

CEIOPS releases its third 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 2009 and agreed on a third set to be finalized by January 2010 on other areas where changes had been made to the Level text in the last stages of negotiation. At the same time, the Commission recommended CEIOPS to develop future Level 3 guidance on certain areas with the aim of fostering supervisory convergence.

A first and a second set of Advice on Level 2 measures have already been consulted on in March and July of this year. Based on the comments received, CEIOPS has revised and improved its advice. The first and second set of final Advice will be submitted to the Commission in the course of November, allowing CEIOPS at the request of the Commission to update the reference to Level 1 text based on the most recent version of the Directive.¹

Today, CEIOPS is releasing for consultation the third set of Advice developed on the basis of the Solvency II Level 1 text adopted by the European Parliament on 22 April 2009.² 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 and reference is being made to the previous sets of Advice.

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. CP69 to CP74 cover the calibration of the SCR standard formula and the MCR while CP76, 77 and 79 cover the simplifications regarding the calculation of technical provisions and the SCR standard formula. CP65 covers partial internal models. In general, CEIOPS also expects views of stakeholders not only on the advice

¹ See <http://register.consilium.europa.eu/pdf/en/09/st03/st03643-re01.en09.pdf>

² See <http://www.europarl.europa.eu/sides/getDoc.do?pubRef=-//EP//NONSGML+TA+20090422+SIT-03+DOC+WORD+V0//EN&language=EN>. CEIOPS will revise the reference to the Level 1 text only after the consultation in order to leave as much time as possible for the stakeholders to comment on the draft Advice.

included in the “blue boxes” but also the narrative text and more specifically on the questions and options included in the Consultation Papers. Specific input on evidence for calibrations and correlation parameters is being welcomed. For detailed analysis CEIOPS suggests stakeholders to submit, in addition to qualitative comments contained in the CEIOPS template, quantitative analysis in annex in word or excel format.

The following Papers are subject to consultation:

1. CEIOPS-CP-63/09 Draft L2 Advice on repackaged loans investment

This Paper aims at providing advice for Level 2 measures with regard to investments in repackaged loans or similar financial arrangements as required by Article 135 of the Level 1 text. The aim of the implementing measure is to ensure cross-sectoral consistency and remove any potential misalignment of interests between the originators (the companies issuing the financial instrument) and investors in such financial instruments.

Consultation period: until 11 December 2009 12.00 CET

2. CEIOPS-CP-64/09 Draft L2 Advice on the extension of the recovery period – Pillar II dampener

This Paper aims at providing advice for Level 2 measures with regard to the extension of the recovery period by the supervisory authority, in the event of an exceptional fall in financial markets, in cases where the Solvency Capital Requirement of an undertaking is no longer complied with, as required in Articles 143 in conjunction with Article 138 of the Level 1 text.

Consultation period: until 11 December 2009 12.00 CET

3. CEIOPS-CP-65/09 Draft L2 Advice on partial internal models

This Paper aims at providing advice to take account of the limited scope of the application of the partial internal model as requested in Article 112.2 of the Level 1 text. It addresses the scope of partial internal models, specific provisions for the approval of partial internal models, and in particular how results of partial internal models may be integrated into the results of the standard formula. Furthermore, the Paper contains advice on the concept of major business unit, the integration of risks not covered in the standard formula and adaptations to be made to standards set out in Articles 118 to 123.

Consultation period: until 11 December 2009 12.00 CET

4. CEIOPS-CP-66/09 Draft L2 Advice on the group solvency for groups with centralised risk management

This Paper aims at providing advice for Level 2 measures with regard to the group solvency for groups with centralised risk management as requested by Article 245 of the Solvency II Level 1 text.

The Paper differentiates between centralised risk management on the one hand and group-wide risk management, including consistent implementation of the risk management in all undertakings forming part of a group, on the other hand.

Consultation period: until 11 December 2009 12.00 CET

5. CEIOPS CP-67/09 Draft L2 Advice on SCR Standard Formula and Own Funds - Treatment of Participations

This Paper aims at providing advice with regard to the solo treatment of participations in credit and financial institutions for the determination of own funds and the approach to be used with respect to related undertakings in the calculation of the SCR, in particular the equity risk sub-module of the SCR, as requested by Article 92 and 109(ja).

Consultation period: until 11 December 2009 12.00 CET

6. CEIOPS-CP-68/09 Draft L2 Advice on SCR Standard Formula and Own Funds - Treatment of Ring Fenced Funds

This Paper aims at providing advice with regard to the adjustments that should be made to reflect the lack of transferability of own funds and the reduced scope for risk diversification at the level of the SCR related to ring-fenced funds, as requested in Articles 99 b) and 109(1) (fa) of the Solvency II Level 1 text.

Consultation period: until 11 December 2009 12.00 CET

7. CEIOPS-CP-69/09 Draft L2 Advice on SCR Standard Formula – Design of the Equity Risk Sub-Module

This Paper aims at providing advice with regard to the design and calibration of the equity risk sub-module as requested in Article 109(b) of the Solvency II Level 1 text. It includes advice on the symmetric adjustment mechanism according to Article 105a and the duration dampener foreseen by Article 305b of the Level 1 text.

