



22 September 2006

# **Feedback on CEIOPS Consultation Paper 14**

## Joint submission by the CRO Forum and CEA

### **Chief Risk Officer Forum**



## Chief Risk Officer Forum member companies

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 Allianz AG  
 Assicurazioni Generali S.p.A.  
 Aviva PLC  
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Country	Association
AT – Austria	Verband der Versicherungsunternehmen Österreichs (VVO)
BE – Belgium	Union Professionnelle des Entreprises d'Assurances (ASSURALIA)
CH – Switzerland	Association Suisse d'Assurances (ASA/SVV)
CY – Cyprus	Insurance Association of Cyprus
CZ – Czech Republic	Česká asociace pojišťoven (ČAP)
DE – Germany	Gesamtverband der Deutschen Versicherungswirtschaft (GDV)
DK – Denmark	Forsikring & Pension (F&P)
EE – Estonia	Eesti Kindlustusseltside Liit
ES – Spain	Unión Española de Entidades Aseguradoras y Reaseguradoras (UNESPA)
FI – Finland	Suomen Vakuutusyhtiöiden Keskusliitto
FR – France	Fédération Française des Sociétés d'Assurances (FFSA)
GR – Greece	Association of Insurance Companies-Greece
HU – Hungary	Magyar Biztosítók Szövetsége (MABISZ)
IE – Ireland	The Irish Insurance Federation (IIF)
IS – Iceland	Samband Íslenskra Tryggingafélaga
IT – Italy	Associazione Nazionale fra le Imprese Assicuratrici (ANIA)
LI – Liechtenstein	Liechtensteinischer Versicherungsverband e.V
LT – Lithuania	Lietuvos draudiku asociacija
LU – Luxembourg	Association des Compagnies d'Assurances du Grand-Duché de Luxembourg (ACA)
LV – Latvia	Latvijas Apdrošinātāju Asociācija
MT – Malta	Malta Insurance Association
NL – Netherlands	Verbond van Verzekeraars in Nederland (VVN)
NO – Norway	Finansnæringens Hovedorganisasjon (FNH)
PL – Poland	Polska Izba Ubezpieczen (PIU)
PT – Portugal	Associação Portuguesa de Seguradores
SE – Sweden	Sveriges Försäkringsförbund
SI – Slovenia	Slovensko Zavarovalno Zdrufenje (SZZ)
SK – Slovakia	Slovenská asociácia poisťovní
TR – Turkey	Türkiye Sigorta ve Reasürans Sirketleri Birligi
UK – United Kingdom	The British Insurers' European Committee (BIEC): Association of British Insurers (ABI) International Underwriters Association of London (IUA) Lloyd's of London

This presentation is based upon the consolidated responses of the Chief Risk Officer Forum and Comité Européen des Assurances to CEIOPS-CP-03/06, “Draft Advice to the European Commission in the framework of the Solvency II project on subgroup supervisions, diversification effects, cooperation with third countries and issues related to the MCR and SCR in a group context.”

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Section 1

## **Summary feedback**

## **We wish to highlight *the most important issues* regarding CP14**

- 1. We wish to reiterate that the total balance sheet, market-consistent approach advocated in the joint CRO Forum / CEA submission<sup>1</sup> without artificial restrictions should be the basic, guiding principle and is the starting point for our recommendations.**
- 2. This should be underpinned by consistency of supervisory approach to the assessment of the total balance sheet and the risk based capital requirements so that like risks receive the same regulatory treatment regardless of the supervisory body responsible for assessment.**
- 3. We believe that the prudential supervision of groups should be based on a consolidated approach so that there is one binding SCR for groups. The solo MCR and the valuation of insurance liabilities (in a consistent manner across the EU) remains local and binding and a solo SCR will be used to set the level of parental support.**
- 4. We believe it is essential that there is clear allocation of responsibilities between 'group lead' and 'solo' supervisors. In particular any potential application of Pillar 2 actions at the solo level should be a transparent process with safeguards, and taken in the context of any applicable group supervision.**
- 5. We agree that group diversification benefits should be recognised through use of an approved internal model or standard model. However, the formulation and calibration of the standard model, and any calibration requirement of an internal model is crucial in order to ensure that the pre-diversified requirement is appropriate.**
- 6. We believe that the size of the credit to local entities from allocating group diversification benefits should be the same regardless of the method used (e.g. increasing available capital at solo level or reducing the solo SCR).**
- 7. We agree that formalised capital arrangements within a group should be eligible to cover solo SCRs.**
- 8. We agree that a harmonised approach is required to deal with third country regimes and recommend that Level 2 implementing measures on equivalence be provided.**
- 9. We believe that requirements for eligible capital should be the same for EEA and non-EEA countries.**
- 10. We believe that group basis consolidation should allow for the use of internal models and recognition of diversification benefits from third country operations.**
- 11. We believe that any proxy MCR that is formulated and calibrated to be risk and diversification insensitive or does not give due credit to risk mitigation may create artificial constraints and disincentivise the use of internal models and good risk management.**

