

## **CEIOPS releases its second set of advice on Solvency II Level 2 Implementing Measures**

In its letter of 12 June 2009, the European Commission requested CEIOPS to provide final, fully consulted advice on the vast majority of Solvency II Level 2 implementing measures for October 2010 (a third set to be finalized by January 2010,) and recommended CEIOPS to develop Level 3 guidance on certain areas with the aim of fostering supervisory convergence.

A first set of advice on Level 2 measures has already been consulted on and comments are currently being processed. The third set is foreseen to be released at the beginning of November 2009.<sup>1</sup>

Today, CEIOPS is releasing for consultation its second set of advice developed on the basis of the Solvency II Level 1 text adopted by the European Parliament on 22 April 2009.<sup>2</sup> The consultation papers provide advice on key aspects for the future implementation of the Solvency II framework. The issues are interlinked although they are presented in separate papers.

CEIOPS invites comments from stakeholders on the consultation papers and annexes. CEIOPS will finalise the papers for submission to the European Commission, taking into account the comments received and the lessons learned from the crisis. CEIOPS will make all comments available on its website, except where respondents specifically request that their comments remain confidential.

CEIOPS would like to highlight, inter alia, some areas in its consultation papers, on which comments and concrete input and proposals from stakeholders are especially welcomed. For example, the choice of discount rates (CP40, including the impact assessment on the risk-free rate), the assessment of the excess of assets over liabilities (CP46), and, in relation to capital add-ons (CP57), the appropriateness of listing the quantifiable risks not covered by the SCR standard formula that can be subject to a capital add-on, and the proposal to base the analysis of the significant deviation only on risks that are underestimated in the SCR, while allowing undertakings to present evidence that an overall approach could be followed.

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<sup>1</sup> See the work plan at <http://www.ceiops.eu/media/files/consultations/consultationpapers/2009-06-02-CEIOPS-List-of-Advice-on-SII-second-and-third-set.xls>

<sup>2</sup> See <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+20090422+SIT-03+DOC+WORD+V0//EN&language=EN>.

Following papers are subject to consultation:

**1. Addendum to CEIOPS-CP-37-09 Draft L2 Advice on the procedure to be followed for the approval of a group internal model**

This addendum aims at providing advice for Level 2 implementing measures with regard to the procedure to be followed for the approval of a group internal model in accordance with Articles 112(1) and Article 229 of the Level 1 text.

Consultation period: until 11 September 4 pm CET

**2. CEIOPS-CP-39-09 Draft L2 Advice TP - Best Estimate**

This consultation paper aims at providing advice with regard to actuarial and statistical methodologies for the calculation of the best estimate as requested in Article 85 (a) of the Level 1 text. A first part of the advice on this Article has been released for consultation on 26 March 2009<sup>3</sup>.

The objective of this paper is to further elaborate on the appropriate methodologies for the calculation of the best estimate.

Consultation period: until 11 September 4 pm CET

**3. CEIOPS-CP-40-09 Draft L2 Advice on TP – Risk free interest rate**

This consultation paper aims at providing advice with regard to the relevant risk-free interest rate term structure to be used in the assessment of technical provisions as requested in Article 85 (b) of the Level 1 text.

Consultation period: until 11 September 4 pm CET

**4. CEIOPS-CP-41-09 Draft L2 Advice TP – Calculation as a whole**

This consultation paper aims at providing advice with regard to the circumstances in which technical provisions shall be calculated as a whole (and not as a sum of a best estimate and a risk margin), as required in Article 85c of the Level 1 text.

Consultation period: until 11 September 4 pm CET

**5. CEIOPS CP-42-09 Draft L2 Advice – Risk Margin**

This consultation paper aims at providing advice with regard to the calculation of the risk margin as requested in Article 85(d) of the Level 1 text.

The objective of this paper is to specify the overall structure of the calculation of the risk margin, including the following aspects:

- the definition of the reference undertaking, including the assumption this undertaking has to fulfil;
- the stipulation (calibration) of the Cost-of-Capital rate; and
- the projection of the future SCRs related to the reference undertaking.

Consultation period: until 11 September 4 pm CET

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<sup>3</sup> <http://www.ceiops.eu/media/files/consultations/consultationpapers/CP26/CEIOPS-CP-26-09-Draft-L2-Advice-on-TP-Methods-and-statistical-techniques-for-calculating-the-best-estimated.pdf>. See also CP30 and 32 released on the same day.

## **6. CEIOPS-CP-43-09 Draft L2 Advice on TP – Standards for data quality**

This consultation paper aims at providing advice with regard to the standards that should be met with respect to ensuring the appropriateness, completeness and accuracy of the data used in the calculation of technical provisions, and with the specific circumstances in which it would be appropriate to use approximations, as requested in Article 85 (f) of the Level 1 text.