Consultation period: until 11 December 2009 12.00 CET

8. CEIOPS-CP-70/09 Draft L2 Advice on SCR Standard Formula – Calibration of Market Risk

This Paper aims at providing advice with regard to the calibration of the market risk module for the SCR standard formula, as requested by Article 109(b) of the Solvency II Level 1 text. This Paper follows CP47 which was published in June 2009, and for which the consultation period closed on 11 September 2009.

This Paper gives draft advice on the calibration of the interest rate risk, spread risk, currency risk and property risk. The calibration of the concentration risk sub-module has already been covered in former CP47. The calibration of the equity risk sub-module and the correlations between the market risk sub-modules and between the market risk module and other modules are being covered in separate Consultation Papers (CP69 and CP74).

Consultation period: until 11 December 2009 12.00 CET

9. CEIOPS-CP-71/09 Draft L2 Advice on SCR Standard Formula – Calibration of Non-Life Underwriting Risk

This Paper aims at providing advice in respect of the calibration of the non-life underwriting risk module for the SCR standard formula, as requested by Article 109(b) of the Solvency II Level 1 text. CEIOPS will provide further advice on the calibration of catastrophe Standardised Scenarios under the non-life catastrophe risk sub-module in the course of 2010. The Advice should be read in conjunction with previous advice consulted upon in former CP48.

Consultation period: until 11 December 2009 12.00 CET

10. CEIOPS-CP-72/09 Draft L2 Advice on SCR Standard Formula – Calibration of Health Underwriting Risk

This Paper aims at providing advice with regard to the calibration of the health underwriting risk module as requested by Article 109(b) of the Solvency II Level 1 text. CEIOPS will provide further advice on the Standardised Scenarios required under the SLT Health catastrophe risk sub-module and the non-SLT Health catastrophe risk sub-module in the course of 2010. The Advice should be read in conjunction with previous advice consulted upon in CP50.

Consultation period: until 11 December 2009 12.00 CET

11. CEIOPS-CP-73/09 Draft L2 Advice on MCR – Calibration

This Paper aims at providing advice with regard to the calculation of the Minimum Capital Requirement (MCR) as requested in Article 128 of the Solvency II Level 1 text. This Paper follows CP55 which was released for consultation in July 2009. It gives draft advice on the calibration of the MCR, in particular on the calibration of the linear function referred to in Article 127(1b) of the Level 1 text.

Consultation period: until 11 December 2009 12.00 CET

12. CEIOPS-CP-74/09 Draft L2 Advice on SCR Standard Formula – Correlation Parameters

This Paper aims at providing advice with regard to the choice of the correlation parameters applied in the SCR standard formula to aggregate capital requirements on module and sub-module level as requested in Article 109(1c) of the Solvency II Level 1 text.

Consultation period: until 11 December 2009 12.00 CET

13. CEIOPS-CP-75/09 Draft L2 Advice on SCR Standard Formula – Undertaking Specific Parameters

This Paper provides advice as requested by Articles 109(1) (h) and (i) of the Solvency II Level 1 text with regard to the subset of standard parameters in the life, non-life and health underwriting risk modules that may be replaced by undertaking-specific parameters. The Paper covers the standardised methods to be used by a (re)insurance undertaking to calculate those undertaking-specific parameters, and the criteria for supervisory approval relating to the completeness, accuracy and appropriateness of the data.

The Paper should be read in conjunction with advice on which CEIOPS consulted in CP43, CP48, CP49 and CP50.

Consultation period: until 11 December 2009 12.00 CET

14. CEIOPS-CP-76/09 Draft L2 Advice on Technical Provisions – Simplifications

This 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 Solvency II Level 1 text.

The advice integrates previous advice on which CEIOPS consulted in CP45, hence part of the advice has been finalised following previous consultation. For this reason, stakeholders are asked not to comment on the paragraphs identified in the introduction of the Paper. This Paper should be read in conjunction with the advice

on which CEIOPS consulted in CP39 and CP43.

Consultation period: until 11 December 2009 12.00 CET

15. CEIOPS-CP-77/09 Draft L2 Advice on SCR Standard Formula – Simplifications

This Paper aims at providing advice with regard to simplified calculations for specific sub-modules and risk modules as well as the criteria the (re)insurance undertakings shall be required to meet in order to be entitled to use the simplifications, as requested in Article 109(j) of the Solvency II Level 1 text.

Consultation period: until 11 December 2009 12.00 CET

16. CEIOPS-CP-79/09 Draft L2 Advice on simplifications for captives

This Paper aims at providing advice with regard to simplified calculations for the calculation of the solvency capital requirement for captives, as requested in Article 109 (j) of the Solvency II Level 1 text. It elaborates on possible simplifications for the calculation of the solvency capital requirement for captives, due to their specific business model.

Consultation period: until 11 December 2009 12.00 CET

Consultation process

Comments should be sent in English, using the template and instructions provided by CEIOPS, by email to secretariat@ceiops.eu, indicating the reference of the Paper (“CEIOPS-CP-No-JJ”) and the name of the stakeholder.

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.