# **We embrace CEIOPS' direction and advice in several areas**

## **Major areas of agreement**

- ✓ **Avoidance of a multiplication of supervised sub-levels (1.25)**
- ✓ **Group diversification benefits defined as the difference between the sum of the solo SCRs and the group SCR calculated by internal or standard models (2.25)**
- ✓ **The fungibility of capital should be taken into account when calculating group diversification benefits (2.26)**
- ✓ **Groups should be allowed to allocate regulatory capital headroom created through group diversification to the component entities of the group (2.30)**
- ✓ **Flexibility on the allocation of group diversification benefits across entities in the group, including through contingent capital commitments subject to appropriate conditions (2.31-2.32)**
- ✓ **A harmonised approach in dealing with third country regimes in line with the FCD, with clear level 2 implementation measures (3.18, cf. 3.7)**
- ✓ **Reliance on the group lead supervisor to take appropriate and consistent action for non-equivalent regimes (3.20-3.22, 3.24, 3.26)**
- ✓ **It is unnecessary to have a group level MCR (4.6)**
- ✓ **A proxy MCR should be calculated as the sum of the solo MCRs to define the floor to the group SCR (4.7)**

## However, we have several areas of concern

### Disagreement

- X** We believe that with clearly allocated responsibilities between group lead and solo supervisors, sub-level supervision is unnecessary, and the prudential supervision of groups should be based on a consolidated approach (1.25)
- X** For non-EEA groups (whether equivalent or not), we believe that there should be no restrictions on the use of third country internal models approved by the group lead supervisor (3.25, 3.26)
- X** We disagree with the use of arbitrary multipliers to increase the floor for the group SCR (4.8)

### Clarification requested

- ?** The formulation and calibration of the standard model (and calibration of internal model) is crucial in order to ensure that the pre-diversified requirement is appropriate (2.25)
- ?** A clear, transparent approval process is required for internal models (2.25)
- ?** We believe that fungibility of capital should not require an additional risk factor since group diversification is only recognised to the extent that capital is fungible, and certain group specific risks (which should be clarified) should be considered under Pillar II (2.26 and 2.28)
- ?** We believe that the size of the credit to local entities from allocating group diversification benefits should be the same regardless of the method used (e.g. increasing available capital at solo level or reducing the solo SCR) (2.30)
- ?** Requirements for eligible capital should be the same for EEA and non-EEA countries
- ?** Group basis consolidation should allow for the use of internal models and recognition of diversification benefits from all third country operations, with transparency in its application in order to ensure convergence of practice and a level playing field
- ?** We recommend that a supervisor outside the EEA, who meets the requirements for equivalent supervision, should be able to take full responsibility as group lead supervisor (3.24)
- ?** We believe that any proxy MCR that is formulated and calibrated to be risk and diversification insensitive or does not give due credit to risk mitigation may create artificial constraint and disincentivise the use of internal models and good risk management (4.7)

Section 2

## **Response to major issues**

## Prudential supervision of groups should be based on a consolidated approach

### CEIOPS advice (our interpretation)

- Apply sub-group supervision where the supervisor involved considers it necessary (1.25)
- Strive to avoid a multiplication of supervised sub-levels (1.25)
- Consider objective criteria set by accounting rules for determining circumstances under which there is a unity of decision (1.26)

### CRO Forum / CEA feedback

- ✓ **Points of agreement:**
  - We agree that a multiplication of supervised sub-levels should be avoided (1.25)
- ✗ **Concerns:**
  - We believe the prudential supervision of groups should be based on a consolidated approach so that there is one binding SCR for groups while the MCR and valuation of insurance liabilities (in a consistent manner across the EU) remain local. A solo SCR will be used to set the level of parental support (1.25)
  - We appreciate that flexibility is necessary to supervise sub-groups but only in exceptional circumstances with the consent of the group lead supervisor (1.25)
  - Transparent safeguards are necessary to ensure clarity on when this flexibility is exercised to ensure convergence and a level playing field (1.26)

