would prefer the words "and enforceable in all relevant jurisdictions" to be removed. If it is considered that the requirement that they are purporting to describe is of sufficient importance to be retained, we suggest that it is reworded as "and enforceable in the relevant jurisdiction(s)." In most circumstances only a single jurisdiction will be relevant, that of the country in which the reinsurer is located.	2. The contractual arrangements relating to the risk-mitigation technique shall be legally ~~effective and enforceable in all relevant jurisdictions~~ and ensure that the transfer of risk is clearly defined and incontrovertible.
CEA	225	TP6TSIM 15 IM13	**Management actions** We recommend the inclusion of this precision. Indeed, even if the major part of the management actions would be implemented considering the undertaking continue to write NEW business, on	3. Assumed future management actions shall be realistic and consistent with the insurance or reinsurance undertaking's current business practice and business strategy, including the planned replacement of risk mitigation techniques. If there is sufficient current evidence that the undertaking will change its practices or strategy, the assumed management actions

			particular point, especially related to assets and cash-flows, it could lead to odd model behaviour. For instance, the management action related to the maturity of future bonds bought: if the undertaking is supposed to continue writing NEW contracts, the duration of the technical provision would stay stable and so do the maturity of future bonds investments. However, in the model used for the calculation, only premiums arising from past business would be taken into account, so the duration of the technical liabilities would decrease, and if the duration on the assets side stay the same due to an inflexible use of the on-going concern principle, it would generate an artificial duration mismatch which would false the assessment of the technical provision.	shall be consistent with the changed practices or strategy. **Assumed future management actions should nevertheless take into account the fact that only premiums related to existing business are taken into account in the calculation of the technical provision.**
CEA	226	TSIM16 IM5	Demonstrating that the error is immaterial implies that the result using the full model is known/calculated. This would annihilate any interest of using an approximation. The word "explain" would be more appropriate.	2. The supervisory authorities may allow approximations to be used in the process to calculate the Solvency Capital Requirement in accordance with Article 122(3) of Directive 2009/138/EC, provided that insurance and reinsurance undertakings are able to: (b) ~~demonstrate~~ **explain** that by using approximations to calculate the Solvency Capital Requirement the error introduced is immaterial or does not lead to a lower Solvency Capital Requirement than that which is calculated in accordance with the requirements set out in Article 101(1) of Directive 2009/138/EC;
CEA	227	TSIM16 bis	As it currently stands, undertakings would have to first demonstrate that the standard formula aggregation matrix and then all the level 3 listed	**[We do not have a re-drafting suggestion at this stage]**

		IM32	methods are not appropriate before being given the opportunity to demonstrate that their own integration technique should be used. This would be very burdensome and likely to cause undue delays in the approval process which is already heavy enough. We believe that instead, as a first step within option 3 considered by Ceiops in CP 65, undertakings should be allowed to use their own integration approach with this being subject to supervisory review. Indeed, the aim of partial models should be to facilitate and encourage more sophisticated risk management, which should include how companies integrate the internal and standard formula components in their partial models. Furthermore, the range of approaches listed in level 3 from which undertakings will have to choose will never be wide enough to include all approaches that may potentially be appropriate for certain undertakings depending on their risk profile. For instance, instead of determining capital through the use of Monte Carlo simulation an alternative formulaic approach that may be possible to overcome the issue of non-linearity is using the Cornish-Fisher approach. This method like others may be deemed as appropriate in some instances while it has not been included so far in the list of	

			methods under Level3. On the other hand, it is obvious that the burden on undertakings would be all the more important if level 3 contains too wide range of sophisticated methods of which undertakings would be required to demonstrate their inappropriateness before being able to use their own integration technique. Finally, we would like to point out that we see a clear risk of spill over effects of the proposed approach to internal models, for which supervisors may not consider any other method than the ones in level 3 as eligible for aggregating PIMs with the SF. It is essential that all possible means are used to avoid that the integration methods listed.	
CEA	228	TSIM18 IM5	***Para 2*** - The paragraph will require absolute independence for the validation team, raising costs unnecessarily and creating operational issues. The Solvency II Directive does not require undertakings to have a separate fully functioning validation team, and from CEIOPS advice and consultation papers we have always understood that this is explicitly not supervisors' intention. Paragraph 3(g) requires the validation policy to specify an assessment of the independence of the validation process and this is a sufficient control on independence. ***Para 3(d)*** - The responsibility may be assigned to a	3. ~~The validation process shall be independent from the development and operation of the internal model~~. 4. Insurance and reinsurance undertakings shall establish, implement and maintain a validation policy which describes the validation processes to be used. The validation policy shall specify at least: (d) the persons **or functions** who are responsible for each validation task; (f)~~an assessment by the insurance or reinsurance undertaking~~

			function rather than to a person. ***Para 3(f)*** - Undertakings should not be required in addition to setting up validation policy also to assess its strengths and weaknesses and justify those strengths and weaknesses.	~~of the limitations of the validation policy;~~
CEA	230	TSIM19 IM5	CEA finds that no additional stress tests should be required. The text in Art. 124(2), is sufficient.	~~5. Insurance and reinsurance undertakings shall analyse the impact of single extreme events (stress test) and combinations of events (scenario analysis). Insurance and reinsurance undertakings shall develop their own stress tests and scenario analysis, taking into account their particular business and risk profile. The stress testing and scenario analysis and their results shall be monitored and assessed by insurance and reinsurance undertakings on an ongoing basis and updated at least annually.~~ ~~6. The model validation process shall include a reverse stress test, identifying the most probable stresses that would threaten the viability of the insurance or reinsurance undertaking.~~
CEA	233	TSIM22 IM4	***Para (5)(a)*** specifically requires the model to demonstrate that all material quantifiable risks are within scope. When assessing and documenting a full internal model, it is inappropriate for undertakings to assess and document immaterial risks, but this appears to be the intention of this sub-section. ***Para (5)(d)*** specifically requires data to be accurate, complete and appropriate. Assessment of data deficiencies should normally lead to their correction, not their documentation. However, it is not always possible to correct data of lower quality.	When assessing and documenting circumstances under which the internal model does not work effectively, insurance and reinsurance undertakings shall take account of at least the following aspects: ~~(a) the risks which are not covered by the internal model;~~ (b) limitations in risk modelling; (c) the nature, degree and sources of uncertainty connected to the results of the internal model including the sensitivity of the results to the key assumptions underlying the internal model; ~~(d) deficiencies in data used in the internal model and lack of~~

			In this case, an assessment may show that some particular data deficiency of a limited magnitude may be acceptable.	~~data for the calculation of the internal model;~~
CEA	236	MCR1 IM38	***Para 2*** - Approximations should be allowed between each annual SCR calculation date. Undertakings should be allowed to use the last computed value of the SCR in determining the corridor for the MCR calculation. The frequency of computation of the SCR is by default annual (Art. 102(1)).There should not be a requirement to recalculate the SCR quarterly. **Undertakings should be allowed to use simplified methods to update the quarterly value of Technical Provisions to use in the linear MCR calculation.** For example by adding premiums and claims to the best estimate calculated last year and taking into account an adjustment for unrealised gains or losses transferred to policyholders or by proxies using local GAAP data. We note that Article 36(6) of the Framework Directive, mentions that: *"The supervisory authorities shall establish the minimum frequency and the scope of those reviews, evaluations and assessments having regard to the nature, scale and complexity of the activities of the insurance or reinsurance undertaking concerned."*, where evaluations contain the technical provisions, SCR and MCR.	1. The combined Minimum Capital Requirement shall be equal to the following: $MCR_{combined} = \min\left(\max\left(MCR_{linear}; 0.25 \cdot SCR\right); 0.45 \cdot SCR\right)$ where MCR_{linear} denotes the linear Minimum Capital Requirement, calculated in accordance with Articles MCR2 to MCR7 and Annex MCR1 and 2, and *SCR* denotes the Solvency Capital Requirement calculated in accordance with Chapter VI, Section 4, Subsections 2 or 3 of Directive 2009/138/EC, including any capital add-on imposed in accordance with Article 37 of Directive 2009/138/EC.

CEA	236 bis	GTP	**Group diversification in Risk Margin** We welcome the allowance for diversification up to entity level in the risk margin. However, this should be extended to allow for diversification up to group level. **[Please see our key priority issues paper]**	~~The risk margin of technical provisions at the level of the group shall be equal to the sum of the following:~~ ~~(a) the risk margin of the participating insurance or reinsurance undertaking;~~ (b) ~~the proportional share of the participating insurance or reinsurance undertaking in the risk margin of the related insurance or reinsurance undertakings.~~
CEA	237	MCR1 IM38	***Para "whole paragraph"*** The treatment of health should be clarified. We request a clear link between the segmentation used for the MCR and that used for the SCR. Therefore, it would be appropriate for health (SLT and non-SLT) to have a specific treatment, possibly via a separate MCR health component. The design for non-SLT could be the same as for non life, but the calibration should be specific. For SLT, a specific design may be needed and therefore a specific calibration too.	**[We do not have re-drafting suggestions at this stage]**
CEA	243	RL1 IM18	***Para "Definitions"*** The definition of "repackaged loan" is legally speaking strictly correct. However, the definition is very difficult to read as it makes reference to directive 2006/48/EC. Including the definitions from this directive would make the IM more user	***[*We do not have re-drafting suggestions at this stage]**

			friendly: *"tradable securities or other financial instruments based on repackaged loans" means tradable securities or other financial instruments offered by way of a "securitisation" whereby the credit risk associated with an exposure or pool of exposures is tranched, having the following characteristics:* *(a) payments in the transaction or scheme are dependent upon the performance of the exposure or pool of exposures;* *(b) the subordination of tranches determines the distribution of losses during the ongoing life of the* *transaction or scheme;* *'tranche' means a contractually established segment of the credit risk associated with an exposure or number of exposures, where a position in the segment entails a risk of credit loss greater than or less than a position of the same amount in each other such segment, without taking account of credit protection provided by third parties directly to the holders of positions in the segment or in other segments;* *'originator' means either of the following:*	

			(a) an entity which, either itself or through related entities, directly or indirectly, was involved in the *original agreement which created the obligations or potential obligations of the debtor or potential debtor* *giving rise to the exposure being securitised; or* *(b) an entity which purchases a third party's exposures onto its balance sheet and then securitises them;* *'sponsor' means a credit institution other than an originator credit institution that establishes and manages an asset backed commercial paper programme or other securitisation scheme that purchases exposures from third party entities;* We understand that pool of collateral (Pfandbriefe and Danish mortgage credit bonds) is pooled loans and not repackaged loans. In case the EC has a different understanding, please let us know.	
CEA	244	RL2 IM18	***Para 1*** **-** Although we support the fundamental view that the originator retains a net economic interest of not less than 5%, we want to draw attention to the	1. Insurance and reinsurance undertakings shall only invest in tradable securities and other financial instruments based on repackaged loans if the originator or sponsor has explicitly

			fact that it is for the supervisor and not for the investor, to monitor that the originator complies with the 5 % obligation. When originators are supervised under the CRD / MIFID directives Insurance undertakings should be able to take credit for the activity of these regulators and not be expected to duplicate their role. ***Para 2*** - A sole retention of the first loss tranche makes it feasible to use asymmetric information for a transfer of systematic or contagion risk away from originator/sponsor level. It would as well be possible to compensate a 5% retention of a first loss tranche by a high yield. ***Para 2(f)*** - We understand that the proposed wording follows the CRD definition. We propose to allow for a combination of the above criteria as a sensible addition ***Para 3*** - This paragraph is worded as if the investment was an independent major investment project. We do not understand why undertakings would have to ensure all these requirements, as far as they invest on regulated products. Those requirements should only be applicable for non-regulated investments. For regulated repackaged loans (as Europeans ones), we think that it is the role of supervisors to ensure that. The undertaking would just have to check that the investment is regulated.	disclosed to the undertaking in the documentation governing the investment that it will retain, on an ongoing basis a net economic interest which, in any event shall not be less than 5%. 2. For the purpose of this Article, retention of net economic interest means: (a) retention of no less than 5% of the nominal value of each of the tranches sold or transferred to investors; or (b) in the case of securitisations of revolving exposures, retention of the originator's interest of no less than 5% of the nominal value of the securitised exposures; or (c) retention of randomly selected exposures, equivalent to no less than 5% of the nominal amount of the securitised exposures, where such exposures would otherwise have been securitised in the securitisation, provided that the number of potentially securitised exposures is not less than 100 at origination; or (e) retention of the first loss tranche and, if necessary, other tranches having the same or a more severe risk profile than those transferred or sold to investors and not maturing earlier than those transferred or sold to investors, so that the retention equals in total no less than 5% of the nominal value of the securitised exposures **or** (f) **a combination of the above**. The retained net economic interest shall be measured at the

			Para 4 - We suggest monitoring of sponsor declarations as the investor cannot ensure some of these qualities. For example it cannot ensure (a) that the granting of credit is in practice based on criteria etc or (b) the effectiveness of the systems. There is a heavy presumption that the originator will answer any question in the affirmative even though the originator does not comply with the rules. Third party checks will be prohibitively expensive for all minor investors and investments. ***Para 4 (a), (b), (c), (d), (e), (f)*** - We recommend establishing a sound process, within the regulatory authority, to certify for originators or sponsors, for each investment product offered, the terms of supervisory requirements to be fulfilled like – credit granting processes, – administration and management of credit risks, documentation.	origination and shall be maintained on an on-going basis. The retained net economic interest shall not be subject to any credit risk mitigation or any short positions or any other form of hedge. For the purpose of this Article, "ongoing basis" means that retained positions, interest or exposures are not hedged or sold. There shall be no multiple applications of the retention requirements for any given securitisation. **3.** The insurance or reinsurance undertaking shall conduct adequate due diligence prior to making the investment, which includes an assessment of the commitment of the sponsor and originator to maintain a net economic interest in the securitisation and the matters that could undermine maintaining that interest as disclosed according to point (f) of paragraph 3 **if the originator is not subject to supervision based on the CRD / Basel II regulations.** 4. Before investing, and as appropriate thereafter, in tradable securities or other financial instruments based on repackaged loans, insurance and reinsurance undertakings shall ~~ensure that~~ **monitor whether** the sponsor and originator **declare that they** meet the following criteria: (a) The originator or, where appropriate, the sponsor grant credit based on sound and well-defined criteria and clearly establishes the process for approving, amending, renewing and refinancing loans to exposures to be securitised as they apply to exposures which it will not securitise; (b) The originator or, where appropriate, the sponsor have

				in place effective systems to manage the ongoing administration and monitoring of its credit risk-bearing portfolios and exposures; (c) The originator or, where appropriate, the sponsor adequately diversify each credit portfolio based on its target market and overall credit strategy; (d) The originator or, where appropriate, the sponsor make readily available access to all relevant data necessary for the insurance or reinsurance undertaking to comply with the requirements set in Article RL4; (e) The originator or, where appropriate, the sponsor have a written policy on credit risk that includes its risk appetite and provisioning policy and how it measures, monitors and controls that risk; **(f) The originator or, where appropriate, the sponsor disclose the level of its retained net economic interest as referred to in paragraph 1 as well as any matters that could undermine the maintenance of the minimum required net economic interest as set out in that paragraph.** **If the originator is subject to supervision based on the CRD / Basel II regulations the criteria (a) to (f) are deemed to be met.**
CEA	245	RL3 IM18	***Para 1*** - We welcome the suppression of the list of multilateral development institutions. Further, the wording should be changed since the	**2.** Article RL2 (1) shall not apply when the securitised exposures in respect of tradable securities or other financial instruments based on repackaged loans are claims or contingent claims on or fully, unconditionally and irrevocably guaranteed by **institutions such**