Consultation period: until 11 September 4 pm CET

## **7. CEIOPS-CP-44-09 Draft L2 Advice on TP – Counterparty default adjustment**

This consultation paper aims at providing advice with regard to the methods to be used when calculating the counterparty default adjustment to recoverables from reinsurance contracts and special purpose vehicles as requested in Article 85(g) of the Level 1 text.

Consultation period: until 11 September 4 pm CET

## **8. CEIOPS-CP-45-09 Draft L2 Advice on TP – Simplifications**

This consultation paper aims at providing advice with regard to simplified methods and techniques to calculate technical provisions in order to ensure that actuarial and statistical methodologies are proportionate to the nature, scale and complexity of the risks, as requested in Article 85(h) of the Level 1 text

Concrete simplifications will be consulted upon in a third set of advice.

Consultation period: until 11 September 4 pm CET

## **9. CEIOPS-CP-46-09 Draft L2 Advice on Own funds – Classification and eligibility**

This consultation paper aims at providing advice with regard to the classification of own funds (Article 97) and the eligibility of own funds (Article 99) in the Level 1 text

Consultation period: until 11 September 4 pm CET

## **10. CEIOPS-CP-47-09 Draft L2 Advice on SCR Standard Formula – Market Risk**

This consultation paper aims at providing advice with regard to the design and structure of the market risk module of the SCR standard formula, as required by Article 109 of the Level 1 text.

The objective of this paper is to give draft advice on the structure and design of interest rate risk, spread risk, currency risk, property risk and concentration risk sub-modules.

The equity risk sub-module, the calibration of the modules (except concentration risk) and correlations will be covered in the third set of advice, together with advice on potential simplified approaches in the light of the proportionality principle.

Consultation period: until 11 September 4 pm CET

## **11. CEIOPS-CP-48-09 Draft L2 Advice on SCR Standard Formula – Non-Life underwriting risk**

This consultation paper covers advice in respect of the design of the non-life underwriting risk module in the SCR standard formula, in particular the methods, assumptions and standard parameters to be used when calculating this risk module, as required in Article 109 (c) of the Level 1 text.

Calibration of the module, the use of undertaking-specific parameters, correlations and simplifications will be included in the third set of advice.

Consultation period: until 11 September 4 pm CET

## **12. CEIOPS-CP-49-09 Draft L2 Advice on SCR Standard Formula – Life underwriting risk**

This consultation paper aims at providing advice with regard to the design, structure and calibration of the life underwriting module in the SCR standard formula as requested in Article 109 of the Level 1 text.

Calibration of the module, correlations and simplifications will be included in the third set of advice.

Consultation period: until 11 September 4 pm CET

## **13. CEIOPS-CP-50-09 Draft L2 Advice on SCR Standard Formula – Health underwriting risk**

This consultation paper aims at providing advice with regard to the health underwriting risk module in the in the SCR standard formula as requested in Article 109 of the Level 1 text.

Calibration of the module, correlations and simplifications will be included in the third set of advice.

Consultation period: until 11 September 4 pm CET

## **14. CEIOPS-CP-51-09 Draft L2 Advice on SCR Standard Formula – Counterparty Default risk**

This consultation paper aims at providing further advice with regard to the treatment of counterparty default risk in the SCR standard formula as requested in Article 109 of the Level 1 text. This consultation paper complements CEIOPS' Consultation Paper No. 28.<sup>4</sup>

Consultation period: until 11 September 4 pm CET

## **15. CEIOPS-CP-52-09 Draft L2 Advice on SCR Standard Formula – Reinsurance mitigation**

This consultation paper covers the advice in respect of the qualitative criteria that reinsurance and securitisation arrangements must meet in order to ensure that

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<sup>4</sup> See <http://www.ceiops.eu/media/files/consultations/consultationpapers/CP28/CEIOPS-CP-28-09-Draft-L2-Advice-on-SCR-Standard-Formula-Counterparty-default-risk.pdf>

there has been effective underwriting risk transfer to a third party, for allowance in the SCR standard formula. The paper is complementary to the draft advice CP 31.<sup>5</sup>

Consultation period: until 11 September 4 pm CET

#### **16. CEIOPS-CP-53-09 Draft L2 Advice on SCR Standard Formula – Operational Risk**

This consultation paper aims at providing advice with regard operational risk in the SCR standard formula, as required in Article 109(1) of the Level 1 text.