### CRO Forum / CEA main recommendations

- *A consolidated approach to prudential supervision of groups*
- *Ensure clear allocation of responsibilities between group lead and solo supervisors – any potential application of Pillar 2 actions at solo level should be a transparent process with safeguards and taken in the context of any applicable group supervision*
- *Allow supervision of sub-groups only with the consent of group lead supervisor, and with transparent safeguards in order to ensure convergence in application of regulations*

## Recognition of group diversification effects through use of internal or standard models

### CEIOPS advice (our interpretation)

- Diversification benefits defined as difference between sum of solo SCRs and group SCR using an internal or standard model based on consolidated data (2.25)
- Group specific risks and fungibility of capital taken into account (2.26)
- Group diversification recognised in the Group SCR where an approved internal model is used (2.27)
- Group specific risks and fungibility of capital taken into account using consolidated accounts method for standard model formulated and calibrated appropriately (2.28, 2.29)

### CRO Forum / CEA feedback

- ✓ **Points of agreement:**
  - We agree on the calculation of group diversification benefits using an internal or standard model (2.25 -2.27)
  - We agree that internal models should be approved (2.26)
- ✗ **Concerns:**
  - Pre-diversified capital requirements should be appropriate regardless of how they are calculated - internal or standard model (2.25)
  - More details are needed about what is intended by “the standard formula based on consolidated data” (2.25)
  - Clear and transparent approval process for internal models (2.25)
  - We believe that the complexity reflecting individual company circumstances means that transfer costs and group specific risks (which should be clarified) are best considered under Pillar II (2.26, 2.27)
  - Fungibility should not be a separate risk factor in the standard model as group diversification should only be recognised to the extent that capital is fungible (2.28)

### CRO Forum / CEA main recommendations

- *Ensure clear criteria for the approval of internal models*
- *Ensure objective formulation of standard model and calibration of standard and internal models*
- *Provide clear definition of group risks (including contagion risks) and capture this under Pillar II, not Pillar I*

## **Flexibility in the allocation of benefits and provision of capital support under clear conditions, supervised by the group lead supervisor**

### **CEIOPS advice (our interpretation)**

- Groups should in principle be allowed to allocate the regulatory capital headroom created to the component entities of the group (2.30)
- This should be done by increasing the solo available capital of the group's entities (2.30)
- Allocation of diversification benefits using methods possible under existing methods should be allowed (2.31)
- Allocation of diversification benefits by means of contingent capital commitments should be allowed under strict conditions (2.32)
- Consideration on whether the conditions should relate to the whole or part of diversification benefit (2.32)
- Further consideration is necessary on the minimum conditions for which contingent capital support may be allowed (2.33)

### **CRO Forum / CEA feedback**

#### **Points of agreement:**

- We agree that groups should be allowed to allocate group diversification benefits to component entities (2.30)
- We agree that all appropriate methods, including contingent capital commitments should be allowed under strict conditions (2.31, 2.32)

#### **Concerns:**

- Groups should have the flexibility to allocate diversification benefits (2.30)
- The size of the credit to local entities from allocating group diversification benefits should be the same regardless of the method used (e.g. increasing available capital or reducing SCR) (2.30)
- Groups should have the flexibility to provide support from either the parent or other solo entities with surplus capital (2.31, 2.32)
- Conditions for contingent capital commitments should not be so disproportionate as to make them not feasible (2.32)
- Contingent capital support should not be limited to a proportion of the difference between the solo MCR and solo SCR of the receiving entity (2.32, cf. 2.24 paragraph (f))

### **CRO Forum / CEA main recommendations**

- ***Allow flexibility for groups to allocate group diversification benefits to component entities and provide capital support from component entities, including the parent***
- ***The size of the credit to local entities from allocating group diversification benefits should be the same regardless of the method used (e.g. increasing available capital or reducing SCR)***
- ***Clear consideration of conditions for which capital support can be provided***
- ***The group lead supervisor should be empowered to judge on the extent that capital support can be provided, with transparent safeguards in order to ensure convergence in application of regulations***