			list needs to be not definitive to capture market developments going forward.	**as:** (a) central governments or central banks; (b) regional governments, local authorities and "public sector entities" - within the meaning of Article 4 (18) of Directive 2006/48/EC - of Member States; (c) institutions to which a 50% risk weight or less is assigned under Articles 78 to 83 of Directive 2006/48/EC; or (d) multilateral development banks. n.
CEA	246	RL4 IM18	***Para 1*** - We consider that the requirements under this paragraph are already covered by paragraph 3, under this article. ***Para 1(a)*** - We agree that repackaged loan investments are also subject to Art. 132 of the level 1 text - the prudent person principle. ***Para 1(b)*** - The CEA agrees that monitoring procedures should be commensurate with the risk profile. ***Para 2*** - We have strong concerns with the introduction of "stress tests" related to these investments. We strongly support that the undertakings shall understand, report and monitor their exposure to such investments and follow the prudent person principle. However, performing stress tests is the role of the originator or sponsor, and undertakings would not have to get resources	1. Insurance and reinsurance undertakings investing in tradable securities or other financial instruments based on repackaged loans shall meet the following requirements: (a) the undertaking shall assess the asset and liability management risk, the concentration risk and investment risk arising from the investments in tradable securities or other financial instruments based on repackaged loans; (b) the undertaking shall establish written monitoring procedures commensurate with the risk profile of their investments in tradable securities or other financial instruments based on repackaged loans to monitor on an ongoing basis and in a timely manner performance information on the exposures underlying those investments; (c) the undertaking shall ensure that there is an adequate level of internal reporting to its administrative,

			and procedures to do so. We do not recognise the necessity to undertake specific stress tests given that stricter requirements are placed on the assessment of these securities and that the enforcement of adequate and effective risk management by the insurance undertaking are essential prerequisites for their acquisition. ***Para 3*** **-** We believe that 'each' together with 'comprehensive and thorough' will lead to an excessive requirement where holdings are not material either singly or together. This can be left to the proportionate policies and procedures required by the last sentence. The level of understanding of the investment shall be commensurate with the nature, scale, complexity of the risk inherent thereof. A thorough understanding of the underlying exposure shall be required only where necessary to understand the risks associated with the instrument.	management or supervisory body so that they are aware of material investments made in tradable securities or other financial instruments based on repackaged loans and that the risks from these investments are adequately managed; and (d) the undertakings shall include appropriate information on their investments in these instruments, and their risk management procedures in this area, in complying with their supervisory reporting and public disclosure requirements. ~~2. Where an undertaking holds a material amount of tradable securities or other financial instruments based on repackaged loans the insurance or reinsurance undertaking shall regularly perform stress tests in relation to its securitisation positions. Any stress test shall be commensurate with the nature, scale and the complexity of the risk inherent in the financial instrument.~~ 3. Insurance and reinsurance undertakings investing in tradable securities and other financial instruments based on repackaged loans shall be able to demonstrate to their supervisory authorities that for each of these investments they have ~~a~~ **an adequate** ~~comprehensive and thorough~~ understanding of the investment ~~and its underlying exposure~~ and for the investment in these instruments they have implemented written policies and procedures for their risk management. These written policies and procedures shall be proportionate to the risk profile of their investments in securitised positions.

CEA	248	RL5 IM18	***Para "whole paragraph"*** Since for some products the underlying credit exposure is actively managed (to ensure that credit quality is maintained through additions or substitutions) we strongly suggest that exposure anticipated in the prospectus or maintaining the credit quality should not revoke the transitional arrangements. Any revoke would notably mean that supervisors would interfere in the management of business on a going concern basis which would be in contradiction with the objectives of Solvency II.	*Article 248 RL6* (Art. 135 (2) of Directive 2009/138/EC) **Transitional provisions** In relation to insurance and reinsurance undertakings investing in tradable securities or other financial instruments based on repackaged loans that were issued before 1 January 2011], the requirements set in Articles RL1 to RL3 and in Article RL5 shall apply from 31 December 2014, but only in circumstances where new underlying exposures are added or substituted after **that date, unless they were anticipated in the prospectus or maintain the credit quality of the product** ~~31 December 2014.~~
CEA	249	SG1 IM1	***Para 1*** - We acknowledge that the words "at least" appear in the Framework Directive however, we believe their inclusion in the implementing measures could result in an unlevel playing field. ***Para 1(a)*** - We propose to delete these words as it is not clear what they refer to.	1. Insurance and reinsurance undertakings shall have in place a system of governance which complies with at least the following requirements: (a) to establish, implement and maintain ~~effective cooperation,~~ internal reporting and communication of information at all relevant levels of the undertaking;
CEA	250	SG2 IM1	The principle of proportionality does not justify more complex requirements. The CEA believes that proportionality is especially important to avoid unnecessary burdens for smaller undertakings (in terms of risk profile and complexity) by allowing less sophisticated methods to be applied. It is not justified to make requirements more complex than is already the case.	**Principle of Proportionality** In implementing the requirements referred to in this Chapter account shall be taken of the nature, scale and complexity of the operations of insurance or reinsurance undertaking. The principle of proportionality justifies simpler and less burdensome ~~or more complex~~ requirements depending on the risk-profile of the undertaking. This shall neither affect the effectiveness of the system of governance nor lead to an unsound or imprudent management of the business.

CEA	251	SG3 IM1	We acknowledge that the words “at least” appear in the Framework Directive however, we believe their inclusion in the implementing measures could result in an unlevel playing field. ***<u>To be deleted (the word foreseeable) : Para 3</u>*** **-** Not all risks are measurable. This should be reflected in the text.	**Risk Management System** Insurance and reinsurance undertakings shall put in place an effective risk management system which requires at least the following: 3. appropriate processes and procedures which enable the undertaking to identify, measure, manage, monitor and report the risks to which it is or might be exposed;
CEA	252	SG4 IM1	We acknowledge that the words “at least” appear in the Framework Directive however, we believe their inclusion in the implementing measures could result in an unlevel playing field.	**Areas covered by the risk management system** In order to ensure the proper functioning of the risk management system, insurance and reinsurance undertakings shall take appropriate actions. This shall include establishing, implementing, maintaining and monitoring practices and procedures as well as a written policy with regard to at least the following areas:
CEA	253	X1 IM3	We find the possibility for supervisors to require external valuation or verification too extensive.	1. Insurance and reinsurance undertakings are responsible for the valuation of their assets and liabilities in accordance with Article 75 of Directive 2009/138/EC and shall have adequate systems and controls to ensure that valuation estimates are appropriate and reliable and shall have a process for regularly verifying that market prices or model inputs are appropriate and reliable. 2. ~~Supervisory authorities may require insurance and reinsurance undertakings to undertake an external, independent valuation or verification of the value of material assets and liabilities.~~ 3. Insurance and reinsurance undertakings shall document

				policies and procedures for the process of valuation, including the description and definition of roles and responsibilities of the personnel involved in valuation and the relevant models and sources of information to be used. 4. For the purposes of Article 49 of Directive 2009/138/EC, valuation is deemed to be a critical activity.
CEA	255	TP24 IM13	**<u>Valuation of TP</u>** Data collection, validation and documentation is especially burdensome for small insurers. The principle of proportionality should be applied. Insurance companies often do not have adequate data and information about their coinsurance business in order to conduct projections on a policy-by-policy or on a portfolio basis. Hence, the questions how to simplify the calculation of TP or rather how to approximate the TP for coinsurance business, how to validate (Article TP24) and how to document (Article TP25) should be addressed and further discussed.	1. Undertakings shall validate the calculation of technical provisions, in particular by comparison against experience as referred to in Article 83 of Directive 2009/138/EC, at least once a year and in any case where there are indications that the data, assumptions or methods used in the calculation or the level of the technical provisions are not appropriate anymore. The validation shall cover: (a) the appropriateness, completeness and accuracy of data used in the calculation of technical provisions and the compliance with the data policy referred to in Article TP3; (b) the appropriateness of any grouping of policies in accordance with Article TP15 (c) the remedies to limitations of the data referred to in Article TP4; (d) the appropriateness of approximations referred to in Article TP4bis; (e) the adequacy and realism of assumptions used in the calculation of technical provisions;

				(f) the adequacy, applicability and relevance of the actuarial and statistical methods applied in the calculation of technical provisions; (g) the appropriateness of the level of the technical provisions as referred to in Article 84 of Directive 2009/138/EC. 2. The validation shall be carried out separately for homogeneous risk groups. It shall be carried out separately for the best estimate, the risk margin and technical provisions calculated as a whole in accordance with Article TP21. In relation to the best estimate, it shall be carried out separately for the gross best estimate and amounts recoverable from reinsurance contracts and special purpose vehicles. In relation to non-life insurance obligations, it shall be carried out separately for premium provisions and provisions for claims outstanding. 3. Insurance and reinsurance undertakings shall ensure that the persons overseeing the validation process are qualified with regard to their knowledge and experience.
CEA	256	TP25 IM13	**Documentation of TP** Data collection, validation and documentation is especially burdensome for small insurers. The principle of proportionality should be included. We would recommend to delete this article. Article TP3 requires the collection of data, including a description of concepts and processes. Article TP24	1. ~~Insurance and reinsurance undertakings shall document the following processes:~~ ~~(a) the collection of data and analysis of its quality and other information that relate to the calculation of technical provisions;~~ ~~(b) the choice of assumptions used in the calculation of technical provisions, in particular the choice of~~

			requires the validation of this information. To document this process of collecting, documenting and validating data is an additional and quite burdensome task. All requirements concerning documentation should be combined in one single TP e.g. TP 3 and or TP4	~~relevant assumptions and the allocation of expenses;~~ ~~(c) the selection and application of actuarial and statistical methods for the calculation of technical provisions;~~ ~~(a) the validation of technical provisions.~~ ~~2. For the purpose of point (b) of paragraph 1, the choice of relevant assumptions shall be documented. The documentation shall include:~~ ~~(a) justification for the choices of assumptions;~~ ~~(b) the inputs on which the choices are based;~~ ~~(c) the objectives of the choices and the criteria used for determining the appropriateness of these choices;~~ ~~(d) any material limitations in the choices made;~~ ~~a description of the processes in place to review the choices of assumptions.~~
CEA	257	SG5 IM1	The CEA suggests deleting the first part of the second sentence. The purpose of the Internal Control System should not be to ensure effectiveness and efficiency of an undertaking's operations.	**Internal control system** 1. The internal control system shall ensure the undertaking's compliance with applicable laws, regulations and administrative provisions. ~~In addition it shall ensure the effectiveness and the efficiency of the undertaking's operations in light of its objectives~~ as well as to ensure the availability and reliability of financial and non-financial information.
CEA	259	SG7	***Para 1(a)*** **-** The CEA believes that providing specialist analysis and performing quality reviews	**Risk management function**

		IM1	for the administrative, management or supervisory body of an undertaking, is an excessive requirement for the risk management function. ***Para 1(c)*** **-** The meaning of "organisation-wide" is not clear in this context. This word is not used elsewhere in the regulation.	1. The tasks of the risk management function include: (a) assisting the administrative, management or supervisory body and other management in the effective operation of the risk management system~~, in particular by providing specialist analysis and performing quality reviews;~~ (b) monitoring the risk management system; (c) maintaining an ~~organisation-wide and~~ aggregated view on the risk profile of the undertaking;
CEA	261	SG9 IM1	***Para 1*** - We propose a clarification of the scope of the requirement in article 261(1). ***Para 2(a)*** – We assume that this point refers to an annual perspective but if this is not the intention, we propose to delete. The audit plan should consider risks in the immediate year ahead as is in line with the one year time horizon of Solvency II.	**Internal audit function** 1. Those who carry out the internal audit function shall not assume any responsibility for any other **control functions, as defined in Article 258 SG6, or any operational** function **within the undertaking or the group.** 2. The internal audit function shall exercise the following responsibilities with impartiality and on its own initiative: (a) to establish, implement and maintain an audit plan setting out the audit work to be undertaken in the upcoming year~~(s)~~, taking into account all activities and the complete system of the governance of the insurance or reinsurance undertaking. The function shall take a risk-based approach in deciding its priorities. The audit plan shall be reported to the administrative, management or supervisory body.
CEA	263	SG11 IM1	***Para 2*** **-** The phrase "at least" could result in an unlevel playing field.	**Fit and proper requirements** 2. Key functions are those considered important or critical in the system of governance including ~~at least~~ the risk management,

				the compliance, the internal audit and the actuarial functions. Other functions may be considered key functions **as determined by the undertaking**. A function **should** ~~shall~~ be regarded as critical or important if a defect or failure in its performance would materially impair the continuing compliance of an insurance or reinsurance undertaking with the conditions and obligation of its authorisation or its other obligations under Directive 2009/138/EC, or the soundness or the continuity of its insurance services and activities.
CEA	264	SG12 IM1	***Para 3 & 6*** - It is clear that the administrative, management or supervisory body retains responsibility for the outsourced function. It is therefore sufficient to stipulate what is required of the undertaking. Paragraph (d) does not take into account the principles and practice of delegation. Undertakings, in particular larger ones (in terms of risk profile and complexity), should themselves determine which contracts are subject to board approval. In this respect, paragraph 6 is considered overly burdensome.	**Outsourcing** 2. If an undertaking and the service provider are members of the same group, the undertaking ~~shall~~ **can**, when outsourcing critical or important operational functions as defined in Article SG11(2), take into account the extent to which the undertaking controls the service provider or has the ability to influence its actions. 3. When choosing a service provider for any critical or important functions or activities, the administrative, management or supervisory body shall undertake all necessary steps to ensure that: … (d) ~~the general terms and conditions of the outsourcing agreement are authorised and understood by the undertaking's administrative, management or supervisory body;~~ 4. The written agreement **mentioned in para. 3 c) above** to be concluded between the undertaking and the service provider shall in particular clearly state the following requirements: [...]