Consultation period: until 11 September 4 pm CET

#### **17. CEIOPS-CP-54-09 Draft L2 Advice on SCR Standard Formula – loss absorbing capacity of TP**

This consultation paper aims at providing advice with regard to the calculation of the adjustment for loss-absorbing capacity of technical provisions in the SCR standard formula as requested in Article 109 (g) of the Level 1 text.

Consultation period: until 11 September 4 pm CET

#### **18. CEIOPS-CP-55-09 Draft L2 Advice on SCR Standard Formula – MCR calculation**

This consultation paper aims at providing advice with regard to the calculation of the Minimum Capital Requirement (MCR) as requested in Article 128 of the Level 1 text.

Calibration of the module will be included in the third set of advice.

Consultation period: until 11 September 4 pm CET

#### **19. CEIOPS-CP-56-09 Draft L2 Advice on Tests and Standards for Internal Model Approval**

This consultation paper aims at providing advice with regard to the use test, statistical quality, calibration, P&L attribution, validation, documentation and external models and data, as requested in Article 125 of the Level 1 text. It also includes draft advice with regard to specificities for Internal Models on the System of Governance and specificities related to the requirements for approval of group internal models are included.

Specific requirements for the approval of a partial internal model will be included in the third set of advice.

Consultation period: until 11 September 4 pm CET

#### **20. CEIOPS-CP-57-09 Draft L2 Advice on Capital add-on**

This consultation paper aims at providing advice for Level 2 measures with regard to the power to set a capital add-on as provided for in Article 37 of the general approach on the Level 1 text. According to Article 37(6) of the Level 1 text the

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<sup>5</sup> See <http://www.ceiops.eu/media/files/consultations/consultationpapers/CP31/CEIOPS-CP-31-09-Draft-L2-Advice-on-SCR-Standard-Formula-Allowance-of-Financial-mitigation-techniques.pdf>.

European Commission shall adopt implementing measures laying down further specifications for the circumstances under which a capital add-on may be imposed and the methodologies for the calculation thereof.

The advice also develops the requirements for setting a capital add-on in a group context, further to Article 232 of the Level 1 text.

Consultation period: until 11 September 4 pm CET

## **21. CEIOPS-CP-58-09 Draft L2 Advice on Supervisory reporting and disclosure**

This consultation paper aims at providing advice with regard to supervisory reporting and public disclosure, as requested in Article 35(6), Article 55 and Article 260 of the Level 1 text, along with supporting material that could be used to develop Level 3 guidance.

Consultation period: until 11 September 4 pm CET

## **22. CEIOPS-CP-59-09 Draft L2 Advice on remuneration**

A consultation paper will be released in due course providing additional, stand-alone, advice with regard to remuneration issues. It will serve as a basis for implementing measures on this specific issue in the framework of Art. 49 of the Level 1 text.

## **23. CEIOPS-CP-60-09 Draft L2 Advice on Group Solvency Assessment**

This consultation paper aims at providing advice with regard to the technical principles and methods set out in Article 218 to 227 and the application of Articles 228 to 231 as requested in Article 232 of the Level 1 text.

The advice covers the scope of the group solvency assessment and the calculation methods. It includes advice on assessment of available elements of own funds, including the fungibility and transferability of own funds. The advice also addresses issues related to third country entities and/or groups.

Consultation period: until 11 September 4 pm CET

## **24. CEIOPS-CP-61-09 Draft L2 Advice on intra-group transactions and risk concentration**

As a lesson to be learned from the crisis, this consultation paper aims at providing advice with regard to the important role risk concentration and intra-group transactions can play in the financial well-being of a group. This own initiative paper develops CEIOPS initial views on the supervision of these aspects under Solvency II, including suggestions for Level 3 guidance and, potentially, for the development of Level 2 implementing measures if requested by the European Commission.

Consultation period: until 11 September 4 pm CET

## **25. CEIOPS-CP-62-09 Draft L2 Advice on Cooperation and Colleges of supervisors**

This consultation paper aims at providing advice with regard to the coordination of group supervision along with supporting material that could be used to develop Level 3 guidance as requested in Articles 252 (3) and 253 (2) of the Level 1 text.

Consultation period: until 11 September 4 pm CET

### **Consultation process**

Comments should be sent in English, using the template and instructions provided by CEIOPS, by email to [Secretariat@ceiops.eu](mailto:Secretariat@ceiops.eu), indicating the reference of the paper ("CEIOPS-CP-No-JJ").

Please note that comments submitted after the deadline or not submitted in English and/or not using the template format provided by CEIOPS can not be processed.

CEIOPS will make all comments available on its website, except where respondents specifically request that their comments remain confidential.

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