## A harmonised approach, based on level 2 implementing measures

### CEIOPS advice (our interpretation)

- Follow principles laid down i.a. in FCD Articles 18 and 19 for the purpose of establishing third country equivalence (3.18)
- Issue guidance on which countries have equivalent supervisory regimes to avoid unnecessary burden to EEA supervisor and third country supervisors by conducting multiple equivalence testing and avoid different supervisors reaching different results (3.18)

### Groups having Head Office in EEA:

- For equivalent regimes, rely on third country's supervisory input including inputs for group internal model (3.20)
- For non-equivalent regimes, group lead supervisor to take appropriate action, including applying a standard formula or capital add-on (3.21)
- For non-equivalent regime, group lead supervisor may decide to omit testing of insignificant third country operation (3.22)

### CRO Forum / CEA feedback



#### Points of agreement:

- We agree that the principles laid down in the FCD are useful for establishing third country equivalence, and that guidance should be issued on countries with equivalent supervisory regimes (3.18)
- We agree that third country supervisory input should be used for equivalent regimes (3.20)
- We agree that the group lead supervisor should be empowered to take appropriate action for non-equivalent regimes (3.21)
- We agree with the materiality threshold for insignificant third country operations (3.22)



#### Concerns:

- Level 2 implementing measures should be used in determining equivalence, distinguishing between non-EEA subsidiaries of EEA groups, and non-EEA groups with EEA subsidiaries (3.18, cf. 3.7)
- While relevant for model recognition, we do not believe that the reflection of local risks in the internal model is relevant in the test of equivalence (3.18, cf. 3.5 second bullet)
- Group basis consolidation should allow the use of approved internal models and recognition of diversification benefits from all third country operations (capital add-ons or standard formula should not be the only alternatives for non-equivalent regimes) (3.21)
- We recommend that in the interest of convergence in practice and a level playing field, that there be clear guidance and transparency in the case of a group lead supervisor applying standard formulas, capital add-ons or omissions for insignificant third country operations (3.21)
- Requirements for eligible capital should be the same for EEA and non-EEA countries (3.25)

Groups with third country connections - continued next page

## A harmonised approach, based on level 2 implementing measures

### **CEIOPS advice (our interpretation)**

*Groups having Head Office outside EEA:*

- For equivalent regime, rely on third country's supervisory input including inputs for group internal model (3.24)
- For non-equivalent regime, group lead supervisor to take appropriate action, including establishing an EU holding company and application of Solvency II requirements to the EEA sub-group, ring-fencing the non-EEA entities (3.25)
- For non-equivalent regime, Group supervisor should not allow use of internal model covering any part of group in third country - may allow internal model for EEA part of group and standard model elsewhere. Alternatively allow internal model for whole group with additional capital held for parts of the group outside of EEA (3.26)

### **CRO Forum / CEA feedback**



#### **Points of agreement:**

- We agree that the third country supervisory input should be used for equivalent regimes (3.24)
- We agree that the group lead supervisor should be empowered to take appropriate action for non-equivalent regimes, including requiring the establishment of an EU holding company for the EEA part of the group (3.25)



#### **Concerns:**

- We recommend that supervisors outside the EEA meeting the requirements for equivalent supervision should be able to take on full responsibility as group lead supervisors (3.24, cf. 3.15)
- We recommend that in the interest of convergence in practice and a level playing field, that there be clear guidance and transparency in the case of a group lead supervisor taking appropriate action on non-equivalent regimes (3.25)
- For non-EEA groups (whether equivalent or not), we believe that there should be no restrictions on the use of third country internal models that are approved by the group lead supervisor (3.25, 3.26)

### **CRO Forum / CEA main recommendations**

- ***Level 2 implementing measures should be used for determining equivalence, distinguishing between non-EEA subsidiaries of EEA groups, and non-EEA groups with EEA subsidiaries***
- ***Requirements for eligible capital should be on the same basis for EEA and non-EEA countries***
- ***Group basis consolidation should allow for the use of internal models and recognition of diversification benefits from all third country operations***
- ***Supervisors outside the EEA meeting the requirements for equivalent supervision should be able to become group lead supervisors***
- ***Clear guidance and transparency when group lead supervisor takes appropriate action on non-equivalent regimes***