				6. To protect against an undue increase in operational risk when outsourcing critical or important functions or activities, the outsourcing undertaking shall ~~:~~ ~~(a) verify that the service provider has adequate financial resources to perform the additional tasks in a proper and reliable way, and that all staff of the service provider who will be involved in providing the outsource functions or activities are sufficiently qualified and reliable;~~ ~~(b)~~ make sure that the service provider has adequate contingency plans in place ~~to deal with emergency situations or business disruptions and periodically tests backup facilities where necessary, taking into account the outsourced functions and activities~~.
CEA	265	SG13 IM1	The proposed redrafting suggestions are mainly editorial. As a general comment, national contract and labour laws may have an impact on proposals regarding remuneration.	**Remuneration Issues** When **establishing and** applying the remuneration policy referred to in Article SG1(1) (l) insurance and reinsurance undertakings shall comply with the following principles: 1. an overall written remuneration policy and practice shall be established in line with the undertaking's business and risk management strategy, its risk profile, objectives, risk management practices and the long-term interests and performance of the whole entity; ~~2.~~ (a) the remuneration policy applies to the undertaking as a whole, and contains**, where appropriate,** specific arrangements **according to paragraph 2** that take into account the respective tasks and performance of the administrative, management or supervisory body, persons who effectively run the undertaking,

				holders of key functions and other categories of staff whose professional activities have a material impact on the undertaking's risk profile; ~~3.~~ (b) the administrative, management or supervisory body of the insurance undertaking establishes the general principles of the remuneration policy and is responsible for its implementation: ~~4.~~ (c) there shall be a clear, transparent and effective governance structure around remuneration, including the definition of the remuneration policy and its oversight; ~~5. where appropriate an operationally independent remuneration committee shall be created in order periodically to support the administrative, management or supervisory body in overseeing the design of the remuneration policy and practice, their implementation and operation;~~ **2. Where appropriate due to the undertaking's risk profile and macro-economic relevance, the following rules shall apply to the members of the administrative, management or supervisory body and their holders of key functions and other categories of staff whose professional activities have a material impact on the undertaking's risk profile:** **(a) an operationally independent remuneration committee shall be created in order periodically to support the administrative, management or supervisory body in overseeing the design of the remuneration policy and practice, their implementation and operation;** ~~6.~~ **(b)** when remuneration schemes include both fixed and variable components, these shall be appropriately balanced so that the

				fixed or guaranteed component represents a sufficiently high proportion of the total remuneration to avoid employees being overly dependent on the variable components and allowing the undertaking to operate a fully flexible bonus policy, including the possibility to pay no variable component~~;~~**:** ~~7.~~ **(c)** where remuneration is performance-related, the total amount of remuneration is based on a combination of the assessment of the performance of the individual and of the business unit concerned and of the overall result of the undertaking. The variable part of remuneration of the staff engaged in the functions as referred to in **this** Section ~~2~~ shall be independent from the performance of the operational units and areas that are submitted to their control; ~~8.~~ **(d)** the payment of a substantial portion of a significant variable remuneration component, irrespective of the form in which it is to be paid, shall contain a flexible, deferred component that considers the nature and time horizon of the undertaking's business. The deferral period should be not less than three years, provided that the period is correctly aligned with the nature of the business, its risks, and the activities of the employees in question; ~~9.~~ **(e)** when assessing an individual's performance, not only financial but also non-financial criteria **should** ~~shall~~ be taken into account; ~~10.~~ **(f)** the measurement of performance, as a basis for variable compensation, shall include a downwards adjustment for excessive exposure to current and future risks, taking into account the undertaking's risk profile, and cost of capital for members of the administrative, supervisory or management

				body, the holders of key functions, the senior management and the personnel undertaking activities which involve significant risk-taking; ~~11. the remuneration policy shall be transparent internally;~~ ~~12. termination payments shall be related to performance achieved over the whole period of activity and be designed in a way that does not reward failure; and~~ ~~13.~~ staff, including senior management, whose professional activities have a material impact on the risk profile of the undertaking should commit themselves not to use personal hedging strategies or remuneration- and liability-related insurance to undermine the risk alignment effects embedded in their remuneration arrangement.
CEA	266	CA1 IM12	If the actual size of the deviation needs to be known (i.e. the difference between the SCR and the modified SCR) before it is required to calculate the modified SCR then the requirements may be circular.	**Assessment of significant deviation (standard formula and internal models)** For the purposes of Article 37(1)(a) and (b) of Directive 2009/138/EC, in concluding that the risk profile of an insurance or reinsurance undertaking deviates significantly from the assumptions underlying the Solvency Capital Requirement as calculated using the standard formula or an internal model, supervisory authorities shall take into account all relevant factors including the following : (a) The nature, type and size of the deviation (d) the **expected** size of the deviation;
CEA	270	CA5	The CEA believes that the insurer will need time to assess, design and implement any changes.	**Appropriate timeframe for adapting internal model to better reflect the given risk profile and for improving governance**

		IM12	Changes must then be endorsed by supervisory authorities. The level of own funds should also be taken into account when setting a timeframe to remedy any deficiencies. An appropriate timeframe should depend on the specific circumstances of the undertaking.	**deficiencies** For the purposes of Article 37(1)(b) and (c) of Directive 2009/138/EC respectively, in concluding that the adaptation of the model to better reflect the given risk profile has failed, or that the application of other measures is unlikely to improve deficiencies as the case may be, supervisory authorities shall take account of all relevant factors, **including own funds,** in determining what is an appropriate timeframe including the likelihood and severity of any adverse impact on policy holders and beneficiaries. ~~The timeframe shall not exceed 6 months.~~
CEA	272	CA7 IM12	The CEA expresses concern about comparing data, designs, structures and methodologies between 'similar undertakings'. Comparisons would be difficult to achieve in practice and the Supervisory Authority would not be able to disclose underlying information to the undertaking**.** ***Para 7*** **-** The CEA supports netting against areas with higher SCR. In general, the CEA believes that altering undertaking specific parameters /partial/internal models, should be a precursor to capital add-ons and not as a condition for netting.	**Scope and approach of modifications** 4. Any modification referred to in paragraph 2 or methodology referred to in paragraph 3 shall use adequate, applicable and relevant actuarial statistical techniques and be based on accurate, complete and appropriate data of the undertaking, ~~or if that is not available, data which is directly relevant for the operations of that undertaking~~. ~~5. Where alternative methodologies are insufficient or inappropriate supervisory authorities may derive the Solvency Capital Requirement for the purposes of Article CA6(1) by comparing the Solvency Capital Requirements of undertakings with similar risk profiles~~ ~~6. For the purposes of paragraphs 4 and 5 supervisory authorities may use information relating to other insurance and reinsurance undertakings with similar risk profiles provided that the supervisory authorities are able to meet the requirement in Article 37(1) of Directive 2009/138/EC to give reasons for their decision to set a capital add-on in a way which does not result in~~

				~~non-compliance with the professional secrecy requirements in Article 67 of Directive 2009/138/EC.~~ 7. Supervisory authorities may only net aspects of the risk profile deviation which indicate that a lower Solvency Capital Requirement would better reflect the insurance or reinsurance undertaking's actual risk profile against the other aspects which indicate a higher Solvency Capital Requirement is appropriate if the insurance or reinsurance undertaking satisfies supervisory authorities that: (a) there is a methodology complying with the requirements set out in paragraph 4 to quantify the impact on the amount referred to in Article CA6(1) of the aspects which indicate a lower Solvency Capital Requirement; (b) it would be inappropriate to address the aspects which indicate a lower Solvency Capital Requirement by replacement of parameters specific to the undertaking in accordance with Article 104(7) of Directive 2009/138/EC or by using an internal model in accordance with Article 112 of Directive 2009/138/EC; and (c) the overall Solvency Capital Requirement that would result after such netting will comply with Article 101(3) of Directive 2009/138/EC. The insurance or reinsurance undertaking shall notify the supervisory authority of any material changes in the circumstances set out in points (a) to (c) without delay.
CEA	277	ERP1	There must be sufficient supervisory guidance on the matter of “exceptional fall in financial markets”.	**Maximum extension period**

		IM14	The recovery period of 21 months seems too short for an undertaking to recover. The appropriateness of the extension period should be determined with respect to recovery of the financial markets as a whole.	In the event of an exceptional fall in financial markets [as determined by EIOPA (as proposed in the Omnibus II draft Directive] the maximum extension available under Article 138(4) of Directive 2009/138/EC shall **generally** not exceed 21 months. **The length of the extension period should be determined with respect to recovery of the financial markets as a whole.**
CEA	278	ERP2 IM14	As this provision aims at reacting to a breach of SCR in a situation where markets are seriously disrupted, it is important to be able to act without undue delay. Clarification is required as to the reference dates in "paragraph 2". It is not clear if this should be "paragraph 1" or paragraph 2 of a different Article.	**Procedure** 1. Following a request by the supervisory authority concerned, EIOPA shall determine within four weeks of receipt of the request whether an exceptional fall in financial markets has occurred. 2. Taking into account the period referred to in paragraph 2 the supervisory authority shall notify to the insurance or reinsurance undertaking concerned its decision to grant an extension of the recovery period within ~~eight~~ **four** weeks of the date request referred to in paragraph 2 was made.
CEA	279	ERP3 IM14	The number of undertakings affected should not be a criteria. Also situations where only one (major) undertaking is affected could have an adverse impact on the market.	**External Factors** For the purpose of the application of Article 138(4) external factors to be taken into account by the supervisory authority shall include, inter alia, the following: (b) ~~the number and size of insurance and reinsurance undertakings affected, and~~ whether the size and nature of those undertakings could when taken together affect the financial markets negatively;
CEA	281	ERP4	The CEA would prefer a shorter review period of, for example, 3 years in order to capture	**Review Clause**

		IM14	developments in markets that may contribute towards the need for a longer recovery period.	No later than [**3**~~5~~] years after the date referred to in Article 309 of Directive 2009/138/EC the Commission shall after consulting EIOPA make an assessment of this Chapter and in particular whether the maximum recovery period is appropriate. The Commission shall where appropriate propose amendments for the amendment of this [Regulation].
CEA	282	PDS1 IM2	The CEA finds that it is important that the requirements are designed so that elements can build on other elements, with the possibility of referring to or repeating information already disclosed. We also propose that the SFCR may be used as an accompaniment to the annual report. As a general requirement, quantitative templates should not be publically disclosed.	**Structure and Format** The **annual** solvency and financial condition report shall follow the structure set out in Annex PD1 and disclose in a coherent and informative manner the information referred to in Articles PDS2 to PDS8 either in full or by way of reference to the same information **contained in documents required for other legal or regulatory purposes**. **Insurance and reinsurance undertakings may choose to publish their solvency and financial condition report as an annex to their annual report.** The narrative report shall **be proportionate to the nature scale and complexity of the undertaking and** contain information in quantitative and qualitative form supplemented, where appropriate, with quantitative **information** ~~templates~~.
CEA	283	PDS2 IM2	An easily understandable summary should not be limited to policyholders.	**Summary** The solvency and financial condition report shall include a concise and easily understandable summary~~, aimed specifically at policy holders and beneficiaries~~. The summary shall in particular highlight clearly any material changes that have occurred in the undertaking's business and performance, system of governance, risk profile, valuation for

				solvency purposes and capital management over the reporting period.
CEA	284	PDS3 IM2	***Para 1*** **-** (a) The name and legal form of will be included as standard on the title page of the report. (d) Changes over the reporting period are covered by (e). The CEA finds that this section should cover the performance of the underwriting as well as the performance of investment activities and that the following section can be deleted as detailed reporting per asset class is excessive and should not be required. ***Para 2*** **-** The CEA believes that detailed disclosure per asset class is excessive and should not be required in the SFCR. ***Para 4*** **–** The CEA requests clarification on the meaning of "other activities". ***Para 5*** **–** The CEA believes that a separate section would be misleading and that any additional information should be disclosed in the section the information relates to.	**Business and performance** 1. The following information shall be disclosed by insurance and reinsurance undertakings regarding their business: ~~(a) the name and legal form of the insurance or reinsurance undertaking;~~ (b) The name of the supervisory authority responsible for financial supervision of the insurance or reinsurance undertaking or group. (c) a **brief** description of the undertaking's ownership and where relevant, in the context of the organisation and legal structure of the group; (d) the undertaking's material lines of business and material geographical areas where it writes business ~~and any material changes over the reporting period;~~ (e) any significant business or external events that have occurred over the reporting period that have had a material impact on the undertaking; and ~~(f) the main trends and factors that have contributed to the development, performance and position of the undertaking over the reporting period.~~ 2. The following information shall be disclosed by insurance and reinsurance undertakings regarding the performance **of the**

				undertaking with a split in ~~from~~ their **underwriting and investment** activities, **if possible**, over the reporting period and compared to the prior reporting period, as measured in those undertakings' financial statements: (a) a **brief** description of the undertaking's underwriting performance by material line of business and material geographical area; **(b) A brief description of the undertaking's investment performance by material asset class.** ~~3. The following information shall be disclosed by insurance and reinsurance undertakings regarding the performance from their investment activities over the reporting period and compared to the prior reporting period, as measured in those undertakings' financial statements:~~ ~~(a) information on and expenses arising from investments and, where relevant, components of such income and expenses from appropriate asset classes;~~ ~~(b) information showing any income and expenses recognised directly in equity; and~~ ~~(c) information about material transactions with shareholders, or persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body;~~ 4. In order to assess the performance from their other activities, insurance and reinsurance undertakings shall **briefly** describe the undertaking's other material income and expenses incurred

				over the year, as measured in those undertakings' financial statements. 5. Insurance and reinsurance undertakings shall disclose ~~in a separate section~~ any other material information regarding their business and performance.
CEA	285	PDS4 IM2	The CEA believes that public disclosure requirements should be briefer than those for supervisory reporting. ***Para 2*** **-** The CEA would like to clarify that it is the risk management system of the undertaking that runs on a continuous basis and not the disclosure requirements of the undertakings. The CEA believes that reporting on 'interdependencies' will be overly onerous. ***Para 3*** **-** Article 45(6) of the Framework Directive foresees reporting on the outcome of the ORSA to the Supervisor. While some ORSA related information may be relevant to external stakeholders to provide confidence in the system, information on capital management arising from ORSA should be reported to the Supervisor only. ***Para 4*** **-** The CEA believes that public disclosure on the internal control system should not be required to such an extent.	**System of Governance** 1. The following information shall be disclosed by insurance and reinsurance undertakings regarding their governance structure: (a) **A brief description of** the structure of the undertaking's administrative, management and supervisory bodies, providing a **brief** description of their main roles and responsibilities and a brief description of the segregation of responsibilities within these bodies, in particular where relevant committees exist within them; and (b) any material changes in the governance structure that have taken place during the year; (c) Relevant information on the remuneration policy and practices, including: – principles of the remuneration policy, with an explanation of the relative importance of the fixed and variable components of remuneration, – information on the individual and collective

			Para 5 **-** The CEA believes that disclosure to this extent on the internal audit and actuarial functions could have negative consequences in terms of the disclosure of confidential information. ***Para 6*** **-** The independence of functions is a requirement under Level 1, it is also subject to the supervisory review process. The CEA does not why this should be duplicated at Level 2. ***Para 7*** **-** If information on outsourcing is disclosed in great detail, it could jeopardise commercially sensitive information. ***Para 8*** **-** The CEA believes that a separate section would be misleading and that any additional information should be disclosed in the section the information relates to.	performance criteria on which any entitlement to share options, shares or variable components of remuneration is based, and – a **brief** description of the main characteristics of supplementary pension or early retirement schemes **(as distinct from termination payments),** for the members of the administrative, management and supervisory bodies and key functions holders. 2. The following information shall be disclosed by insurance and reinsurance undertakings regarding their risk management system: (a) A **brief description** ~~explanation as to~~ how the undertaking's risk management system comprising strategies, processes and reporting procedures, is able to effectively identify, measure, monitor, manage and report, on a continuous basis, the risks on an individual and aggregated level, to which the undertaking is or could be exposed~~, and their interdependencies;~~ (b) a **brief** description of how the risk management system including the risk management function are integrated into the organisational structure and decision-making processes of the undertaking; 3. The following information shall be disclosed by insurance and reinsurance undertakings regarding the process they have adopted to fulfil their obligation to conduct an Own Risk and Solvency Assessment as part of their risk management system:

				(a) a description of the process undertaken by insurance and reinsurance undertakings to fulfil their obligation to conduct an Own Risk and Solvency Assessment as part of their risk management system including how the Own Risk and Solvency Assessment is integrated into the organisational structure and decision making processes of the undertaking; (b) a statement explaining how often the Own Risk and Solvency Assessment is reviewed and approved by the undertaking's administrative, management or supervisory bodies; and ~~(c) a statement explaining how the undertaking has determined its own solvency needs given its risk profile and how its capital management activities and its risk management system interact with each other;~~ 4. The following information shall be disclosed by insurance and reinsurance undertakings regarding their internal control system: ~~(a) An~~ a brief description ~~overview~~ of the undertaking's internal control system **including the compliance function.** ~~and why it considers this system appropriate to the nature, scale and complexity of the risks inherent in its business;~~ ~~(b) information on how the compliance function is implemented.~~ 5. The following information shall be disclosed by insurance and reinsurance undertakings regarding their internal audit function:

