Chief Risk Officer Forum

12 January 2007

Henrik Bjerre-Nielsen
Chairman
Committee of European Insurance and Occupational Pension Supervisors

Dear Mr Chairman,

CRO Forum comments on Draft advice on Consultation Paper no. 15 "Supervisory Reporting and Public Disclosure in the framework of the Solvency II Project"

We welcome the opportunity to comment on this draft advice.

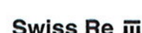
The CRO Forum agrees that supervisory reporting requirements in the framework of Solvency II should support the risk-oriented approach to insurance supervision while public disclosure requirements should reinforce market mechanisms and market discipline.

We also agree with the observations as stated in paragraph 5.7D of the advice that market transparency and public disclosure in the areas of risk and capital management are an important part of the Solvency II framework and the current level of transparency in this area should be increased.

The CRO Forum also welcomes the draft advice that disclosures made under financial reporting, listing or other legal or regulatory requirements may be relied upon to fulfill equivalent Pillar III public disclosures.

However, we do have some concerns about the framework of Pillar III reporting and disclosure as stated in the draft advice:

1. We would emphasise that the Pillar III framework needs to draw a clear distinction between confidential information needed by supervisors to do their job in relation to Pillars I and II, and data required for public disclosure to enhance market discipline. Whilst public disclosure should be harmonised, additional guidance will be needed to ensure that additional private supervisory reporting requirements have regard to materiality and proportionality and achieve a broadly consistent approach across jurisdictions.



2. We consider that the fundamental requirements for public disclosure under Pillar III should ensure that:

- the quantity of disclosure required ensures accessibility and quality for external users;
- data needs to leverage as far as possible from existing IFRS reporting requirements, although for non listed companies, to whom IFRS does not apply, a variant of these requirements will be needed, and all firms should not automatically be required to adopt IFRS;
- disclosure is appropriate to the needs of the relevant audience i.e. "informed knowledgeable users". In this regard there are essentially two types of users: capital markets and supervisors/policyholders. There needs to be a distinction between those disclosures which are geared towards capital markets needs and those with a more generic focus which are of greater relevance to supervisors and policyholders.

3. We would also underline the importance of Pillar III reporting and disclosure requirements being aligned with the financial reporting year end.

There are also several issues on which we disagree with the draft advice:

4. Contrary to the draft advice in paragraph 5.6., the CRO Forum believes that the starting point for public disclosures should be the consolidated position, with additional disclosure to reflect solo capital requirements if needed. The core principle for group vs entity disclosure should reflect where in substance the risks are managed and overseen. This approach is in line with the consolidated approach permitted for banks under article 72 of the CRD.

5. We disagree with the reliance on a confidentiality principle allowing non-public disclosure by exception, as stated in paragraph 5.5. We believe there should be agreed minimum requirements for public disclosure based on a framework of key principles which do not typically give rise to confidentiality considerations. The concern here is that confidentiality is a subjective notion and could be interpreted differently in each country.

We would also make the following observations in response to questions raised in the advice regarding public disclosure of capital requirements:

6. Too much focus and emphasis on public disclosure of SCR breaches could lead to the SCR being treated as a "hard" target, and this would significantly undermine the greater sophistication of the new Solvency II framework.

7. If there is no clear and meaningful definition of a "breach" of capital requirements, significant potential consequences might arise out of the interplay with listing rules. For the SCR, we believe there should be a materiality tolerance level defined by duration and amount of the breach and whether and how quickly it is reversed.

More work is required on this area and the CRO Forum and CFO Forum are committed to working together on such issues.

We have included specific responses to the draft advice in the attached memo "Chief Risk Officer Forum: Feedback on CEIOPS Consultation Paper 15".

The CRO Forum notes that these comments are consistent with the comments made by the CEA.

We appreciate that further work is needed to achieve a coherent framework for Pillar III reporting and disclosure and the CRO Forum will be happy to assist the Commission and CEIOPS in this work.