## Appropriate calibration of the MCR

### CEIOPS advice (our interpretation)

*Groups having Head Office outside EEA:*

- The requirement of MCR at group level is unnecessary (4.6)
- A proxy MCR should be calculated as the sum of solo MCRs to define a floor to the group SCR (4.7)
- The floor for the group SCR would be based on the proxy MCR multiplied by a factor equal to one or more, depending on the calibration of the solo MCR (4.8)

### CRO Forum / CEA feedback



#### Points of agreement:

- We agree that the MCR at group level is unnecessary (4.6)
- We agree that there should be a proxy MCR calculated as the sum of the solo MCRs to define a floor to the group SCR (4.7)



#### Concerns:

- We believe that any proxy MCR that is formulated and calibrated to be risk and diversification insensitive may create artificial constraint and disincentivise the use of internal models and good risk management (4.7)
- The proxy MCR should give due recognition to the use of sound risk mitigation instruments - for example, the proxy MCR could be reduced by the ratio of the Group SCR after risk mitigation to the Group SCR before risk mitigation (4.7)
- We disagree with the use of arbitrary multipliers to increase the floor of the group SCR so as not to limit incentives for the use of internal models and good risk management (4.8)

### CRO Forum / CEA main recommendations

- ***Ensure objective formulation and calibration of proxy MCR***
- ***No arbitrary multipliers to increase the floor of the group SCR; instead rely on the correct formulation of proxy MCR for standard and internal models, taking account of risk mitigation***

Section 3

## **Appendix – detailed responses to CP14**

## CP14 Detailed Response (1 of 8)

<b>CP14 CRO Forum / CEA Position to CEIOPS</b>	
<i>Sub-group supervision within the Solvency framework</i>	
1.25	<p>We agree that a multiplication of supervised sub-levels should be avoided. We believe that this is best enabled through ensuring a clear allocation of responsibilities between group lead [1] and solo supervisors.</p> <p>We also support the view that in a risk-based environment, change is needed and that a set of options should be considered as in paragraph 1.10. The CRO Forum has already set out the case in favour of clear allocation of responsibilities to the group lead supervisor [2] and we are not in favour of options (a) to (e) in paragraph 1.10. We would favour option (f) in paragraph 1.10, i.e. “Eliminate any kind of subgroup levels, and have the group supervisor carrying out the supervision of the whole group according to its own supervisory standards”. However, within this framework, we appreciate that flexibility is needed and believe that it would be (i) desirable to introduce the possibility of delegating specific tasks to the local supervisor as in CRD (Article 131 of 2006/48/EC); and (ii) possible to make provisions for sub-group supervision only in very specific circumstances with the consent of the group lead supervisor. See also response to 3.25 below.</p> <p>We also strongly believe that prudential supervision of groups should be based on a consolidated approach so that there is one binding SCR for groups (the group SCR) while the MCR and the valuation of insurance liabilities (in a consistent manner across the EU) remain local. A local SCR will be used to set the level of parental support. There are various reasons for this approach: (a) the IGD (and supplementary supervision) was mainly designed to prevent double use of eligible capital; (b) consistency with current industry trends towards enterprise-wide risk management; (c) avoiding the costs associated with an over-sophisticated regime for supplementary group supervision in Solvency II.</p>
1.26	<p>It is not clear if CEIOPS would intend to introduce its preferred approach through rules or waivers (with a presumption of group supervision at all levels). While we appreciate that flexibility may be necessary by the option to supervise subgroups, we believe that safeguards are necessary to ensure clarity on when this flexibility is exercised to ensure convergence and a level playing field across Europe.</p>

[1] In our comments we refer to “group lead supervisor” rather than “group supervisor” where the responsibilities of the various supervisors may not be clear.

[2] CRO Forum, “A framework for incorporating diversification in the solvency assessment of insurers, June 2005 and CRO Forum, “Group issues in Solvency II”, Meeting with the European Commission’s Solvency Working Group, 22 June 2006.