				(a) **A brief description** ~~an overview~~ of how the undertaking's internal audit function operates; ~~(b) information on how the undertaking's internal audit function maintains its independence and objectivity from the activities it reviews.~~ 6. The following information shall be disclosed by insurance and reinsurance undertakings regarding their actuarial function: (a) a **brief** description of ~~how~~ the undertaking's actuarial function ~~is implemented~~, outlining its key areas of responsibility; 7. The following information shall be disclosed by insurance and reinsurance undertakings regarding their outsourcing policy **where applicable**: (a) **A brief description** ~~an overview~~ of~~,~~ ~~and the rationale for,~~ the undertaking's outsourcing of any critical or important operational functions and activities; (b) where the undertaking outsources any function or activities referred to in point (a), the jurisdiction in which the service provider is located. 8. Insurance and reinsurance undertakings shall disclose ~~in a separate section~~ any other material information regarding their system of governance.
CEA	286	PDS5 IM2	The CEA believes that the granularity in this section is excessive and that public disclosure	**Risk Profile** 1. Insurance and reinsurance undertakings shall disclose

			should not be made by sub-module. It will be difficult to report quantitative information on "liquidity risk". ***Para 2(d)*** **-** The CEA believes that publically disclosing how the assets have been invested in accordance with the prudent person principle will not be as helpful as a description of how the investment strategy is designed to ensure compliance with the prudent person principle. ***Para 6*** **-** The CEA believes that a separate section would be misleading and that any additional information should be disclosed in the section the information relates to.	qualitative and quantitative information regarding their risk profile, in accordance with paragraphs 2 to 5, separately for the following categories of risk: (a) underwriting risk; (b) market risk; (c) credit risk; ~~(d) liquidity risk;~~ (e) operational risk; and (f) other material risks. 2. The following information shall be disclosed by insurance and reinsurance undertakings regarding their risk exposure, including the exposure arising from off-balance sheet positions and the use of any special purpose entities including special purpose vehicles: (a) information on the nature of the measures used to assess these risks within the organisation~~, including any material changes over the reporting period~~; (b) data on the material risks classified by category; (c) **a brief description of** ~~information on~~ the nature of the material risk exposures on the undertaking ~~and how these have developed over the reporting period~~; (d) ~~an~~ **a brief description of** ~~explanation on~~ how **the undertaking believes it's investment strategy is** ~~assets~~

				~~have been invested~~ in accordance with the prudent person principle. 3. The following information shall be disclosed by insurance and reinsurance undertakings regarding their risk concentration: (a) a **brief** description of the material risk concentrations to which the undertaking is exposed. 4. The following information shall be disclosed by insurance and reinsurance undertakings regarding their risk mitigation: (a) a **brief** description of the techniques used for mitigating risks, and the processes for monitoring the continuing effectiveness of these risk mitigation strategies; 5. The following information shall be disclosed by insurance and reinsurance undertakings regarding the stress testing and scenario analysis: (a) ~~about~~ a **brief** description of the outcome of stress testing and scenario analysis, in relation to any internal model used for the calculation of the undertaking's Solvency Capital Requirement, for material risks and events. 6. Insurance and reinsurance undertakings shall disclose ~~in a separate section~~ any other material information regarding their risk profile.
CEA	287	PDS6 IM2	The CEA does not consider that this would generate any added value to stakeholders. Extensive explanation and reconciliation of accounting and	**Valuation for Solvency Purposes** 1. The following information shall be disclosed by insurance and

			solvency valuations should only be reported to the supervisor and not disclosed to external stakeholders. Uncertainty of provisions is captured in Risk Margin and SCR. The CEA cannot see where the value added is for stakeholders. ***Para 4*** **-** The CEA believes that a separate section would be misleading and that any additional information should be disclosed in the section the information relates to.	reinsurance undertakings regarding the valuation of their assets for solvency purposes: (a) separately for each material class of assets the amount of assets, as well as a **brief** description of the basis, methods and main assumptions used for their valuation for solvency purposes; ~~(b) separately for each material class of assets, a quantitative and qualitative explanation of any material differences with the valuation basis, methods and main assumptions used by the undertaking for financial reporting.~~ 2. The following information shall be disclosed by insurance and reinsurance undertakings regarding the valuation of their technical provisions for solvency purposes: (a) separately for each material line of business the amount of technical provisions, and any amount of the best estimate and the risk margin, as well as a **brief** description of the basis, methods and main assumptions used for their valuation for solvency purposes (regarding both the best estimate and the risk margin); ~~(b) an indication of the level of uncertainty associated with the amount of technical provisions;~~ ~~(c) separately for each material line of business, a quantitative and qualitative explanation of any material differences with the valuation basis, methods and main assumptions used by the undertaking for accounting purposes.~~ (d) information on the impact of future management actions,

				reinsurance, policy holder behaviour, material changes of assumptions and the illiquidity premium corresponding to the insurance or reinsurance obligations. 3. The following information shall be disclosed by insurance and reinsurance undertakings regarding the valuation of their other liabilities for solvency purposes: (a) separately for each material class the amount of other liabilities as well as a **brief** description of the basis, methods and main assumptions used for their valuation for solvency purposes; ~~(b) separately for each material class of other liabilities, a quantitative and qualitative explanation of any material differences with the valuation basis, methods and main assumptions used by the undertaking for accounting purposes;~~ 4. Insurance and reinsurance undertakings shall disclose ~~in a separate section~~ any other material information regarding their valuation for solvency purposes.
CEA	288	PDS7 IM2	***Para 1(c)*** - The CEA does not believe there is enough preparatory base for this provision in the Level 1 text. ***Para 1(e)*** - This information is commercially sensitive and should not be disclosed to this extent. For Mutual's, disclosing information on counterparties would involve disclosing the underlying information on policyholders.	**Capital Management** 1. The following information shall be disclosed by insurance and reinsurance undertakings regarding their own funds: ~~(a)~~ **A brief description of** ~~information on~~ the objectives, policies and processes employed by the undertaking for managing its own funds, ~~including information on the planning horizon used and on any material changes over the reporting period;~~

			Para 1(f) **-** The CEA considers this information should be covered under supervisory reporting only. ***Para 2(e)*** **-** The CEA believes that this should be covered under supervisory reporting only. ***Para 4 –*** To ensure an undertaking does not suffer a competitive disadvantage, and to respect confidentiality, detailed disclosure on internal models should not be required. ***Para 4(b)*** **–** Information on the integration of the partial internal model into the standard model is confidential and should be reported to supervisors only. ***Para 4(c) & (d)*** **-** The CEA interprets this to mean that calculation of the Standard SCR would be required on an ongoing basis for undertakings using internal models. As previously mentioned, it should not be the case for undertakings to calculate both. In general, this information is too detailed for public disclosure. ***Para 4(e)*** **-** The CEA acknowledge that this is in the level 1 text, but we expect that maximum harmonisation will be achieved in this area. ***Para 6*** **–** The CEA believes that a separate section would be misleading and that any additional information should be disclosed in the section the	(b) separately for each tier, information on the structure, the quantitative amount and quality of own funds **in tier 1, tier and tier 3,** including an analysis of the significant changes in each, over the reporting period; (c) a quantitative and qualitative explanation of any material differences between equity according to the undertaking's financial statements and the excess of assets over liabilities; (d) for each basic own-fund item that is subject to the transitional arrangements referred to in Articles TOPF1 and TOF2, as **a brief** description of the nature of the item and its amount; (e) for each material items of ancillary own funds: a **brief** description of the item, its amount and the methodology applied in arriving at that amount; and, the nature of the counterparty or group of counterparties when there are many minor parties, and the name of the counterparty or group of counterparties to the extent that public disclosure is legally possible and practicable; (f) information on any significant restriction affecting the availability of own funds within the undertaking. 2. The following information shall be disclosed by insurance and reinsurance undertakings regarding their Solvency Capital Requirement and Minimum Capital Requirement: (a) the amounts of the undertaking's Solvency Capital Requirement and the Minimum Capital Requirement at the reporting period end **and**, together with an indication,

			information relates to.	where applicable, that the final amount of Solvency Capital Requirement is still subject to supervisory assessment; (b) the amount of the undertaking's Solvency Capital Requirement split by risk modules where the undertaking applies the standard formula, and by risk categories where the undertaking applies a full or partial internal model; (c) **a brief description of** ~~information on~~ whether and for which risks the undertaking is using simplified calculations and/or undertaking specific parameters in the standard formula, or a partial or a full internal model; (d) unless the undertaking's Member State has made use of the option provided for in the third subparagraph of Article 51 (2) of any undertaking parameters used by the undertaking in applying the standard formula in accordance with Article 110 of Directive 2009/138/EC and the amount of any capital add-on applied to the Solvency Capital Requirement, together with information on its justification by the supervisory authority concerned; ~~(e) any change in the Solvency Capital Requirement and Minimum Capital Requirement over the reporting period, and the reasons for any material change.~~ 4. The following information shall be disclosed by insurance and reinsurance undertakings regarding any internal model used for the calculation of their Solvency Capital Requirement: ~~(a) a description of the various purposes for which the undertaking is using its internal model;~~

				~~(b)~~ a **brief** description of the internal model's scope in terms of business units and risk categories , ~~as well as whether, and if yes which standardised technique has been used to integrate any partial internal model with the standard formula; where relevant the use of a non standardised technique shall be disclosed;~~ ~~(c) an overall description of the internal model methods for the calculation of the probability distribution forecast and the Solvency Capital Requirement;~~ ~~(d) an explanation allowing a proper understanding, globally and by risk module, of the main differences in the methodologies and assumptions used in the standard formula and in the internal model;~~ (e) the risk measure and time period used, and in the case they are not the same as those determined by Article 101(3) of Directive 2009/138/EC, a justification that the Solvency Capital Requirement calculated using that internal model provides policy holder and beneficiaries with the same level of protection as that set out in Article 101 of Directive 2009/138/EC. (f) a **brief** description of the nature and appropriateness of the key data used. 5. The following information shall be disclosed by insurance and reinsurance undertakings regarding any non-compliance with their Minimum Capital Requirement or significant non-compliance with their Solvency Capital Requirement: (a) regarding any non-compliance with the undertaking's

				Minimum Capital Requirement: the period and maximum amount of each non compliance, and, in addition to the explanation of its origin and consequences as well as any remedial measures taken, as provided for under point (e) (v) of Article 51(1), an explanation of the effects of such remedial measures; (b) where non-compliance with the undertaking's Minimum Capital Requirement has not been subsequently resolved: the amount of the non-compliance at the reporting date; (c) regarding any significant breach of the undertaking's Solvency Capital Requirement as defined in Article COF 2 (3): the period and maximum amount of each significant breach, and, in addition to the explanation of its origin and consequences as well as any remedial measures taken, as provided for under point (e) (v) of Article 51(1), an explanation of the effects of such remedial measures; (d) where a significant breach of the undertaking's Solvency Capital Requirement has not been subsequently resolved: the amount of the breach at the reporting date. 6. Insurance and reinsurance undertakings shall disclose ~~in a separate section~~ any other material information regarding their capital management.
CEA	290	PDS10 IM2	The CEA expects that supervisory authorities shall explain why their permission is withdrawn.	**Non-disclosure of information** Where supervisory authorities permit insurance and reinsurance undertakings, in accordance with paragraphs 1 and 2 of Article 53 of Directive 2009/138/EC, not to disclose information, this permission shall remain valid only as long as the reason for non-disclosure

				continues to exist. Insurance and reinsurance undertakings shall notify the supervisory authority as soon as the reason for any permitted non-disclosure ceases to exist.
CEA	292	PDS12 IM2		**Means** 5. Insurance and Reinsurance undertakings shall, irrespective of whether the undertakings report has been made available on a website in accordance with paragraph 1 or 2, send, to any person who so requests no later than 2 years after the disclosure periods refers to in Article PDS11, a printed copy of their report within 10 working days from that request**, not necessarily free of charge.**
CEA	293	PDS13 IM2	The CEA believes that it is not necessary to republish the full SFCR report, an addendum highlighting the parts of the SFCR that have changed should be sufficient.	**Addendum to solvency and financial condition reports** ~~**Updates**~~ 1. Where insurance and reinsurance undertakings have to disclose publically, in accordance with article 54(1) of Directive 2009/138/EC, appropriate information on the nature and effects of any major development affecting significantly the relevance of their solvency and financial condition report, these undertakings shall provide **an addendum to the section of the report concerned**~~. an updated version of that report.~~ Articles PDS 1-PDS10 shall apply to that **addendum mutatis mutandis** ~~updated version~~. 2. Any ~~updated version~~ **addendum** of the solvency financial and condition report shall be disclosed as soon as it is practicable

				after the occurrence of the major development referred to in paragraph 1 in accordance with the provisions set out in Article PDS 12. 3. ~~Not withstanding paragraphs 1 and 2, insurance and reinsurance undertakings may decide that, for the purposes of paragraph 5 of Article PDS 12, to disclose appropriate information on the nature and effects of any major development affecting significantly the relevance of their solvency and financial condition report in the form of amendments supplementing the original printed copy~~.
CEA	294	SRS1 IM9	As a general comment, reporting requirements should not go beyond what is required in the Framework Directive under each respective Article i.e. it should not be required to complete new calculations and implement new systems only to satisfy supervisory reporting obligations. ***Para 1(a)*** **-** It should not be required to re-publish the SFCR, it should be possible to publish any updates in the form of an addendum. ***Para 1(c)*** **-** Differentiation between the content of qualitative and quantitative reporting should be more clearly outlined in Level 2 implementing measures. As a general rule, quarterly quantitative templates should consist of a simplified overview of annual quantitative templates. It is also important to note that harmonised	**Definition, structure, format** 1. The information which supervisory authorities require insurance and reinsurance undertakings to submit at predefined periods in accordance with Article 35(2)(a)(i) of Directive 2009/138/EC shall comprise the following: (a) the solvency and financial condition report disclosed by the insurance or reinsurance undertaking in accordance with Article PDS11, as well as any **addendum to** ~~updated version of~~ that report disclosed in accordance with Article PDS13; (b) a regular supervisory report presenting information in narrative form and including quantitative data where appropriate; (c) annual and quarterly quantitative templates specifying ~~in greater detail~~**, the content outlined in Annex XXX, and**

			European templates should not be supplemented by national templates.	**where appropriate** updating, ~~where appropriate,~~ the information presented in the solvency and financial condition report and in the regular supervisory report. 2. The regular supervisory report shall follow the same structure as the one set out in Annex PD1 for the solvency and financial condition report and contain further information which is necessary for the purposes of supervision.
CEA	295	SRS2 IM9		**Summary** The regular supervisory report shall include a summary. The summary shall in particular highlight clearly any material changes that have occurred in the undertaking's business and performance, system of governance and remuneration policy, risk profile, valuation for solvency purposes and capital management over the year, and provide a concise explanation about the **rationale** ~~causes and effects~~ of such changes.
CEA	297	SRS4 IM9	***Para 8(c)*** **-** Supervisory reporting should not unduly influence the data that will be collected by undertakings when carrying out their ORSA. The SCR and ORSA have different purposes and a comparison seems irrelevant.	8. The following information shall be reported by insurance and reinsurance undertakings regarding their own risk and solvency assessment which was performed over the year: (a) a description of how the own risk and solvency assessment is evidenced, internally documented and reviewed, including how it is integrated into the management process and decision making framework of the undertaking; (b) a quantitative and qualitative description of the outcome of the own risk and solvency assessment, including the assumptions used and the undertaking's future overall

				solvency needs that result from the own risk and solvency assessment process ~~compared to own funds; and~~ ~~(c) information on the main differences between the Solvency Capital Requirement and the overall solvency need identified using the own risks and solvency assessment process.~~
CEA	298	SRS5 IM9	***Para 1 c) -*** It will be difficult to report quantitative information on "liquidity risk". ***Para 3 a)*** If reporting is to be made on a frequent basis then future projections over a long period should not be required i.e. any information should be based on the business planning time horizon rather than looking extensively into the future.	**Risk Profile** 1. Insurance and reinsurance undertakings shall disclose qualitative and quantitative information regarding their risk profile, in accordance with paragraphs 2 to 5, separately for the following categories of risk: (a) underwriting risk; (b) market risk; (c) credit risk; ~~(d) liquidity risk;~~ (e) operational risk; and (f) other material risks. 3. The following information shall be reported by insurance and reinsurance undertakings regarding their risk concentration: (a) an overview of any ~~future~~ risk concentrations anticipated over the business planning time horizon given the undertaking's business strategy, and how these risk

				concentrations are and will be managed.
CEA	299	SRS6 IM9	The granularity of supervisory reporting requirements is of particular concern. The CEA finds the volume of information excessive in terms of ensuring compliance with Solvency II. Reporting requirements should not require additional calculations to those already required in Pillar 1 of the Framework Directive.	**Valuation for solvency purposes** Insurance and reinsurance undertakings shall report ~~in detail~~ any important information, other than that already disclosed in their solvency and financial condition report, regarding the valuation of their assets, technical provisions and other liabilities for solvency purposes.
CEA	300	SRS7 IM9	***Para 1(b)*** - This would require the use of an approved internal model over time periods for which it was not designed. Many capital requirement models have a one-year time horizon. The CEA believes that undertakings using the internal model should not have to calculate SCR using the standard formula, even as an estimate. ***Para 4*** - The CEA supports the Commission's original drafting on this point.	**Capital Management** 1. The following information shall be reported by insurance and reinsurance undertakings regarding their own funds: (a) ~~detailed i~~Information on the material terms and conditions of the main items of own funds held by the undertaking; (b) current expectations of the undertaking's own funds over **a one year** ~~its business~~ planning time horizon given the undertaking's business strategy, including appropriately stressed capital plans and whether there is any intention to replace any own funds approaching maturity or plans to raise additional own funds. This shall include the insurance or reinsurance undertaking's plans to replace basic own-fund items that are subject to the transitional arrangements referred to in Article TOF1 and TOF2 over the timeframe referred to in those articles. 2. The following information shall be reported by insurance and reinsurance undertakings regarding their Solvency Capital Requirement and Minimum Capital Requirement:

