



8 February 2006

Chief Risk Officer Forum

Feedback on CEIOPS Consultation Paper 9 *Solvency II - Third wave calls for advice*



This presentation is based upon the consolidated responses of the Chief Risk Officer Forum to CEIOPS-CP-06/05, "Consultation Paper No. 9 - Draft Answers to the European Commission on the third wave of Calls for Advice in the framework of the Solvency II project."

Support was provided by Mercer Oliver Wyman in the presentation of the results and conclusions.

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Section 1

Context and objectives of CRO Forum response

The Chief Risk Officer Forum Response – A Large Company View

The Chief Risk Officer Forum

- The Chief Risk Officer Forum ('CRO Forum') is comprised of risk officers of the **major European insurance companies and financial conglomerates**, and was formed to work on key relevant risk issues for advanced practitioners
- It is a **professional risk management group** focused on developing and promoting **industry best practices in risk management**
- The membership comprises:

Aegon NV	Allianz AG
Aviva PLC	AXA Group
Converium	Fortis
Generali	ING Group
Munich Re	Prudential PLC
Swiss Re	Winterthur
Zurich Financial Services	

A large company view – 3 core aims

- Alignment of regulatory requirements with sophisticated / best practice risk management
- Acknowledgement of **Group synergies** (especially diversification benefits)
- **Simplification of regulatory interaction** (as part of the Group aspect)

We endorse the CEA's stated aims for Solvency II



The industry strongly supports a Solvency II framework which aims to achieve the following:

- “Enable an institution to absorb significant unforeseen losses and gives reasonable assurance to policyholders” (*Framework for Consultation on Solvency II*)
- “Give an incentive to the supervised institutions to measure and properly manage their risks” (*Framework for Consultation on Solvency II*)
- Contribute to a “better managed and more competitive insurance industry that can better perform its key function of accepting and spreading risk” (*Commissioner McCreevy*)
- Encourage a single European market for financial services (*European Union Lisbon Strategy 2000*)

Source: CEA presentation at CEIOPS Public Hearing and Consultative Panel meeting, 11 January 2006

Section 2

Summary feedback

We wish to highlight *the most important issues* regarding CP9

- 1. We believe that CP9 makes an important contribution to the development of Solvency II. However, many points remain open to multiple divergent interpretations. A further level of detail and clarity is required to allow stakeholders to respond comprehensively**
- 2. We wish to reiterate that the total balance sheet, market-consistent approach advocated in the joint CRO Forum / CEA submission¹ should be the basic, guiding principle and is the starting point for our recommendations**
- 3. We believe it is essential that there is absolute clarity and lack of duplication regarding the roles of 'group lead' and 'solo' supervisors**
- 4. We wish to highlight the power of public disclosure as a regulatory tool and encourage discussion of how this can be harnessed**
- 5. We agree that the group MCR for insurance groups should be the sum of solo MCRs. However, the Group SCR cannot be the sum of solo SCRs, as this ignores the diversification effect between solo entities in a group**
- 6. We suggest a 'practical harmonisation approach' for small entities that achieves a minimum level of harmonisation while respecting materiality and resource constraints**

1. Chief Risk Officer Forum and CEA, *Solutions to Major Issues for Solvency II*, 11 January 2006

We embrace CEIOPS' direction and advice in several areas

- ✓ **The balance sheet is the appropriate starting point to determine eligible capital elements *provided that this is the economic balance sheet* (market-consistent, total balance sheet) and that eligibility is determined by the *economic ability to absorb risk* (CfA 19)**
- ✓ **The MCR for insurance groups should be the sum of solo MCRs (CfA 19)**
- ✓ **Every insurance group should have a lead supervisor that provides a *single contact point*, especially for validation of internal models; unnecessary duplication should be avoided and dispute resolution procedures implemented (CfA 20)**
- ✓ **We agree with the spirit and most detail of CEIOPS' position on public disclosures and supervisory reporting. Disclosure should not include *commercially sensitive information* and *confidentiality* between supervisor and insurer is essential (CfA 21)**
- ✓ **We agree that *procyclicality will be mitigated* somewhat by the introduction of risk-sensitive solvency requirements and staggered intervention thresholds; and *no countercyclical adjustment* should be applied to the SCR (CfA 22)**
- ✓ **We agree that the principle of proportionality ('same principles, different execution') should be invoked in the preparation of guidelines for small entities (CfA 23)**

However, we have several areas of concern

Disagreement

- ✘ Tiers of eligible capital should be linked to levels of capital requirement (MCR and SCR), not arbitrary percentages adjusted to reflect the perceived risks of the insurer (CfA 19)**
- ✘ The stipulation that “*non transferable capital items should as a minimum reflect the sum of the capital requirements of the solo entities*” should not apply to the SCR (CfA 19)**
- ✘ Some forms of regulatory intervention should be avoided as they have caused the worst forms of procyclicality in the insurance industry (e.g. stress tests covering sources of risk already included in the SCR, bringing about double-counting) (CfA 22)**
- ✘ Small undertakings should not be exempt purely due to size; instead, less standardised requirements are appropriate for those that can demonstrate lower risk levels (CfA 23)**

Clarification requested

- ? Principles governing prudential filters should be clearly defined. They should only be used to adjust accounting values to reflect market value more accurately, and be consistent with the total balance sheet approach (CfA 19)**
- ? Building on existing Siena and Helsinki Protocols is not enough to guarantee efficient and effective co-operation between supervisory authorities. Complete transparency of regulatory practices and a common set of principles are needed (CfA 20)**
- ? Clear guidelines should be put in place on when the use of supervisory powers is appropriate, to avoid inconsistency in application and interpretation (CfA 20)**