Yours sincerely,

Thomas C. Wilson
Chairman, CRO Forum
Chief Insurance Risk Officer
ING Group

12 January 2007

Chief Risk Officer Forum

Feedback on CEIOPS Consultation Paper 15

ING
Münchener Rück
Munich Re Group

PRUDENTIAL

Swiss Re

FORTIS

ZURICH

This presentation is based upon the consolidated responses of the Chief Risk Officer Forum to CEIOPS-CP-08/06, “Draft Advice to the European Commission on Supervisory Reporting and Public Disclosure in the framework of the Solvency II Project.”

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Appendix – detailed responses to consultation paper

Summary feedback

We wish to highlight *the most important issues* regarding CP15 (1 of 2)

1. The CRO forum believes that the starting point for public disclosures should be the consolidated position, with additional disclosure to reflect solo capital requirements if needed. The core principle for group vs entity disclosure should reflect where in substance the risks are managed and overseen. This approach is in line with the consolidated approach permitted for banks under article 72 of the CRD.

2. A Pillar III framework needs to clearly distinguish between confidential information needed by supervisors to do their job in relation to Pillars I and II, and data required for public disclosure to enhance market discipline. Whilst public disclosure should be harmonised, additional guidance will be needed to ensure that additional private supervisory reporting requirements have regard to materiality and proportionality and achieve a broadly consistent approach across jurisdictions.

3. Public disclosure under Pillar III should:

- be of an appropriate quantity to ensure accessibility and quality for external users;
- seek to leverage as far as possible from existing IFRS reporting requirements (in relation to risk management principles, market consistent valuation, integrated ALM etc). For non listed companies, to whom IFRS does not apply, a variant of these requirements will be needed – all firms should not automatically be required to adopt IFRS;
- be appropriate to the needs of the relevant audience i.e. "informed knowledgeable users". In this regard there are essentially two types of user: capital markets and supervisors/policyholders. There needs to be a distinction between those disclosures which are geared towards capital markets needs and, and those with a more generic focus which are of greater relevance to supervisory/policyholder needs e.g. financial condition disclosures. Although some disclosure requirements will be covered by existing reporting, there will be a need for some additional public reporting documents under Pillar III.

We wish to highlight *the most important issues* regarding CP15 (2 of 2)

4. The timing of Pillar III reporting and disclosure should be made explicit, and needs to be aligned with financial reporting year ends.

5. We disagree with the reliance on a confidentiality principle allowing non-public disclosure by exception. We believe there should be agreed minimum requirements for public disclosure based on a framework of key principles which do not typically give rise to confidentiality considerations. Those key principles would include: relevance; timeliness; accessibility without due costs; provision of information which is comprehensive and meaningful; reliability; comparability; consistency over time; capability of being understood in the relevant context; use of figures and assumptions based on economic principles.

6. We agree with the CEA that too much focus on public disclosure of SCR breaches could lead to the SCR being treated as a "hard" target, which would significantly undermine the greater sophistication of the new Solvency II framework. In addition we are concerned that if there is no clear and meaningful definition of a "breach", significant potential consequences might arise out of the interplay with listing rules. More work is required on this area and the CRO Forum and CFO Forum are committed to working together on such issues.

We embrace CEIOPS' direction and advice in several areas

Major areas of agreement

- ✓ Supervisory reporting requirements in the framework of Solvency II should support the risk-oriented approach to insurance supervision while public disclosure requirements should reinforce market mechanisms and market discipline (5.2)
- ✓ Information required under Pillar III shall be provided on a timely and adequate basis and be accessible, meaningful and readily understandable (5.6)
- ✓ Disclosures made by an insurance undertaking under financial reporting, listing or other legal or regulatory requirements may be relied upon to fulfill the equivalent Pillar III public disclosure requirements in order to avoid duplication (5.6)
- ✓ There should be public disclosure of the governance structures relevant for the solvency and financial condition assessment, including specific group-level information that might have a relevant influence within the solo insurance undertaking (5.7 B)
- ✓ Market transparency and public disclosure in the areas of risk and capital management are an important part of the Solvency II framework and the current level of transparency in this area should be increased (5.7 D)

However, we have several areas of concern: Disagreements

1. “The allowance for not disclosing some information under proprietary or confidentiality principles should be exceptional” (5.5).