				(a) the expected development of the undertaking's Solvency Capital Requirement and Minimum Capital Requirement over **a one year** ~~its business~~ planning time horizon given the undertaking's business strategy; (b) where the undertaking is using an internal model to calculate its Solvency Capital Requirement and where the supervisory authority requires the undertaking to provide an estimate of its Solvency Capital Requirement determined in accordance with the standard formula, such an estimate. 4. The following information shall be reported by insurance and reinsurance undertakings regarding any non-compliance with their Minimum Capital Requirement or **significant** non-compliance **with** their Solvency Capital Requirement: (a) information on any reasonably foreseeable risk of non-compliance with the undertaking's Minimum Capital Requirement and on any reasonably foreseeable risk of **significant** non-compliance with the undertaking's Solvency Capital Requirement, and the undertaking's plans for ensuring that compliance with each is maintained.
CEA	301	SRS8 IM9	***Para 2*** - Annual reporting of the RSR should not be a standard requirement and the principle of proportionality should be applied as such. ***Para 6*** - First time reporting under the Solvency II regime will provide a significant challenge for many undertakings. Full quarterly reporting in	**Deadlines** 2 Insurance and reinsurance undertakings shall subsequently submit their regular supervisory report every 3 years, no later than 14 weeks after the relevant undertaking's financial year end. 2 However, supervisory authorities may, when they establish the frequency and the scope of the reviews, evaluations and assessments

			2013 based on the current templates as circulated by Ceiops should not be required. Quarterly reporting should be in line with the actual supervisory purpose. ***Para 7*** **–** The CEA suggests an additional clause which allows a re-examination of initial deadlines after 3 years.	referred to in paragraphs 1, 2 and 4 of Article 36 of Directive 2009/138/EC, require insurance and reinsurance undertakings to submit their regular supervisory report at the end of any financial year of the undertaking not already covered by subparagraphs 1 and 2. **Supervisory authorities will take into account the risk profile and complexity of the undertaking when determining a higher frequency of reporting.** [...] 6. Insurance and reinsurance undertakings shall submit the quarterly quantitative templates referred to in point c of Article SRS1(1) within the following period: (a) ~~regarding the quarterly quantitative templates related to any quarter ending on or after 1 January 2013: no later than 8 weeks after the quarter end;~~ (b) regarding the quarterly quantitative templates related to any quarter ending on or after 1 January 2014: no later than 7 weeks after the quarter end; (c) regarding the quarterly quantitative templates related to any quarter ending on or after 1 January 2015: no later than 6 weeks after the quarter end. **To be deleted** **Member States may allow supervisory authorities to waive the requirement for full reporting of quarterly quantitative templates in 2013.** 7. **By 31 December 2016, the Commission shall make an assessment of the appropriateness of the deadlines for**

				supervisory reporting. **The Commission shall present a report to the European Parliament and the Council, accompanied, where appropriate, by a proposal for the amendment of the legislation.**
CEA	302	SRS9 IM9	Secure handling of data must be ensured.	Insurance and reinsurance undertakings shall submit to the supervisory authorities the regular supervisory report and the quantitative templates referred to in Article SRS8 in electronic form.
CEA	303	TA1 IM8	The CEA fully supports this. Comparability of information is essential to support harmonisation.	No redrafting suggestions at this stage. **General Principles** 1. The structure and common formats of the disclosures shall allow relevant information to be easily accessible and comparable for all interested parties. 2. No confidential information which supervisory authorities may receive in the course of their duties shall be included in the disclosures except in summary or collective form, such that individual undertakings cannot be identified.
CEA	305	TA3 IM8	***Para 1*** **-** This information is important for the transparency of the methods applied in the supervisory review process. ***Para 2*** **-** The usefulness of harmonised mandatory standardised stress tests will have to be further discussed. We support the original Commission drafting on	**General Criteria and Methods** 1. Disclosure of general criteria used in the supervisory review process shall include information on the scope and the range of the supervisory review as referred to in Article 36 of Directive 2009/138/EC. Disclosure of relevant methods shall include a general description of the supervisory review process as well as refer to monitoring tools used by supervisory authorities in order to identify deteriorating financial conditions in undertakings and

			this paragraph and propose to reinsert the text.	to monitor remedial actions taken by undertakings. **This information shall include criteria for approval of internal models, for setting, review and removal of capital add-ons, for classification of specific own fund items and for the application of the proportionality principle.** 2. Where a decision is made to harmonise mandatory standardised stress tests either at European or national level, **the basis for such a decision, including** the parameters to be used, shall be disclosed.
CEA	307	TA5 IM8	The level 1 Directive, Art. 31 (2), requires that disclosure shall be sufficient to enable comparison of the supervisory approaches. This would be achieved by applying a common format. See also CEIOPS advice, (CEIOPS – DOC – 30/09), paras. 3.7 and 3.20.	**Objectives, main functions and Activities of Supervision** Disclosure of the objectives, main functions and activities of supervision shall include, **in a common format**, information on the objectives of supervision imposed by law in the field of insurance and reinsurance and information on the aims that supervisory authorities set themselves in the exercise of their supervisory tasks. It shall also cover the scope of duties of the national supervisory authorities and the key actions supervisory authorities take in order to discharge these duties.
CEA	308	TA6 IM8	In order for comparisons to be made, it is important for the information to be available in one location. Other Level 3 Committees have adopted similar approaches.	**Means of Disclosure** **Information to be disclosed according to Article TA2, TA3 and TA5, shall be made available via the website of EIOPA and the supervisory authority.** Information shall be disclosed in the official language or languages of the Member State concerned and shall also be disclosed in **English as** a language customary in the sphere of international finance.

CEA	309	SPV1 IM10	***Para 4*** This paragraph should not limit the re-use of the SPV.	The authorisation of special purpose vehicles by a supervisory authority shall state the uses for which the special purpose vehicle is authorised and where relevant, any terms and conditions, relating to that use.
CEA	310	SPV1 IM10	***Para (a)*** It should be made clear that not only reinsurance like contracts are included in Article SPV2. Further, we do not understand if derivatives would be include in this scope. We suggest a clear wording to state that it is not the case. The CEA's position is that the scope of this regulation should only apply to insurance or indemnity arrangements, and not to parametric/modeled loss arrangements which most often are derivatives and therefore do not need an insurance SPV to be realized.	Special purpose vehicles that meet the definition set out in Article 13(26) of Directive 2009/138/EC shall be eligible for authorisation by the supervisory authorities in the Member State in which the special purpose vehicle is established, provided that the following conditions are fulfilled: (a) the special purpose vehicle assumes risk from an insurance or reinsurance undertaking through reinsurance contracts or assumes insurance risk through equivalent arrangements; (b) where a special purpose vehicle assumes risk from more than one undertaking the solvency of that special purpose vehicle shall not be adversely affected by the winding-up proceedings of any one of those undertakings; (c) the contractual arrangements relating to the transfer of risk from an insurance or reinsurance undertaking to a special purpose vehicle and the investment in assets by the special purpose vehicle meet the conditions set out in Article SPV3 to Article SPV6; (d) the persons who effectively run the special purpose vehicle satisfy the conditions in Article SPV7; (e) the shareholders or members having a qualifying holding in the special purpose vehicle satisfy the

				conditions set out in Article SPV8; (f) the special purpose vehicle has an effective system of governance and meets the conditions set out in Article SPV9; and (g) the special purpose vehicle meets the solvency requirements set out in Article SPV11.
CEA	312	SPV4 IM10	***Para "whole paragraph"*** The CEA believes that the onus should be on undertakings to demonstrate effective risk transfer. This position is also shared by Ceiops. ***Para 1(a)*** **–** **"**All circumstances" is confusing and alludes to removal of all basis risk (which is unlikely in structuring terms); the meaning of the next section SPV 3.2 would suffice in terms of clarifying the risk transfer requirement and the extent to which risk has been transferred under which circumstances. Consequently, article SPV3.1 could be removed.	**Effective transfer of risk** The contractual arrangements relating to the transfer of risk from an insurance or reinsurance undertaking to the special purpose vehicle and from the special purpose vehicle to the providers of debt or financing shall ensure that: ~~**(a) the transfer of risk is effective in all circumstances; and**~~ (b) the extent of risk transfer is clearly defined and incontrovertible, (c) **there are no connected transactions which could undermine the effective transfer of risk** ~~**The determination that the transfer of risk is effective in all circumstances in accordance with paragraph 1(a) shall take into account whether there are any connected transactions which could undermine the effective transfer of risk.**~~

CEA	315	SPV7 IM10	***Para 1*** **-** The fit and proper requirements for the persons running the SPV should be set with a view to the nature, scale and complexity of the risk transfer into the SPV. In most of the cases, we would expect such features to generate a proportionately less stringent need for fitness and propriety compared to the case of reinsurers.	1. All persons who effectively run the special purpose vehicle shall at all times fulfil the requirements set out in Article 42(1) of Directive 2009/138/EC.
CEA	317	SPV9	***Para "whole paragraph"*** If parts of the various functions in the SPV are fulfilled by the undertaking transferring risks into the SPV, this should be recognised as well.	1. Special purpose vehicles shall have a system of governance that is proportionate to the nature, scale and complexity of the risks that the special purpose vehicles assumes and the uses for which the special purpose vehicle is authorised in accordance with Article SPV1(4), including: [...]
CEA	318	SPV9	***Para 2*** **-** As a principle the SPV should only be reporting to its supervisor. We recommend deleting the whole phrase or at a minimum revert to use of providing a copy.	1. The supervisory authority in the Member State in which the special purpose vehicle is established may request such information from the special purpose vehicle as is necessary in order to determine that the requirements set out in Articles SPV2 to Article SPV9 and Article SPV11 are satisfied. 2. Special purpose vehicles shall report the following information to the supervisory authority in the Member State in which the special purpose vehicle is established ~~and to the supervisory authorities in the Member States in which the insurance or reinsurance undertakings that have transferred risk to the special purpose vehicle are established~~: (d) the value of the assets of the special purpose vehicle in accordance with Article SPV11(1)(a) by material class and a description of the basis, methods and

				assumptions used for their valuation; (e) the aggregate maximum risk exposure and a description of the basis, methods and assumptions used for their determination; (f) material conflicts of interest between any of the special purpose vehicle, the insurance or reinsurance undertaking and the providers of debt or financing; and (g) significant transactions entered into by the special purpose vehicle over the last reporting period. 3. The report referred to in paragraph 2 shall be submitted at least annually by the special purpose vehicle. The deadlines for the submission of the report shall be the same as those set out in Article SRS8, except that those deadlines shall apply, where relevant, from the date of the submission of the annual quantitative reports to the supervisory authorities in accordance with Article 35 of Directive 2009/138/EC. 4. Special purpose vehicles shall immediately inform the supervisory authority in the Member State in which the special purpose vehicle is established of any material changes that could affect the compliance of the special purpose vehicle with the requirements set out in Articles SPV2 to SPV9 and Article SPV11.
CEA	319	SPV10 IM10	***Para 2*** **-** The assessment of supervisors should take into account the SPV particularities. SPVs should not be expected to have similar risk management	2. The assessment by supervisory authorities of whether a special purpose vehicle is fully funded shall be based on whether the conditions in paragraph 1 have been satisfied,

			capabilities to a reinsurance undertaking. It should be noted that an SPV is not meant to be actively managed. It is designed to follow the guidelines of the transaction documentation. The documentation acts as risk mitigant. The careful review of the documentation by sponsors, regulators, rating agencies and investors provides the necessary comfort around the risk management. Any ongoing risk assessment if required is usually provided by third parties or directly by the undertaking. Requiring risk management capabilities from an SPV would make it an actively managed entity and very much alike a traditional reinsurance undertaking. It would lose its predictable nature (passive entity with actions limited to those described in the transaction documentation) which is an essential feature both for sponsors and investors and the cost of this would be equally prohibitive. ***Para 3*** **-** Many SPVs finance coupon and fees by entering into contract with the sponsor; this contractual payment claim should be considered as an asset.	taking into account where appropriate: (a) the investment and liquidity risks of the special purpose vehicle; (b) the credit, market, underwriting and operational risks of the special purpose vehicle; and (c) the arrangements for holding assets in the special purpose vehicle. 3. For the purpose of Articles SPV1 to SPV11 aggregate maximum risk exposure shall be defined as the sum of the maximum payments, including fees and expenses that the special purpose vehicle may incur. 4. The inclusion in the assets of the special purpose vehicle of contractually due future premiums or investment income relating to future fees and expenses to be paid by the special purpose vehicle may be permitted by the supervisory authorities, provided that: (d) the future liabilities of the special purpose vehicle to which the future premiums or investment income relates only arise to the extent that future premiums or investment income is received by the special purpose vehicle; and (e) the cash in-flows related to contractually due future premiums or investment income have been subject to stress tests and there is a high probability that these amounts will be received in the future.