## CP14 Detailed Response (2 of 8)

<b>CP14 CRO Forum / CEA Position to CEIOPS</b>	
<i>Recognition of group diversification benefits</i>	
2.25	<p>We agree on the calculation of diversification benefits using internal or standard models.</p> <p>If markets are reasonably efficient, then the existence of large insurance groups in the EU is probably the best indicator of existence of diversification benefits and that they exceed group risks. The CRO Forum undertook a survey of group diversification benefits amongst its members in 2005 [3]. It shows that group diversification benefits materially reduced economic capital requirements.</p> <p>The formulation of the standard model and calibration of the standard and internal models should lead to appropriate pre-diversified capital requirements.</p> <p>The internal model approval process should be clear and transparent.</p> <p>More detail is needed about the standard formula “based on consolidated data”.</p>
2.26	<p>We agree that internal models should be approved.</p> <p>We believe that the complexity reflecting individual company circumstances means that transfer costs of moving capital and certain group specific risks (which should be clarified) are best considered under Pillar II.</p>

[3] CRO Forum, “A framework for incorporating diversification in the solvency assessment of insurers, June 2005 and CRO Forum,

## CP14 Detailed Response (3 of 8)

<b>CP14 CRO Forum / CEA Position to CEIOPS</b>	
<i>Recognition of group diversification benefits (cont'd)</i>	
2.27	We agree that group diversification effects should be recognised where an approved internal model is used, and the group lead supervisor should be satisfied that the effect has been appropriately and accurately calculated. We agree that certain group specific risks and fungibility of capital issues should be properly taken into account. However, see also response to 2.26 above.
2.28	The use of consolidated data to determine the group SCR within the standard approach requires further consideration and analysis. We believe that any additional risk factor applied for certain group specific risks should be reflected in a Pillar II assessment. Fungibility of capital should not be a separate risk factor since diversification should only be recognised to the extent that capital is fungible.
2.29	We agree.
<i>Allocation of group diversification effects to solo entities in a group</i>	
2.30	<p>We agree that groups should be allowed to allocate diversification benefits to the component entities of the group.</p> <p>The size of the credit to local entities from allocating group diversification benefits should be the same regardless of the method used (e.g. increasing available capital at solo level or reducing the solo SCR).</p> <p>Groups should have the flexibility to allocate diversification benefits. We do not believe that it should be a regulatory requirement for firms to allocate all group diversification benefits to solo entities. Groups should have the flexibility to retain (some of) the diversification benefits at group level. We do not see how this would create incentive for double gearing as suggested in paragraph 2.19. See 2.32 below.</p>
2.31	We agree. However, we believe that groups should have the flexibility to provide support from either the parent or other solo entities with surplus capital. See 2.32 below.

## CP14 Detailed Response (4 of 8)

<b>CP14</b>	<b>CRO Forum / CEA Position to CEIOPS</b>
	<i>Allocation of group diversification effects to solo entities in a group (cont'd)</i>
2.32	<p>We agree that groups should be allowed to keep the capital headroom at group level and allocate it to solo entities by means of contingent capital commitments.</p> <p>For the conditions to allow the use of these contingent capital commitments, we believe the main areas to consider are the form of the commitment, transparency and disclosure (paragraphs (e) and (j) in 2.24). The group lead supervisor should be empowered to judge the extent that capital support can be provided to ensure convergence in application of Solvency II measures.</p> <p>In addition, it would not be acceptable if decisions approved by the group lead supervisor are de facto overridden by a local regulator.</p> <p>We note that the conditions for contingent capital commitments should not be so disproportionate as to make them not feasible. We are concerned about some specific conditions:</p> <ul style="list-style-type: none"><li>- The eligibility of capital and the admissibility of covering assets have to be consistent with the ability to absorb loss as and when it falls due (condition (c) in paragraph 2.24);</li><li>- We do not believe that capital support should be limited to a proportion of the difference between the solo MCR and the solo SCR of the receiving entity (paragraph (f) in 2.24).</li><li>- In a risk-based environment, replacing capital used to fulfil commitments should be a matter of judgement for the group lead regulator; we do not think that it would be appropriate to prescribe its replacement (paragraph (h) in 2.24).</li></ul>
2.33	<p>We agree. The conditions in paragraph 2.24 should be separated between those that would be relevant regardless of the form of support provided and those that would be relevant to provide contingent capital support.</p>