The CRO forum believes there should be agreed minimum requirements for public disclosure based on a framework of key principles which do not typically give rise to confidentiality considerations.; principles for public disclosure should be developed as part of the data needs framework to be used by supervisors to carry out internal risk reviews and capital assessments. A major concern here is that confidentiality is a subjective notion and could be interpreted differently in each country.

2. Where relevant, information required under Pillar III shall be provided on a solo as well as on a group level” (5.6).

The CRO forum believes that the starting point for public disclosures should be the consolidated position, with additional disclosure to reflect solo capital requirements if needed. The core principle for group vs entity disclosure should reflect where in substance the risks are managed and overseen; group level disclosures should therefore be required for governance and risk and capital information This approach is in line with the consolidated approach permitted for banks under article 72 of the CRD.

3. “The distinction drawn between “assets covering technical provisions and capital requirements” and “other assets”(C.2 and C.3).

The CRO forum sees no value in distinguishing these categories; for risk management purposes firms look at the total balance sheet and monitor internal limits. Instead, disclosure should be by category of assets and applicable risk charges (in line with banking disclosure requirements under CRD). A more meaningful distinction for assets might be “investments” and “other assets”, and for liabilities, “technical provisions” and “other liabilities”

We also have several areas where further clarification is requested

1. "The statement of the Board on the actual risk profile of the undertaking" (4.8) .

It is not clear what is intended here. The items requested should be similar in nature and level of detail to existing public disclosure requirements for any organisation (for example, in the UK, the Operating and Financial Review, which provides narrative information about a firm's competitive environment and an indication of strategy); there should be no additional such requirements prescribed separately within Pillar III for insurers. Pillar II requirements by contrast may result in supervisors needing to see proprietary information such as detailed business plans.

2. "covering of technical provisions, which for public disclosure purposes may assume the form of a statement of compliance" (4.9)

It is unclear why this, and other aspects of compliance are picked out in the form of statements, and not other areas.

3. "When relevant for supervisory purposes the supervisory reporting shall include information regarding historic cost "(C.2).

This should only be relevant where there is a difference between financial and solvency figures for assets and this would have already been picked up by the other disclosures.

We also believe there should be clear public disclosure of the valuation basis used for assets and liabilities.

Appendix – detailed responses to CP15

CP15 CRO Forum Position to CEIOPS

General concepts and principles for supervisory reporting and public disclosure

5.1 – 5.4

We believe **a coherent framework for Pillar III is needed**. Such a framework needs to clearly distinguish between confidential information needed by supervisors to do their job in relation to Pillars I and II, and data required for public disclosure to enhance market discipline. Whilst public disclosure should be harmonised, additional guidance will be needed to ensure that additional private supervisory reporting requirements have regard to materiality and proportionality and achieve a broadly consistent approach across jurisdictions.

Public disclosure under Pillar III should:

•be of an appropriate quantity and focus to ensure accessibility and quality for external user;

•seek to leverage as far as possible from existing IFRS reporting requirements (in relation to risk management principles, market consistent valuation, integrated ALM etc). For non listed companies, to whom IFRS does not apply, a variant of these requirements will be needed – all firms should not automatically be required to adopt IFRS. At the same time, there should also be no requirement to disclose additional Pillar III information in an entity's financial statements (i.e. the option to disclose elsewhere should be available) as this would have implications for those who comply with Sarbanes Oxley requirements;

CP15 CRO Forum Position to CEIOPS

General concepts and principles for supervisory reporting and public disclosure (cont.)