CEA	321	SCG1 IM11	***Para (3)*** - There may be immaterial related undertakings that will not be covered by the group internal model but where the Standard formula will be applied. Groups should not be forced to apply method 2 to these undertakings. ***Last para*** There is no clear basis for this requirement in the Framework Directive.	~~(3) where an internal model is used for the calculation of the Solvency Capital Requirement at group level, a related undertaking is not covered by that group internal model;~~ [...] The method, or combination of methods, chosen shall be applied in a consistent manner over time. ~~The group supervisor shall revert to method 1 in relation to any related undertaking where the use of method 2 or a combination of methods 1 and 2 is no longer justified~~.
CEA	322	SCG2 IM11	***Para (1)*** - In the case of joint ventures it should be possible to use either method 1 or method 2. ***Para (4) and (5)*** - Please refer to the specific comments we made on ER1 to ER3 in IM17.	**[we do not have a re-drafting suggestion at this stage]**
CEA	323	SCG3 IM11	***Para (2)*** - This is not in line with the Level I text (it is not required that capital can be transferred in both directions - from subsidiary to parent undertaking, but not vice versa). ***Para (2) (b)*** - For the reasons explained above, we do not find that the transferability should be considered when assessing the own funds available at group level. ***Para (2) (c)*** - 9 months is too short; some types of assets cannot de sold in this delay, for example property. ***Para (4)*** - Funds can be made available at group level through the use of intra – group transactions.	2 In assessing, in accordance with paragraph (3) of Article 222 of Directive 2009/138/EC, whether certain own funds eligible for the Solvency Capital Requirement of a related insurance or reinsurance undertaking are unable to effectively be made available to cover the Solvency Capital Requirement of the participating insurance or reinsurance undertaking or insurance holding company for which the group solvency is calculated, the supervisory authorities shall consider whether those own funds cannot effectively be made available ~~for the group~~ on the basis of the following criteria: (a) The own-fund item is subject to legal or regulatory requirements that restrict the ability of that item to absorb all types of losses wherever they arise in the group;

			As such what is considered to be loss absorbent at solo level should also be considered as loss absorbent at group level. We therefore do not agree with the systematic assumptions that some funds are less likely to be available at group level ***Para (5)(c)*** - It is unclear what a restricted item in ring fenced funds is. ***Para (5)(b)*** - Although we welcome the recognition of the fact the best possible way of addressing transferability/fungibility constrains is through the use of IM, we urge the EC not pre-empt the way in which this will be done in practice. ***Para 6*** - The reduction of eligible own funds which cannot be effectively made available for the group by a "diversification haircut" is unjustified. We believe that while the Group SCR should fully take into account diversification effects (i.e. the fact that risks do not materialise at the same time in all entities of the group) any limitations of transferability should only be reflected in the amount of own funds available at group level without any adjustment to the Group (or solo) SCRs. The current proposal is not in line with the text of Art. 222 of Directive 2009/138/EC which does not allow for such an adjustment but rather clearly states that non transferable funds should be eligible to cover the group SCR in so far as they cover the related undertaking's SCR..	~~(b) The own-fund item is subject to legal or regulatory requirements that restrict the transferability of that item to another insurance or reinsurance undertaking;~~ **(c)** Making those own funds available for **covering the Solvency Capital Requirement of the participating insurance or reinsurance undertaking** the group would not be possible within a maximum of **12** ~~9~~ months **or 21 months in the event of an exceptional fall in financial markets,.** 3. In considering the amount of eligible own funds which cannot effectively be made available for **covering the Solvency Capital Requirement of the participating insurance or reinsurance under undertaking** ~~the group,~~ the supervisory authorities shall assess the restrictions that would exist in going concern. The supervisory authorities shall also take into account any material costs to the participating insurance or reinsurance undertaking or insurance holding company, or to any related undertaking, that making such own funds available for the group is likely to entail. ~~4. When considering whether certain eligible own funds cannot effectively be made available for the group, the supervisory authorities shall pay particular attention to at least the following items:~~ ~~(a) ancillary own funds;~~ ~~(b) preference shares, subordinated mutual members account and subordinated liabilities;~~

				(c) ~~an amount equal to the value of net deferred tax assets~~. 5. The following items shall not be considered as effectively available for **covering the Solvency Capital Requirement of the participating insurance or reinsurance undertaking** ~~the group~~: (a) any minority interests in the eligible own funds exceeding the Solvency Capital Requirement of a related insurance or reinsurance undertaking; (b) any minority interest of a related ancillary services undertaking and special purpose vehicle; ~~(c) any restricted own funds item in ring-fenced funds as referred to in point (b) or Article 99 of Directive 2009/138/EC and in Article RFFOF1 [of IM7 and/or IM33].~~ ~~6. Where the group supervisor decides, in accordance with paragraph (3) of Article 222 of Directive 2009/138/EC, that certain own funds eligible for the Solvency Capital Requirement of a related insurance or reinsurance undertaking cannot effectively be made available for the group, and where method 1 is used in relation to that related undertaking, these own funds may be included in the calculation only in so far as they are eligible for covering the following:~~ ~~(d) Where the consolidated group Solvency Capital Requirement is calculated, in relation to that related undertaking, on the basis of the standard formula, the Solvency Capital Requirement of that related undertaking~~

				~~multiplied by a percentage corresponding to the proportion that the consolidated group Solvency Capital Requirement bears to the sum of the Solvency Capital Requirements of each of the insurance and reinsurance undertakings included in the consolidated calculation based on the standard formula;~~ ~~(c) Where the consolidated group Solvency Capital Requirement is calculated, in relation to that related undertaking, on the basis of an internal model, the Solvency Capital Requirement of that related undertaking multiplied by a percentage corresponding to the proportion of the diversification effects at group level that are attributed to that related undertaking, determined by that internal model, provided that the sum of such percentages for all the insurance and reinsurance undertakings included in the consolidated calculation based on the internal model equals 100%.~~ ~~The first subparagraph shall apply in particular to any minority interests in the eligible own funds covering the Solvency Capital Requirement of a related insurance or reinsurance undertaking.~~
CEA	326	SCG6 IM11	Undertakings should not be required to recalculate the SCR assuming an unwinding of an IGT but simply may remove the corresponding capital charges related to operational risk, if any, and counterparty risk.	**[we do not have a re-drafting suggestion at this stage]**
CEA	328	IMG2	***Para 1and 2*** - Please refer to CEA comments to IM4.	1. Articles IM2 and IM3 [of IM4] shall apply mutatis mutandis to the policy for changing an internal model used to calculate the group Solvency Capital Requirement and to

		IM30		applications for approval of major changes to a full or partial internal model. 2. The policy for changing the internal model shall not cover the inclusion of **material** new elements in the internal model, such as additional risks or business units or **material** related undertakings which are not covered by the internal model. Inclusions of **material** new elements in the internal model shall follow the approval procedure laid down in Article IM3 of [IM4], as amended by Articles IMG1, Article IMG3 and Article IMG4.
CEA	329	IMG3 IM30	Please refer to CEA comments to IM4.	1. Article IM4 [of IM4] shall apply mutatis mutandis to the assessment of an application to use a full or partial internal model to calculate the group Solvency Capital Requirement. 3 Without prejudice to paragraph 2, during the assessment of the application of the internal model, the supervisory authorities within the college of supervisors, that are not one of the supervisory authorities referred to in paragraph 2, shall also be allowed to participate in the assessment of the application. However, their participation shall be limited to identifying and preventing circumstances where the exclusion of parts of the business from the scope of the internal model lead to a~~n~~ **material** underestimation of the risks of the group, or where the internal model conflicts with an internal model previously approved or in the process of approval by the relevant supervisory authority used for the calculation of the Solvency Capital Requirement of any of the subsidiary.

				4 Where applicable, the assessment of the application shall include an evaluation of whether the ~~justifications~~ **explanation of the reasons** provided ~~by the participating undertaking~~ for the exclusion of **related** undertakings from the internal model for the calculation of the group ~~s~~**S**olvency **Capital Requirement are in accordance with Article IMG1 paragraph 5 (a) (iii).** ~~are appropriate.~~
CEA	330	IMG4 IM30	Please refer to CEA comments to IM4.	1. Articles IM6 to IM8 [of IM4] shall apply mutatis mutandis to the decision on an application to use a full or partial internal model to calculate the group Solvency Capital Requirement. ~~2.~~ After due consultation with other supervisory authorities as set out in paragraphs 2 to 4 of Article IMG3, the group supervisor shall make its own decision on the application. The group supervisor shall provide its decision to the participating insurance or reinsurance undertaking and the other supervisory authorities involved in the assessment of the application. The decision shall be written in ~~an official~~ **the** language **agreed on in accordance with Article IMG1(3)**~~of the Member State of the group supervisor.~~ 3. Where the supervisory authorities involved in the assessment of the application comprise supervisory authorities from more than one Member State, the group supervisor shall, after consultation with the other supervisory authorities and with the group itself, provide the decision referred to in paragraph 1 in another language most commonly understood by the other supervisory authorities involved.
CEA	335	CRM1	***Para 1(a)*** **-** There should be flexibility in the way	**Assessment of Conditions: Criteria**

		IM31	groups organise their risk management. There is not just one specific group structure; instead groups are structured in very different ways (financial holdings, strategic holdings, service holdings etc.). ***Para 1(b)*** **-** From an organisational point of view, for example, staff dealing with the risk management function at group level should not necessarily be located in the parent undertaking. The structure should be based on lines of business and not on legal entities. Otherwise, the implementation of risk management in business decisions will be difficult e.g. the use of internal models. The key issue is that risk management is effective. ***Para 2*** **-** It is important that decisions are taken and communicated promptly. Clarification is necessary as to exactly what role each party will play in the process.	1. In assessing, in accordance with the first part of point (b) of Article 236 of Directive 2009/138/EC, whether the risk management processes and internal control mechanisms of the parent undertaking cover the subsidiary, the group supervisor and the other supervisory authorities concerned shall consider whether all the following criteria are met: (a) The risk management function referred to in Article 44 (4) of Directive 2009/138/EC is carried out, in respect of the subsidiary, to a significant extent by the parent undertaking, **or, on behalf of the parent undertaking by another undertaking of the group;** (b) The compliance function referred to in Article 46 of Directive 2009/138/EC is carried out, in respect of the subsidiary, to a significant extent by the parent undertaking, **or on behalf of the parent undertaking by another undertaking of the group**; and (c) The provisions on outsourcing set out in Article 49 of Directive 2009/138/EC are complied with by the subsidiary in relation to the risk management and compliance activities carried out by the parent undertaking. 2. **The decision on the application for permission will be communicated by the Supervisory Authority to the undertaking within 4 weeks after the application for permission has been submitted.**
CEA	336	CRM2	***Para 1(a)*** **-** The CEA believes that a description of the rationale is excessive.	**Assessment of conditions: procedures** 1. Where a parent undertaking wishes to obtain permission to

		IM31	***Para 1(b)*** **-** Completeness should be required only for material information. ***Para 3*** **–** The decision on the applications is a case-by-case decision. There's no legal basis in the Level I text for a joint permission or rejection. In addition, the work of the college should be organised by the college in an efficient manner. This might mean to deal with some applications separately or earlier. "at the same time" would be also arbitrary – incentive to submit applications on different days.	subject any of its subsidiaries to the rules laid down in Articles 238 and 239 of Directive 2009/138/EC, that parent undertaking shall submit an application containing the following: (a) A cover letter approved by the administrative, management or supervisory body of the parent undertaking, ~~describing the rationale for the application and~~ including relevant contact information; (b) A formal confirmation approved by the administrative, management or supervisory body of both the parent undertaking and the subsidiary concerned, that all documentation provided as part of the application is complete **in all material respects** and presents a true and fair view of all material aspects; (c) Documentation explaining how the criteria in Article CRM1 (1) are complied with by the parent undertaking, with ~~the necessary~~ information on the processes, mechanisms and reporting procedures implemented to that effect. ~~3. Where the parent undertaking decides to submit at the same time applications in relation to several subsidiaries, these applications shall be considered, within the college of supervisors in accordance with Article 237 of Directive 2009/138/EC, jointly.~~
CEA	337	CRM3 IM31		**Assessment of an emergency situation: criteria** In assessing, in accordance with Article 239(2) of Directive 2009/138/EC, whether there is an emergency situation, the supervisory authority having authorised the subsidiary shall

				consider whether the following criteria are met: (1) the timing of cooperation, exchange of information and consultation process within the college would jeopardise the effectiveness of the measures to be taken; and (2) the supervisory authority having authorised the subsidiary is of the opinion that a delay in the **immediate** application of the proposed measures would cause the financial conditions of the subsidiary to further deteriorate in such a way that there is an imminent risk that the subsidiary will not comply with its Minimum Capital Requirement. **3. The supervisory authority having authorised the subsidiary will inform the college of supervisors of the measures taken in an emergency situation.**
CEA	338	CGS1 IM21	***Para 1*** **-** The phrase "at least" could result in an unlevel playing field. ***Para 1(a) & (b)*** **-** The Level I text limits participation of supervisory authorities of significant branches and related undertakings to "achieving the objective of an efficient exchange of information". Further, Art. 248 (3) of the directive states that the effective functioning of the college may require that some activities be carried out by a reduced number of supervisory authorities. IM 21 should also restrict the participation of branch supervisors on the purpose of an efficient exchange of information and not allow for "involvement … in	**Branch supervisors and other authorities** 1. Where the supervisory authority of a significant branch of an insurance or reinsurance undertaking wishes to participate in the college of supervisors in accordance with the second subparagraph of Article 248(3) of Directive 2009/138/EC, it shall present a reasoned request to that effect to the group supervisor. The group supervisor shall allow the supervisory authority of the branch to participate in the college if ~~at least~~ one of the following conditions is met: **(a)** the annual gross written premium of the branch exceeds ~~5~~ **10** % of the annual gross written premium of the group, measured with reference to the last available consolidated

			any relevant activity". It should also be noted that not all groups have to do consolidated accounts (e.g. Gleichordnungskonzerne). Point a) and in particular point b) will be difficult to determine. Branches are not separate legal entities and will be automatically included under calculations for the undertaking of which they belong to. The calculation would have to be done separate for branches. A reasonable estimate should be sufficient.	**or combined** accounts of the group. **A reasonable estimate of the gross written premium volume is sufficient if the figure is not readily available.** **(b)** the annual gross written premium volume of the branch exceeds ~~5~~ **10**% of annual gross premiums written for business where the risk is situated in the host Member State. **A reasonable estimate of the gross written premium volume is sufficient if the figure is not readily available.** 2. Upon its own initiative or following receipt of a reasoned request from the relevant supervisory authority, the group supervisor may, after consultation with the other supervisory authorities in the college, invite the following authorities to ~~be involved~~ **assist** in any relevant activity of the college of supervisors, where it considers appropriate to enhance the efficient exchange of information to facilitate the exercise of group supervision:
CEA	339	CGS2 IM21	Article 241 of the Level 1 text introduces implementing measures on what should be considered an emergency situation. Since this issue has not yet been dealt with, the CEA believes that some clarification in these implementing measures would be helpful. The CEA would like to seek clarification that the emergency plan is drafted by Supervisors and is not linked to the recovery plan that would (if necessary) be drafted by undertakings. Undertakings should not be put in a situation where they are required to	**Coordination arrangements** The coordination arrangements shall specify, with regard to both going concern and emergency situations, the following: 4 The emergency plan referred to in point b of paragraph 3 shall be tailored to the specific risks of the insurance or reinsurance group. It shall include provisions covering in particular the following tasks: recognition of the existence of a crisis, preparation of the crisis management, crisis assessment, crisis management and external communication. The emergency plan shall provide that the following information shall be exchanged among supervisory authorities within the college as soon as is

			submit information twice.	practicable:
CEA	339 bis	CGS2 Bis. IM21	***Para 2*** - The CEA suggests that the group supervisor has the option to rely on college members for assistance, otherwise the burden of completing all tasks related to group supervision may be too large. ***Para 3*** - This would help the Group Supervisor maintain a 'big picture' view on the activities of a Group. An increased frequency of meetings could be justified, for example, when there is an exceptional fall in financial markets and periods of high market volatility. ***Para 5*** - The initiative to convene a meeting of the supervisory college should be taken by the group supervisor. ***Para 6*** - This is in accordance with the IAIS Guidance Paper on 'The use of Supervisory Colleges in Group-Wide Supervision' (October 2009).	**Coordination of colleges of supervisors** **1. A college of supervisors shall be established for each affected insurance and reinsurance group no later than 01 January 2013.** **2. The group supervisor may delegate tasks or responsibilities to other supervisory authorities in the college where it considers such involvement appropriate to facilitate the exercise of group supervision. Individual supervisory authorities in the college shall provide a brief analysis to accompany documentation on an insurance or reinsurance undertaking for which they are responsible in their member state.** **3. The college of supervisors shall meet regularly, depending on the risk-based assessment made by the group supervisor and taking into account the nature, scale and complexity of the risks inherent in the business of the group. The college of supervisors shall hold one physical meeting per financial year and shall be required to meet more frequently in circumstances such as those outlined in ERP 1- ERP 4.** **4. The college of supervisors should clearly record the outcomes of each meeting including the following:** **a) action points arising from any meeting(s);** **b) the individual(s) to whom a task has been assigned;**

				and **c) the date by when an action should be complete.** **5. It will be the responsibility of the group supervisor to monitor subsequent follow up procedures and ensure that necessary actions are completed; tasks may be delegated to facilitate the efficient and effective functioning of the group.** 6. **The group supervisor shall organise a regular assessment of the effectiveness of the supervisory college in achieving its agreed role and functions. The group supervisor will ensure input is received from all supervisory authorities participating in the college of supervisors.**
CEA	340	CGS3 IM21	Article 253 of the Level 1 text relates to professional secrecy and confidentiality arrangements. Supervisors should be aware of third country professional secrecy arrangements.	**Information to be exchanged on a systematic basis** **3. Article 253 of Directive 2009/138/EC shall apply to members of the college of supervisors, and other supervisory authorities in accordance CGS1.**
CEA	341	PDG1 IM2	***Para 2(a)*** - This would be onerous for large cross border groups. ***Para 2(d)*** - Quantification of diversification is the result of calculations by the standard formula or by the approved internal or partial model. The requirement in this article could be read to require groups to calculate the deduction and aggregation method in addition to the consolidated method. This would be against the Level I text which states that only one method has to be applied.	**Structure and contents** 2. The group solvency and financial condition report shall include the following additional information: (a) regarding the group's business and performance: – the legal and organisational group structure, with a description of ~~all~~ **material** subsidiaries and ~~material~~ participations, – information on relevant operations and