## CP14 Detailed Response (5 of 8)

CP14	CRO Forum / CEA Position to CEIOPS
<i>Groups with third country connections</i>	
3.18	<p>We agree that the principles laid down in the FCD are useful for establishing third country equivalence and that guidance should be issued on countries with equivalent supervisory regimes. We fully support full convergence of supervisory reporting and practices, in the interests of ensuring best practice regulation and a level playing field across Europe. This is relevant for the test of equivalence in the first bullet in paragraph 3.5.</p> <p><b>We believe that this list should be part of the level 2 measures that expand the provisions in the level 1 framework Directive.</b> We believe that there should be separate level 2 measures for equivalence: for non-EEA subsidiaries of groups located within EEA, and for groups headed by a company located outside the EEA with subsidiaries within the EEA.</p> <p>We agree that the issues in the second bullet of paragraph 3.5, the reflection of local risks, are also a relevant aspect of model recognition for a group (an issue between the firm and the group lead regulator). But we do not believe that the reflection of local risks is relevant in the equivalence test, which should focus on the regulator and solvency regimes operated by third country supervisors.</p> <p>Group basis consolidation should allow the use of internal models and the recognition of diversification benefits from third country operations.</p>
3.19	N/A
3.20	<p>We agree that third country supervisory input should be used for equivalent regimes.</p> <p>See comment to paragraph 3.18 about level 2 measures. If equivalence is set out in level 2 measures, the consultations with other EU regulators ('relevant competent authorities') would be almost unnecessary to decide whether to rely on the third country supervisor.</p>

## CP14 Detailed Response (6 of 8)

<b>CP14 CRO Forum / CEA Position to CEIOPS</b>	
<i>Groups with third country connections (cont'd)</i>	
3.21	<p>We agree that the group lead supervisor should be empowered to take appropriate action for non-equivalent regimes and that there should not be an automatic application of Solvency II requirements to these subsidiaries.</p> <p>Group basis consolidation should allow the use of approved internal models and recognition of diversification benefits from all third country operations (capital add-ons or standard formula should not be the only alternatives for non-equivalent regimes).</p> <p>We recommend that in the interest of convergence in practice and a level playing field, that there be clear guidance and transparency in the case of a group lead supervisor approving internal models, applying standard formulas, capital add-ons or omissions for insignificant third country operations.</p>
3.22	<p>We agree with the introduction of a materiality threshold for insignificant third country operations. In order to ensure a level playing field about the treatment of third countries, there should be clear guidance about criteria for this materiality threshold and transparency in its application.</p>
3.23	N/A
3.24	<p>We agree that third country supervisory input should be used for equivalent regimes.</p> <p>See comment to paragraph 3.18 about level 2 measures. If equivalence is set out in level 2 measures, the consultations with other EU regulators ('relevant competent authorities') would be almost unnecessary to decide whether to rely on the third country supervisor.</p> <p>We recommend that supervisors outside the EU meeting the requirements for equivalent supervision should be able to take on full responsibility as group lead supervisor.</p>

## CP14 Detailed Response (7 of 8)

<b>CP14 CRO Forum / CEA Position to CEIOPS</b>	
<i>Groups with third country connections (cont'd)</i>	
3.25	<p>We agree that the group lead supervisor should be empowered to take appropriate action for non-equivalent regimes including requiring the establishment of an EU holding company for the EEA part of the group.</p> <p>Group basis consolidation should allow the use of approved internal models and recognition of diversification benefits from all third country operations (capital add-ons or standard formula should not be the only alternatives for non-equivalent regimes).</p> <p>We recommend that in the interest of convergence in practice and a level playing field, that there be clear guidance and transparency in the case of a group lead supervisor approving internal models, applying standard formulas, capital add-ons or omissions for insignificant third country operations.</p> <p>Requirements for eligible capital should be on the same basis for EEA and non-EEA countries.</p>
3.26	<p>We agree.</p> <p>See comment about internal models in paragraph 3.25.</p>

## CP14 Detailed Response (8 of 8)

<b>CP14 CRO Forum / CEA Position to CEIOPS</b>	
<i>Issues related to the MCR in a group context</i>	
4.6	We agree.
4.7	<p>We agree that there should be a proxy MCR calculated as the sum of the solo MCRs to define a floor for the group SCR.</p> <p>We believe that any proxy MCR that is formulated and calibrated to be risk and diversification insensitive or does not give due credit to risk mitigation may create an artificial constraint and disincentivise the use of internal models and good risk management.</p> <p>The proxy MCR should give due recognition to the use of sound risk mitigation instruments - for example, the proxy MCR could be reduced by the ratio of the Group SCR after risk mitigation to the Group SCR before risk mitigation.</p>
4.8	We disagree with the use of arbitrary multipliers to increase the floor for the group SCR so as to limit incentives for the use of internal models and good risk management. We believe that if the formulation and calibration of the MCR is correct there will be little need for arbitrary multipliers. See 4.7 above.
4.9	We agree.