5.1 – 5.4 (cont.)

•be appropriate to the needs of the relevant audience i.e. "informed knowledgeable users". In this regard there are essentially two types of user: capital markets and supervisors/policyholders. There needs to be a distinction between those disclosures which are geared towards capital markets needs and, and those with a more generic focus which are of greater relevance to supervisory/policyholder needs e.g. financial condition disclosures. Although some disclosure requirements will be covered by existing IFRS and other financial reporting, we expect that Pillar III disclosure requirements will give rise to additional public reporting documents, separate from an entity's annual financial report.

We suggest the following broad parameters for reporting and disclosure for Pillars I and II:

Public:

- high level outcomes associated with Pillar 1 (best-estimate, risk margins and SCR) with some additional detail provided, e.g. some breakdown of the SCR;
- where an internal model is used for Pillar 1, some disclosures about the approaches;

Private:

- other assumptions behind internal models to be disclosed only to supervisors as appropriate; (broadly speaking, this mirrors JPMorgan's approach to VaR models in the 1990s);
- the outcome of the Pillar 2 supervisory review process;
- All underlying proprietary detail such as business plans, pricing assumptions etc.

CP15 CRO Forum Position to CEIOPS

General concepts and principles for supervisory reporting and public disclosure (cont.)

5.1 – 5.4 (cont.)

The **timing** of both reporting and disclosure needs to be made explicit, and should be aligned with financial reporting (ideally defined in terms of “x months” after a firm’s year end), particularly in view of the allowance to rely on disclosures in companies’ annual reports to satisfy Pillar III requirements. However, certain aspects of reporting, such as Pillar II adjustments, could only be disclosed publicly after the supervisory review.

It is also important to remember that **a transition period of, say, 3–5 years** after Solvency II implementation will be needed to fully implement Pillar III reporting and disclosure; a transition plan will be needed to map out a staged approach to the full disclosure requirements.

The **frequency of reporting and disclosure** also needs to be made explicit. As a minimum this would be annually. However, supervisors may require more frequent reporting, depending on scale of operations, range of activities, presence in different countries, involvement in different financial sectors, participation in international markets, financial capability and stability etc..

The **extent of external verification** needed for public disclosure (perhaps best left at companies’ discretion) should also be explicitly considered e.g. the level of comfort might come from board approval, or at times, senior management agreement.

CP15 (continued)

CP15 **CRO Forum Position to CEIOPS**

General concepts and principles for supervisory reporting and public disclosure (cont.)

5.5 We **agree with the principles of materiality and proportionality**, which we believe need to be applied both in the context of small company needs and within a group scenario, where something which is material to a local supervisor may not be material in terms of group supervision.

We **disagree with the reliance on a confidentiality principle allowing non-public disclosure by exception**. We believe there should be agreed minimum requirements for public disclosure based on a framework of key principles which do not typically give rise to confidentiality considerations. Those key principles would include: relevance; timeliness; accessibility without due costs; provision of information which is comprehensive and meaningful; reliability; comparability; consistency over time; capability of being understood in the relevant context; use of figures and assumptions based on economic principles. The concern here is that confidentiality is a subjective notion and could be interpreted differently in each country. We note that the definition of confidentiality in Annex XII of the CRD is written purely in the context of specific banking customer or counterparty confidentiality arrangements.

5.6 We **welcome a framework with overarching principles**. However, the paper needs to clearly distinguish the key principles for risk reporting and disclosure; some requirements contained in this section do not appear to be principles for reporting as such. In addition to those listed, we also strongly believe the following additional key principles are equally important: "use of figures and assumptions based on economic principles; comparability and consistent over time; reliability".

CP15 (continued)

CP15 CRO Forum Position to CEIOPS

General concepts and principles for supervisory reporting and public disclosure (cont.)