			With regards to the consolidation method, the Level 1 text is clear that the group SCR floor has to be calculated only if the default method is used.	transactions within the group, and their net value over the reporting period. (c) regarding the group's valuation for solvency purposes: – where the basis, methods and assumptions used at group level for the valuation for solvency purposes of the group's assets, technical provisions and other liabilities differ materially from those used by any of its **material** subsidiaries for the valuation for solvency purposes of its assets, technical provisions and other liabilities, a quantitative and qualitative explanation of any material differences. (d) regarding the group's capital management: – **a description and a quantification of the material sources of group diversification effects,** – where applicable, the sum of amounts referred to in points (a) and (b) of the second subparagraph of Article 230(2) of Directive 2009/138/EC), **if the consolidation method is used for the group solvency calculations;** – a **brief** description of the undertakings which are in the scope of any internal model used to calculate the group Solvency Capital Requirement, and – a **brief** description of the main differences, if

				any, between any internal model used at group level and any internal model used to calculate the group Solvency Capital Requirement.
CEA	342	PDG2 IM2	To avoid overly onerous translation requirements, groups should have the option of using English, or the language(s) of their 'home member state'. Disclosure at subsidiary level could be the full SFCR in English/'home member state of group'. If required, the subsidiary could disclose translated summary into the language of the 'home member state of the subsidiary'.	**Languages** 1. Participating insurance and reinsurance undertakings or insurance holding companies shall disclose their group solvency and financial condition report in ~~the language~~ **English** or a language(**s**) determined by their group supervisor. ~~2. Where the college of supervisors comprises supervisory authorities from more than one Member State, the group supervisor may, after consultation with the other supervisory authorities concerned and of the group itself, require participating insurance and reinsurance undertakings or insurance holding companies to also disclose the report referred to in paragraph 1 in another language most commonly understood by the other supervisory authorities concerned.~~ 3. Where any of the insurance or reinsurance subsidiaries of the participating insurance or reinsurance undertakings or insurance holding companies has its head office in a Member State whose official language or languages are different from the language or languages in which the group solvency and financial condition report is disclosed by application of paragraphs 1 ~~and 2~~, participating insurance and reinsurance undertakings or insurance holding companies shall disclose a translation of the summary of that report as referred to in Article PDS2 into the official language or languages of that Member State.
CEA	345	PDG5	The CEA considers that 8 weeks would be a more	**Means**

		IM2	appropriate extension for this purpose.	3. Article PDS11 shall apply *mutatis mutandis* to the disclosure by participating insurance and reinsurance undertakings or insurance holding companies of their group solvency and financial condition report. However, the deadlines for disclosure referred to in that Article shall each be extended by ~~4~~ **8** weeks.
CEA	346	PDG7 IM2	The CEA believes that it is not necessary to re-publish the full SFCR report, an addendum highlighting the parts of the SFCR that have changed should be sufficient.	**Addendum to group solvency and financial condition report ~~Update~~s** 1. Where participating insurance and reinsurance undertakings or insurance holding **companies** have to disclose publicly, in accordance with Article 256(1) of Directive 2009/138/EC, appropriate information on the nature and effects of any major development affecting significantly the relevance of their group solvency and financial condition report, they shall provide an **addendum to that report** ~~updated version of that report. Articles PDG1 to PDG4 shall apply to that updated version~~. 2. Any **addendum** ~~updated version~~ of the group solvency and financial condition report shall be disclosed as soon as practicable after the occurrence of the major development referred to in paragraph 1, in accordance with the provisions set out in Article PDG6.
CEA	348	PDG9 IM2	***Para 1*** - To avoid overly onerous translation requirements, groups should have the option of using English, or the language(s) of their 'home member state'. ***Para 2*** - The CEA believes that this strikes a balance between the need for local stakeholders to make comparisons between group and solo	**Languages** 1. Participating insurance and reinsurance undertakings or insurance holding companies shall disclose their single solvency and financial condition report in the language **English** or **a** language**(s)** determined by their group supervisor. **2 (Bis) For the purpose of making comparisons between the**

			undertakings and disclosure obligations on undertakings.	**solo solvency and financial condition report and the group solvency and financial condition report, the supervisory authority of the solo undertaking may require that the undertaking produce a summary report including a brief description of the relationships between the solo undertaking and the group. This summary report may be in English, and/or, the language determined by the supervisory authority of the undertaking.** ~~2. Where the college of supervisors comprises supervisory authorities from more than one Member State, the group supervisor may, after consultation with the other supervisory authorities concerned and of the group itself, require participating insurance and reinsurance undertakings or insurance holding companies to also disclose the report referred to in paragraph 1 in another language most commonly understood by the other supervisory authorities concerned.~~ ~~3. Where any of the subsidiaries covered by the single solvency and financial condition report has its head office in a Member State whose official language or languages are different from the language or languages in which that report is disclosed by application of paragraphs 1 and 2, the supervisory authority concerned may, after consulting the group supervisor and the group itself, require participating insurance and reinsurance undertakings or insurance holding companies to include in that report a translation of the information related to that subsidiary into an official language of that Member State participating insurance and reinsurance undertakings or insurance holding companies shall disclose a translation into official language or languages of that Member State:~~ ~~(a) of the summary of the information from that report~~

				~~related to the group;~~ ~~(b) of the information from that report related to that subsidiary, unless exemption has been granted by the supervisory authority concerned.~~
CEA	351	PDG12 IM2		**Updates** 1. Where participating insurance and reinsurance undertakings or insurance holding companies have to disclose publicly, in accordance with Article 256(2) of Directive 2009/138/EC, appropriate information on the nature and effects of any major development affecting significantly the relevance of their single solvency and financial condition report, they shall provide an **addendum to that** ~~updated version of that~~ report. Articles PDG8 to PDG10 shall apply to that updated version. 2. Any **addendum to** ~~updated version of~~ the single solvency and financial condition report shall be disclosed as soon as is practicable after the occurrence of the major development referred to in paragraph 1, in accordance with the provisions set out in paragraph 2 of Article PDG11.
CEA	353	SRG1 IM9	***Para 1*** **-** There will be different starting points for many undertakings in terms of quarterly reporting. The principle of proportionality should be applied in this respect. ***Para 2*** **-** Reporting at the level of the group should constitute a high level overview of solo reports. Group reporting should be used to assess the solvency of a group, it should not be required to	1. **Reflecting the nature, scale and complexity in terms of the risk profile of the group concern,** Articles SRS1 to SRS7 shall apply *mutatis mutandis* to the information which participating insurance and reinsurance undertakings or insurance holding companies shall be required to submit to the group supervisor pursuant to the first subparagraph of Article 254(2) of Directive 2009/138/EC. 2. The group regular supervisory report shall include the following

			duplicate reporting from a solo level. ***Para 3*** **–** IM 21 outlines the functioning of the College of Supervisors. This is the correct forum for the exchange of detailed information on solo templates.	additional information: (c) Regarding the group's business and performance: ~~– a description of activities and sources of profits or losses for each undertaking in the group, and~~ – a description of the contribution of each subsidiary to the group strategy. 3. **Group reports should be submitted to the group supervisor by the ultimate parent. This is without prejudice to the submission of solo reports to the solo supervisor.**
CEA	359	RTCE2 IM39	Consistent with Level 1 text (Article 27)	1. The supervisory authorities of the third country **are provided with** ~~have~~ the necessary means, and the relevant expertise, capacity, and mandate to achieve the main objective of supervision, namely the protection of policy holders and beneficiaries regardless of their nationality or place of residence. In particular, the supervisory authorities in that third country shall have the necessary capacities, including financial and human resources. 2. The supervisory authorities of the third country are empowered by law or regulation to supervise domestic insurance or reinsurance undertakings effectively and undertake a range of actions, including the ability to impose sanctions or to take enforcement action in relation to the domestic insurance or reinsurance undertakings that it supervises.
CEA	361	RTCE4 IM39	The requirement for companies to have a risk management process in place which all risks to which a company could be exposed can be	2. The solvency regime of the third country shall require domestic insurance and reinsurance undertakings carrying out reinsurance activities to have in place an effective risk-management system

			measured on a continuous basis is excessive. We agree that an equivalent level of supervisory reporting and public disclosure. However, we are of the opinion that other disclosure requirements, e.g. in accounting, could cover these requirements. Therefore, a separate report with the content of the SFCR should not be mandatory. This is in line with the Level 1 text which allows EEA-insurers to make reference to other public disclosure if equivalent in nature and scope.	comprising strategies, processes and internal and supervisory reporting procedures necessary to identify, ~~measure,~~ monitor, manage and report, on a ~~continuous~~ regular basis the risks at an individual and an aggregated level, to which the undertaking is or could be exposed, and their interdependencies, as well as an effective internal control system. 3. The solvency regime of the third country shall require domestic insurance and reinsurance undertakings carrying out reinsurance activities to establish and maintain risk-management, compliance, internal audit and actuarial functions. 4. The solvency regime of the third country shall require domestic insurance and reinsurance undertakings carrying out reinsurance activities to disclose publicly, on at least an annual basis, a report on their solvency and financial condition **or similar public disclosures made under other legal or regulatory requirements, to the extent that those disclosures are equivalent to the information required under Article 51 in both their nature and scope.**
CEA	364	RTCE7 IM39	Level 1 text speaks of the "solvency regime applied to reinsurance activities of undertakings with their head office in that third country" (in contrast to the Reinsurance Directive which assesses equivalence on undertaking (=reinsurer) level). Therefore to apply Article 172 to all activities of undertakings carrying out reinsurance activities goes beyond the scope of the Level 1 text. 7. The reference to 'highest quality' implies the third country supervisory regime requires a tiering of own funds. We believe that the existence of a tier	1. The solvency regime of the third country shall require domestic ~~insurance and reinsurance~~ undertakings carrying out reinsurance activities to hold adequate financial resources **for their reinsurance activities**. 2. The assessment of the financial position of domestic ~~insurance and reinsurance~~ undertakings carrying out reinsurance activities in the third country shall rely on sound economic principles and solvency requirements **for reinsurance activities** shall be based on an economic valuation of all assets and liabilities.

			system for own funds should not be a prerequisite for recognising equivalence.	3. The solvency regime of the third country shall require domestic ~~insurance and reinsurance~~ undertakings carrying out reinsurance activities to establish technical provisions with respect to all of their ~~insurance and~~ reinsurance obligations towards policy holders and beneficiaries of ~~insurance~~ or reinsurance contracts. 4. The solvency regime of the third country shall require that assets held to cover technical provisions shall **in relation to reinsurance activities** be invested in the best interest of all policy holders and beneficiaries taking into account any disclosed policy objective and that domestic ~~insurance and reinsurance~~ undertakings carrying out reinsurance activities only invest in assets and instruments whose risks the undertaking concerned can properly identify, measure, monitor, manage, control and report. 5. The solvency regime of the third country shall require domestic ~~insurance and reinsurance~~ undertakings carrying out reinsurance activities to meet capital requirements **for their reinsurance activities** that are set at a level which ensures that in the event of significant losses policy holders and beneficiaries are adequately protected and that payments can continue to be made to them as they fall due to a level of confidence at least equivalent to that achieved by Article 101 of Directive 2009/138/EC. Those capital requirements shall be risk-based with the objective of capturing quantifiable risks. Where a significant risk is not captured in the capital requirements, then that risk shall be addressed through another supervisory mechanism. The calculation of capital requirements shall ensure an accurate and timely intervention by supervisory authorities of the third country.

				6. The solvency regime of the third country shall require domestic insurance and reinsurance undertakings carrying out reinsurance activities to maintain a minimum level of capital, non-compliance with which shall trigger immediate and ultimate supervisory intervention. 7. The solvency regime of the third country shall require domestic insurance and reinsurance undertakings carrying out reinsurance activities to meet the capital requirements referred to in paragraphs 5 and 6 with own funds that are of a sufficient quality and which are able to absorb significant losses. Own-fund items considered by the supervisory authorities to be of ~~the~~ **a** high~~est~~ quality shall absorb losses both in a going concern and in case of a winding up.
CEA	365	TRTCE1	**Transitional arrangements** The inclusion of transitional rules is to be welcomed; nonetheless, the demand raised in this context, that third countries have to i) present a public commitment to introduce supervisory rules that are consistent with Solvency II and ii) establish a comprehensive assessment programme seem too extensive. In order to provide greater clarity on the procedural aspects of the transitional provisions we suggest that Art 365-TRTCE1 is expanded to include: • End to end procedure/process for transitional equivalence applications (including the involvement or otherwise of	1. Where the conditions in paragraph 2 have been met, the Commission may, in accordance with the regulatory procedure referred to in Article 301(2) of Directive 2009/138/EC, decide to grant for a limited period of time the same treatment for reinsurance contracts concluded with undertakings having their head office in a third country as that which would result from there being a positive equivalence decision in relation to that third country's solvency regime in accordance with Articles 172 and 173. 2. The third country supervisory authorities responsible for the solvency regime have before the date referred to in Article 309 of Directive 2009/138/EC: (a) ~~made a public commitment to introduce a solvency regime that is capable of satisfying the criteria set out in Articles RTCE1 to RTCE7 before the end of the~~

			EIOPA in that process). • Clarification of how assessment of the three criteria would be performed, emphasizing that this is a 'lighter' assessment than the formal assessment itself. The CEA is still discussing the required length of the transitional period with our members and will provide a response as soon as possible.	~~period referred to in paragraph 4;~~ (b) ~~established a programme for converging to a solvency regime that is capable of satisfying the criteria set out in Articles RTCE1 to RTCE7 (a convergence programme) and that convergence programme is comprehensive and capable of being completed before the end of the period referred to in paragraph 4;~~ (c) ~~the resources necessary for the completion of the convergence programme are allocated to its implementation; and~~ (d) meet the criteria in paragraph 3. 3. The third country's solvency regime satisfies the following criteria: (a) the third country currently has a supervisory regime that is risk-based or has taken measures to move towards such a system; (b) the third country's supervisory authorities have shown a willingness to engage in the equivalence assessment process and to cooperate and exchange information with supervisory authorities in Members States; and (c) the supervisory authorities of the third country are bound by obligations of professional secrecy. 4. The period of time referred to in paragraph 1 shall be a period of **x** years after the date referred to in Article 309 of Directive 2009/138/EC.