5.6 (cont.) We disagree that the same amount and type of Pillar III information should be provided at solo as well as at group level. The CRO forum believes that the **starting point for public disclosures should be the consolidated position**, with additional disclosure to reflect solo capital requirements if needed. The core principle for group vs entity disclosure should reflect where in substance the risks are managed and overseen; group level disclosures should therefore be required for governance and risk and capital information. This approach is in line with the consolidated approach permitted for banks under article 72 of the CRD; under Basel II (Directive 2006/48/EC Article 72(1)), consolidated subsidiaries are not subject to most of the disclosure requirements at legal entity level.

There will also be a need to address equivalence issues for groups resident outside the EU.

5.7 A.1. Nature of insurance undertaking's business and external environment

Such information is **already in the public domain for groups**, typically in annual reports and on websites. For branches, further information would not be onerous to produce. However, we **do not think Solvency II should be the main driver for additional disclosure** of this type of information, nor that insurers should be required to provide more information publicly than other sectors are required to do.

CP15 (continued)

CP15	CRO Forum Position to CEIOPS

Business overview and performance

5.7 (cont.)

A.2 Objectives and strategies

High level information is already in the public domain for groups. Anything beyond the financial reports and accounts e.g. detailed business plans, could only be provided to supervisors on a private and confidential basis.

A.3 Performance

We do not believe anything beyond what is in the public financial reports and accounts should be disclosed publicly. Further detail could be provided to supervisors privately. Which accounting basis would be required e.g. IFRS; local GAAP; SEC reporting? Would information prepared for U.S. requirements be acceptable? We would question the validity of disclosing anything more than what is already in the public domain; this type of information is disclosed for capital market purposes and is not specifically relevant to policyholder interests. The reporting regime for smaller firms must also be considered - IFRS does not apply to non listed companies, and will probably not be used by smaller entities - do not automatically apply IFRS to all firms.

CP15 (continued)

CP15	CRO Forum Position to CEIOPS
	Governance
5.7 (cont.)	We **agree the governance structure relevant to the solvency position should be public**; such information is already largely available in corporate governance and risk management statements in annual reports. However, any detailed information concerning how compliance has been met e.g. information about particular individuals, should remain private. If there is any form of personal liability attaching to any statements, particularly public statements, this should be made very clear. Is it envisaged that this information would be required on a group basis only, with a statement for each solo entity about how it links into the group structure? The last bullet point in the text of B.4.8 is unclear. What is the "actual risk profile". Does this mean the board needs to state explicitly if the standard or internal models do not fully capture measurement of risks? Any items requested should be similar in nature and level of detail to existing public disclosure requirements for any organisation (for example, in the UK, the Operating and Financial Review, which provides narrative information about a firm's competitive environment and an indication of strategy); there should be no additional such requirements prescribed separately within Pillar III for insurers. Pillar II requirements by contrast may result in supervisors needing to see proprietary information such as detailed business plans.

CP15 (continued)

CP15	CRO Forum Position to CEIOPS
	Valuation basis used for solvency purposes
5.7 (cont.)	C.1. Technical provisions We believe **technical provisions should be valued on a market consistent basis**. Disclosure should be linked to the methodology agreed for valuation i.e. quantitative information should focus on BEL; value of embedded options; MVM on a cost of capital basis. Qualitative disclosures should include assumptions made about discount rates, any negative provisions set to zero, surrender values etc. Types of liabilities should be linked to the evolving accounting standard. Differences with accounting figures might more logically be disclosed under capital management disclosure where profit margin might be presented as part of available capital. Where possible, **disclosure requirements should reflect what is already in place** in certain jurisdictions e.g. EEV, FSA returns, US regulatory reporting. For reinsurance cover, this information will be part of the overall risk management disclosures. Any further detailed information to supervisors should be provided on a private basis.

CP15 (continued)

CP15	CRO Forum Position to CEIOPS
	Valuation basis used for solvency purposes (cont.)
5.7 (cont.)	C.2. Assets covering technical provisions and capital requirements C.3 Other assets and liabilities We see no value in defining two separate asset categories; for risk management purposes, companies focus on the total balance sheet position and monitor internal limits for each category. **We believe there should be some disclosure of total assets by category showing the risk charges applicable.** It is not clear why the specific items listed under C.2 for reporting/disclosure have been picked out. We believe investment policy and reinsurance programme disclosures more properly belong with risk management information. This type of information is not available in other reporting, although analysis of assets by category is required under IFRS. The requirement in bullet point 6 of C.2. is inconsistent with the notion of market consistent valuation of liabilities which has no dependence on asset values, though we acknowledge that e.g. for products with a guaranteed minimum return and a profit share element for policyholders, the proportion of the fair value of a liability allocated to shareholders' equity could vary. We cannot see why the requirement in bullet point 5 of C.2. (historical cost information) be should be needed except perhaps for disclosure of differences with financial accounting figures. Supervisors may need additional private information to check capital calculations and ALM procedures and any asset limits. Information on ALM policy might better be disclosed under risk management. At a local level, more breakdown of group level information may be required.

CP15 (continued)

CP15	CRO Forum Position to CEIOPS
	Risk and capital management
5.7 (cont.)	D.1 Risk management We agree that elements of a company's risk management strategy should be publicly disclosed; **such information is already required under IFRS**. It would also need to be made clear that risk management is an evolving process. Standard sensitivity tests for accounts are balance sheet and P&L focussed. Disclosure of outcomes of standardised stress scenarios and information re sensitivities could be helpful, but it is too early to prescribe these. More guidance is needed on what is required for solvency and capital purposes. There are currently no stress tests in the public domain, however these might be included where they are part of the framework for steering the business. Each bullet point under D.1 in Section 3 could be interpreted in many ways – more explanation is needed. As part of its work in this area, the CRO Forum has agreed the following **principles for risk disclosure**: •*Any risk disclosure should start with a description of the risks faced by the insurer, the governance framework for managing these risks and the relationship between risk and capital. All material risks should be disclosed, not just those for which it is appropriate to apply a capital charge. Disclosure should be aligned with the individual elements of the risk management process, i.e. Identification, Analysis, Measurement, Mitigation and Control.*

CP15 (continued)

CP15	CRO Forum Position to CEIOPS
	Risk and capital management (cont.)
5.7 (cont.)	•*The effect of risk management on the insurers' stability should be disclosed. Therefore, disclosure of all risks should be encouraged regardless of whether there is a capital charge. The nature of the disclosure should be relevant and appropriate to the risks involved.* •*In order to establish comparability between companies the risk disclosure should be based on a uniform high level classification of risks that is generally accepted (a possible scheme was used in the CRO forum benchmarking study based on recommendations used by the IAA referred to as "extended Fischer 2") The classification should be disclosed and transparent – best practice should report under these classifications to facilitate comparisons.* •*Quantitative Risk disclosure (with a qualitative commentary on the meaning of the numbers including a summary of the important changes in risk profile since the last disclosure) is generally required wherever the risk is amenable to quantitative analysis. If quantification cannot be provided but the risk is material (e.g. "risk of change", strategic risks, etc), then this should be stated explicitly and a qualitative risk disclosure provided* D.2. Capital management We agree there should be some public disclosure of capital management information, however the requirements appear to be focussed on regulatory rather than internal capital assessment, and much of the information requested looks to be of a private, local entity nature.