CEA	366	GTCE1 IM39	RTCE7 should apply just to the solvency assessment on reinsurance activities as required by the Level 1 text (see comments on Article 364 RTCE7). The solvency assessment under Article 227 will have to relate to all insurance activities and the insurance undertaking itself.	1. In accordance with Article 227(3) of Directive 2009/138/EC the criteria set out in Article~~s~~ RTCE6 ~~and RTCE7~~ shall be used to assess whether the solvency regime of a third country is equivalent to that laid down in Title I, Chapter VI of Directive 2009/138/EC. Those criteria shall apply to all insurance and reinsurance activities carried out by domestic insurance and reinsurance undertakings. *A new article with the original language from RTCE7 should be inserted here.*
CEA	367	TGTCE1 IM39	**Transitional arrangements** The inclusion of transitional rules is to be welcomed; nonetheless, the demand raised in this context, that third countries have to i) present a public commitment to introduce supervisory rules that are consistent with Solvency II and ii) establish a comprehensive assessment programme seem too extensive. In order to provide greater clarity on the procedural aspects of the transitional provisions we suggest that Art 365-TGTCE1 is expanded to include: • End to end procedure/process for transitional equivalence applications (including the involvement or otherwise of EIOPA in that process). • Clarification of how assessment of the three criteria would be performed,	1. Where the conditions in paragraph 2 have been met, the Commission may, in accordance with the regulatory procedure referred to in Article 301(2) of Directive 2009/138/EC, decide to grant for a limited period of time the same treatment for reinsurance contracts concluded with undertakings having their head office in a third country as that which would result from there being a positive equivalence decision in relation to that third country's solvency regime in accordance with Articles 172 and 173. 2. The third country supervisory authorities responsible for the solvency regime have before the date referred to in Article 309 of Directive 2009/138/EC: (a) ~~made a public commitment to introduce a solvency regime that is capable of satisfying the criteria set out in Articles RTCE1 to RTCE7 before the end of the period referred to in paragraph 4;~~ (b) ~~established a programme for converging to a solvency regime that is capable of satisfying the criteria set out~~

			emphasizing that this is a 'lighter' assessment than the formal assessment itself. The CEA is still discussing the required length of the transitional period with our members and will provide a response as soon as possible.	~~in Articles RTCE1 to RTCE7 (a convergence programme) and that convergence programme is comprehensive and capable of being completed before the end of the period referred to in paragraph 4;~~ (c) ~~the resources necessary for the completion of the convergence programme are allocated to its implementation; and~~ (d) met the criteria in paragraph 3. 3. The third country's solvency regime satisfies the following criteria: (a) the third country currently has a supervisory regime that is risk-based or has taken measures to move towards such a system; (b) the third country's supervisory authorities have shown a willingness to engage in the equivalence assessment process and to cooperate and exchange information with supervisory authorities in Members States; and (c) the supervisory authorities of the third country are bound by obligations of professional secrecy. 4 The period of time referred to in paragraph 1 shall be a period of **x** years after the date referred to in Article 309 of Directive 2009/138/EC.
CEA	368	GSTCE2 IM39	Solvency II Level 1 text does not require a supervisory assessment of the business strategy of the group.	4. The supervisory authorities of insurance and reinsurance undertakings which are part of a group shall be able to assess the risk profile and solvency and financial position of that group ~~as~~

				~~well as its business strategy~~.
CEA	372	GSTCE5 IM39	There should be flexibility afforded to the way groups organise their internal functions. There is not just one specific group structure; instead groups are structured in very different ways (financial holdings, strategic holdings, service holdings etc.). Thus, the organisation of functions in a group will vary from group to group and the requirements should be flexible. The key issue is that the risk management, compliance, internal audit and actuarial functions are effective. We agree that an equivalent level of supervisory reporting and public disclosure. However, we are of the opinion that other disclosure requirements, e.g. in accounting, could cover these requirements. Therefore, a separate report with the content of the SFCR should not be mandatory. This is in line with the Level 1 text which allows EEA-insurers to make reference to other public disclosure if equivalent in nature and scope.	4. The prudential regime of the third country shall require risk-management, compliance, internal audit and actuarial functions to be established and maintained **effectively by** ~~at~~ the ~~level of the~~ group. 5. The prudential regime of the third country shall require a report on the solvency and financial condition of the group to be disclosed publicly on at least an annual basis **or similar public disclosures made under other legal or regulatory requirements, to the extent that those disclosures are equivalent to the information required under Article 51 in both their nature and scope.**
CEA	375	*GSTCE8* IM39	The reference to 'highest quality' implies the third country supervisory regime requires a tiering of own funds. We believe that the existence of a tier system for own funds should not be a prerequisite for recognising equivalence. It is important that the third country regime provides an equivalent level of policyholder protection but due to acceptable differences in methodology the result of the group solvency	6. The supervisory authorities of the third country shall require the group capital requirement to be met with own funds that are of a sufficient quality and which are able to absorb significant losses. Own-fund items considered by the supervisory authorities to be of ~~the~~ **a** high~~est~~ quality shall absorb losses both in a going concern and in case of a winding up. 7. The calculation of group solvency in the third country's prudential regime shall produce a **level of policyholder protection** ~~result~~ that is at least equivalent to **that** ~~the result~~ achieved by either one of

			calculations may differ and due to these differences the Solvency II SCR might not always be higher than the third country's "group SCR" calculation. Level 1 text allows supervisors to require a combination of these methods. Therefore, third country group regimes should be allowed to have "mixed" methods as well.	the calculation methods set out in Articles 230 and 233 of Directive 2009/138/EC **or a combination of them**. The calculation shall ensure that there is no double use of own funds to meet the group capital requirement and that the intra-group creation of capital through reciprocal financing is eliminated.
CEA	Annex 1	IM13	Please see comments to Article 45	**D. Life insurance** ~~25.~~ *Insurance with profit participation ~~– contracts which mainly cover death~~* ~~26. *Insurance with profit participation – contracts which mainly cover survival*~~ ~~Insurance obligations with profit participation which mainly cover survival other than obligations included in line of business 41.~~ ~~27. *Insurance with profit participation – health insurance contracts*~~ ~~Insurance obligations with profit participation which mainly cover the financial compensation referred to in points (a) and (b) of Article TP27(1).~~ ~~28. *Insurance with profit participation – miscellaneous contracts*~~ ~~Insurance obligations with profit participation other than~~

				those included in lines of business 29 to 31. 29. *Index-linked and unit-linked insurance – contracts which mainly cover death* 30. *Index-linked and unit-linked insurance – contracts which mainly cover survival* 31. *Index-linked and unit-linked insurance – health insurance contracts* Insurance obligations with index-linked and unit-linked benefits which mainly cover the financial compensation referred to in points (a) and (b) of Article TP27(1). 32. *Index-linked and unit-linked insurance – miscellaneous contracts* Insurance obligations with index-linked and unit-linked benefits other than those included in lines of business 33 to 35. 33. *Other life insurance – contracts which mainly cover death* 34. *Other life insurance – contracts which mainly cover survival* Other life insurance obligations which mainly cover survival other than obligations included in lines of business 30, 34 and 41. 35. *Other life insurance – health insurance contracts* Other life insurance obligations which mainly cover the

				~~financial compensation referred to in points (a) and (b) of Article TP27(1).~~ ~~36. *Other life insurance – miscellaneous contracts*~~ ~~Insurance obligations of other life insurance contracts, other than those included in lines of business 37 to 39.~~ ~~37. *Annuities stemming from non-life insurance contracts and relating to health insurance obligations*~~ ~~38. *Annuities stemming from non-life insurance contracts and relating to insurance obligations other than health insurance obligations*~~ **E. Life reinsurance** ~~39.~~ ***Life*** *Reinsurance* ~~*where the underlying insurance contracts mainly cover death*~~ ~~40. *Reinsurance where the underlying insurance contracts mainly cover survival*~~ ~~41. *Reinsurance of health insurance contracts*~~ ~~Reinsurance obligations where the underlying insurance contracts mainly cover the financial compensation referred to in points (a) and (b) of Article TP27(1).~~ ~~42. *Reinsurance of miscellaneous contracts*~~ ~~Reinsurance obligations other than those included in lines of business 43 to 45.~~

Language / Typographical corrections

Member State	Article number	Article IM reference	Corrections
CEA	47	TPS1	2. (a~~c~~) an assessment of the nature, ... (**b**~~d~~) an assessment .....
CEA	54	AOF4	(3).....the ability of the insurance or reinsurance undertaking to take action to enforce the counterparties' satisfaction of their commitments under the ancillary own funds item~~; and~~.
CEA	67	COF10	1. Without prejudice to .... COF1, COF3, COF5 ~~and~~, COF7 and COF9, insurance or reinsurance undertakings shall..... 2.
CEA	82	NLUR3	In 4(a), if P_s remains in the formula then the explanation should be: (d) the administrative, management or supervisory body of the insurance or reinsurance undertaking has decided that its earned premiums in the segment *s* during the **last** ~~following~~ 12 months should not exceed P_s; alternatively P_s is changed for $P_{(last,s)}$ in the formula *and* (a) the administrative, management or supervisory body of the insurance or reinsurance

			undertaking has decided that its earned premiums in the segment *s* during the following 12 months should not exceed $P_{(last,s)}$;
CEA	106 & 108	SCR2 & SCR3	Use the same multiplication sign (either × or ·) in the formulas.
CEA	113	LUR7	6 (c) where reinsurance contracts covers insurance or reinsurance contracts that do not exist yet, the ~~a~~ decrease of 30 % of the number of those future insurance or reinsurance contracts used in the calculation of technical provisions.
CEA	117	HUR1	art 117.5=117.1 art 117.6=117.2 art 117.7=117.3 art 117.8=117.4
CEA	120	HUR4	3(a) $P_{,s}$ denotes an estimate of the premiums to be earned by the insurance or reinsurance undertaking in the segment *s* during the **following** 12 months;
CEA	123	HUR7	6.b where reinsurance contracts covers insurance or reinsurance contracts that do not exist yet, the ~~a~~ decrease of 30 % of the number of those future insurance or reinsurance contracts used in the calculation of technical provisions.
CEA	133	HUR16	5. In relation to reinsurance contracts the relevant options for the purposes of paragraph 2 and 3 shall cover: 6.b where reinsurance contracts covers insurance or reinsurance contracts that do not exist yet, the ~~a~~ decrease of 30 % of the number of those future insurance or reinsurance contracts used in the calculation of technical provisions.
CEA	135 1 and 2	HUR18 1 and 2	In 1 $SCR^{2}_{(ma,s)}$ is used and in 2 $L_{(ma,s)}$; use the same term

CEA	136	HUR19 1 and 2	As above – use the same term
CEA	156	SR2 1	Is the formula meant to be *duration*×FUP_i ?
CEA	157	SCRS8 6	The term F(rating$_i$) is used in the headline and "Capital charge" in the table
CEA	160	SR4 1	Is the formula meant to be *duration*×FUP'_i ?
CEA	164	SCRS4	Art SCRS4 should be placed between articles 109 and 110
CEA	165	CO1	4. For the purpose of paragraph 3, ... and exposures for which ~~exposures for which~~ a credit assessment by a nominated ECAI is not available shall be assigned a credit quality step of 5.
CEA	180	CDR8 1 (b)	Should be V_{intra} both in formula and in text
CEA	184	SCRRM1	4 . The conditions to be met in relation to a risk-mitigation technique referred to in ~~the first subparagraph of~~ paragraph 2 are:
CEA	189	SCRRM6	3. (c) and (d) should be (a) and (b)
CEA	193	ALAC3	1. (a) the Basic **Solvency** Capital Requirement referred to in Article 103(a) of Directive 2009/138/EC;
CEA	200	USP5	3. The supervisory authorities shall decide on the application within a reasonable period of time from the receipt of a complete application. Supervisory authorities shall give approval to the application only itif they are satisfied with the justification to replace a subset of parameters of the standard formula.
CEA	214	TSIM4	Second paragraph: The internal model shall be used by insurance and reinsurance undertakings to assess the impact of potential, material decisions including the expected profit or loss and the variability of the profit or

			loss resulting from ~~of~~ these decisions.
CEA	227	TSIM16bis	2. Notwithstanding paragraph 1, ... for one or several of the reasons laid down in paragraph ~~4~~5, insurance and reinsurance undertakings shall use the most ..... 3. Where the insurance or reinsurance undertaking further demonstrates ..... the reasons laid down in paragraph ~~4~~5, the insurance and reinsurance undertaking may, subject to the approval of the supervisory authorities, use ....
CEA	231	TSIM20	Paragraph 3=paragraph4
CEA	244	RL2	3. The insurance or reinsurance undertaking shall .... interest as disclosed according to point (f) of paragraph ~~3~~4.
CEA	256	TP25	2. **(e)** a description of the processes in place to review the choices of assumptions.
CEA	272	CA7	1. In calculating the amount referred to in Article CA6(~~2~~1) supervisory authorities shall consider the aspects ....
CEA	278	ERP2	2. Taking into account the period referred to in paragraph ~~2~~1 the supervisory authority shall notify to the insurance or reinsurance undertaking concerned its decision to grant an extension of the recovery period within eight weeks of the date the request referred to in paragraph ~~2~~1was made.
CEA	284	PDS3	3.a information on **income** and expenses arising from investments and, where relevant, components of such income and expenses from appropriate asset classes;
CEA	286	PDS5	5 (~~b~~a) ~~about~~ a description of the outcome of stress testing and scenario analysis, in relation to any internal model used for the calculation of the undertaking's Solvency Capital Requirement, for material risks and events.

CEA	287	PD6	3.a. separately for each material class the amount of other liabilities as well as a description of the basis, methods and main assumptions used for their valuation for solvency purposes;
CEA	288	PDS7	2 Subparagraphs a, b, c and d should be b, c, d and e.
CEA	301	SRS8	4. Where supervisory authorities do not require, in accordance with the third ~~sub~~paragraph, a regular supervisory report ... shall be submitted in relation to the financial years and within the periods set out in ~~sub~~paragraph
CEA	312	SPV4	[...] The determination that the transfer of risk is effective in all circumstances in accordance with ~~paragraph 1(a)~~ **in the first paragraph** shall take into account whether there are any connected transactions which could undermine the effective transfer of risk.
CEA	327	IMG1	5.a.i. A list of the related undertakings .....Article 220 of Directive 2009/138/EC and the proportional share applied in accordance with ~~and the proportional share applied~~ Article 221 of that Directive;
CEA	338	CGS1	1.b. the annual gross written premium ~~volume~~ of the branch exceeds 5% of annual gross premiums written for business where the risk is situated in the host Member State.
CEA	348	PDG9	3 Where any of the subsidiaries covered by the single .. to include in that report a translation of the information related to that subsidiary into an official language of that Member State. Participating insurance and reinsurance undertakings or insurance holding companies shall disclose a translation ... authority concerned.
CEA	372	GSTCE5	1. The prudential regime ..... to ensure the timely transmission of information both within the group and to the relevant supervisory authorities. 3 ~~This~~ **The** prudential regime of the third country ....
CEA	Annex		Segments 10-12 should be referenced to LoB 26-28 instead of 25-27 on page 311

	NLUR1		

Notes for completion of tables

Member State – repeat your MS abbreviation (e.g. AT, BE etc.) for each row so that when the tables are collated on an article number basis it can be easily seen which MS made which comment

Article number /IM reference e.g. for Article 5 V1, place "5" in Article number column and "V1" in Article IM reference column. If commenting on **recitals** please first identify the article or group of articles the recital refers to, note those article(s) in the Article number and Article IM reference columns respectively, and then note the details of the recital in the Drafting suggestion or Correction column. E.g. for a comment on recital 3 [IM13/1] place "5 – 11" in Article number column and "V1 – V7" in Article IM reference and note "recital 3 [IM13/1] at beginning of comment.

Drafting suggestion / Correction - describe the amendment or correction *or* insert excerpt of text and use track changes or underlining / strikeout to show changes. If the redrafting of a particular area of text is so voluminous that it cannot be easily inserted or read in table format then include the redraft as a separate document and note that this has been done in this column.

Add further rows / expand rows to both tables as necessary.