CP15 (continued)

CP15	CRO Forum Position to CEIOPS
	Risk and capital management (cont.)
5.7 (cont.)	•As part of its work in this area, the CRO Forum has agreed the following **principles for capital management disclosure**:
	•*For the purposes of comparison, capital requirement disclosure should be based either on a standardised model or, if using internal models, calibrated to the confidence level/ interval of the standard formula. If a company calibrates to a higher standard (e.g. in pursuit of a target rating), using a different approach to capital, diversification benefits etc, then both numbers should be disclosed.*
	•*The tendency should be to move away from prescriptive stress tests (disclosing the result of 100 basis points parallel shift is not informative if there is a good match between the assets and liabilities) and more towards "tailored stress tests" appropriate to the insurer's portfolio, focusing on the most material risks run by the insurer.*
	•*Disclosures should be tailored to reflect the portfolio of risks and the target audience, focussing on the most material risks within the above constraints on risk classification and standardized classes of scenarios. Guidance on materiality, private/public disclosures and compulsory/voluntary disclosures are envisaged as part of the policies giving effect to this principle.*
	•*If an insurer wishes to claim a diversification benefit at an aggregated level , adequate qualitative disclosure should also be provided, and disclosure of fungibility of capital should also be mandatory.*
	•*There should be a comparison between available capital resources and capital requirements and a discussion of the insurer's capital management policy. In this context, available capital should be determined on an economic basis so that available and required capital are consistent. Required capital in this context will be in line with the regulatory standard (either by use of the standard model or an equivalently calibrated internal model).*

CP15 (continued)

CP15 **CRO Forum Position to CEIOPS**

Risk and capital management (cont.)

5.7 (cont.) **Public disclosure of capital requirements**

The group has **not yet reached consensus** on the issue of public disclosure of the SCR and MCR and any breaches thereof. However there is support for disclosure of non confidential information to support greater transparency of Pillar I and Pillar II capital requirements and to encourage supervisors to act in a transparent and consistent manner.

We agree with the CEA that Pillar III disclosure should not focus on a single element such as the SCR or breaches of the SCR. An insurer's balance sheet is exposed to the volatile external economic environment and it should be accepted that this may, from time to time result in companies temporarily dipping below their SCR. If such allowance is not made, companies may feel obliged to maintain their SCR at all times, and this would result in the SCR effectively becoming a "hard" target. Such an outcome would seriously undermine the greater sophistication of the new Solvency II framework and the role of other important elements such as the MCR, with the following potential consequences:

- Higher capital requirements for market entry, resulting in less competition;
- Higher costs to policyholders arising out of additional capital in excess of the SCR being held;
- Disincentives for companies to accept risk or to invest in volatile assets to the detriment of long term policyholder returns;
- increased risk of pro-cyclicality.

CP15 (continued)

CP15	**CRO Forum Position to CEIOPS**
	Risk and capital management (cont.)

5.7 (cont.) **We also have a number of other concerns about public disclosure of breaches of the SCR:**

(i) The requirement to disclose breaches which have occurred during the year implies a need for continuous monitoring, however, practically speaking, monitoring is likely to be carried out periodically, e.g. quarterly. **More guidance needs to be developed to define what continuous monitoring means.** We would highlight that IAS 1 requires an entity to disclose information that "enables users of financial statements to evaluate policies and processes for managing capital" and this includes disclosure of any breaches of regulatory capital requirements during the year. In this context IAS 1suggests that monitoring is based on internal management information.

(ii) Immaterial dips below the SCR which are quickly reversed may give rise to serious consequences under listing rules or other requirements e.g. debt covenants if they are formally defined as breaches. We suggest further work is required on:

-**what constitutes a breach** i.e. we believe there should be a materiality tolerance level below the SCR defined by duration and amount of the breach and whether and how quickly it is reversed;

-**when disclosure should take place** e.g. just at the year end; prior to the breach; immediately after or after remedial action.

The CRO Forum and CFO Forum are committed to working together on such issues.

CP15 (continued)

CP15	CRO Forum Position to CEIOPS
	Risk and capital management (cont.)
5.7 (cont.)	D.3. Calculation of the SCR using the standard formula D.4. Calculation of the SCR using an internal model Diversification assumptions should be disclosed in the context of the methodologies used to address the assessment of accumulation and resulting diversification. More detail is needed in these sections on the requirements for Pillar I reporting. We would expect minimal requirements in this area at a local level.