Solvency II should follow a total balance sheet, market-consistent approach throughout

CEIOPS advice (our interpretation)

- Supervisory approach to capital should be based on a balance sheet perspective (19.138)
- A common reference standard, and appropriate prudential filters, should be used to determine eligible capital – current assumption is a market value standard (19.139)
- Alignment of banking and insurance rules to level the playing field, and reduce the scope for regulatory arbitrage (19.143)
- Broad principles to categorise eligible capital and identification of adjustments. (19.144)
- Three-tiered approach to capital categorisation, with limitations on different forms and tiers of capital. (19.145)
- Application of prudential filters to accounting capital to determine a group's eligible capital to meet solvency requirements (19.152)

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CRO Forum feedback (1 of 2)



Points of agreement:

- We strongly support the supervisory approach to eligible capital if CEIOPS means a **total balance sheet approach based on market-consistent values**, as discussed in the joint CRO Forum / CEA paper¹. We encourage its application throughout the Solvency II framework (19.138)
- Support the view that assets are valued at market value and suggest that liabilities be valued at their market-consistent values as per the joint CRO Forum / CEA paper (19.139-19.142)¹
- Agree with a principles-based approach to categorising eligible capital elements as it offers appropriate flexibility (19.144)
- The treatment of hybrid capital should first and foremost be considered using economic principles, and secondly made consistent with other financial service providers (19.147)
- Agree that the group MCR should equal the sum of solo MCRs (19.154)
- Future regulations are needed to address issues at the group level with items whose admissibility at solo level is limited (19.155)
- Support the use of adjusted SCR in cases where the SCR is subject to modifications in the process of the supervisory review (19.165)
- Support the use of internal capital assessment to determine the amount and quality of eligible elements of the relevant capital (19.167)
- Agree that the quality and eligibility of capital should be considered as part of the supervisory review process (19.168)

1. Chief Risk Officer Forum and CEA, *Solutions to Major Issues for Solvency II*, 11 January 2006

Group SCR should be less than the sum of solo SCRs

CEIOPS advice (continued)

- The method to assess the solvency of a group should be stated at the EU level. The consolidated method should be used by default to calculate group's capital (19.158)
- More work should be done to study how diversification benefits can be downstreamed to solo entities and how diversification can be accounted for in group SCR calculations (19.160)
- The question whether capital support given by a group to solo entities could become eligible to cover the solo SCR should be considered (19.161)
- Eligibility requirements of capital elements cannot be eased following a supervisory review (19.166)
- Insurers will be required to make an internal capital assessment of the amount and quality of available elements that are relevant to achievement of their goals (19.167)

CRO Forum feedback (2 of 2)



Concerns:

- More details regarding the actual criteria that capital elements must satisfy to qualify for various tiers of eligible capital would be useful (19.138 & 19.148)
- Advice should include the treatment of derivatives that are attached to forms of capital (19.138-19.142)
- **Tiers of eligible capital should be more closely linked to the level of capital requirements (MCR and SCR) instead of an arbitrary percentage** adjusted to reflect the insurer's perceived risk profile (19.146)
- We have no specific objection to the application of prudential filters. However, we believe that the primary purpose of prudential filters should be to adjust accounting values to reflect economic values more accurately. We suggest defining more clearly when and how these filters should be used (19.138-19.142, 19.152-19.153)
- **The group SCR cannot be the sum of solo SCRs, as this ignores diversification between solo entities. (19.154)**
- **Capital in solo entities in excess of MCR should be freely transferable among the subsidiaries of a group, at least among those which are in jurisdictions of the EU or in those recognised to have equivalent supervision (19.154)**
- We request clarifications on whether non-EU operations of EU-based companies should be included in the use of methods to calculate group solvency (19.158)
- **Formalised capital support by a group to solo entities should be eligible to cover the solo SCR, as recommended in the CRO Forum diversification study¹ (19.161)**
- We urge caution on discretion to change eligibility criteria and/or limits on relative amounts of capital (19.169-19.170). There are alternative avenues that supervisors can pursue before taking these steps

CRO Forum main recommendations

- **Confirm that a balance sheet approach can be interpreted as a total, market-consistent balance sheet approach**
- **We would welcome the opportunity to collaborate with CEIOPS to develop more detail regarding eligibility criteria for capital elements, as well as plans for the further development of this topic**
- **Remove the stipulation that non-transferable capital items should be at least as great as the sum of solo requirements (for the SCR, acceptable for the MCR)**

1. Chief Risk Officer Forum, A framework for incorporating diversification in the solvency assessment of insurers, 10 June 2005
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There should be enhanced clarity and no duplication regarding the roles of 'group lead' and 'solo' supervisors

CEIOPS advice (our interpretation)

- Build on Siena and Helsinki protocols and current regulations (20.91)
- Supervisory reporting should be subject to a set of minimum standards in terms of format and scope (20.94)
- There should be exchange of information for supervision of group models and there is scope for a peer review mechanism (20.97)
- Make explicit provisions to enhance cooperation between supervisors involved group supervision (20.100)
- The future framework should allow flexibility in groups' supervision (20.101)
- A lead supervisor is appointed for each insurance group (20.102)

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CRO Forum feedback (1 of 2)



Points of agreement:

- We agree that confidentiality should be maintained, and propose that companies should be aware of the information exchange between supervisors (20.92)
- In addition to the exchange of information concerning validation of internal models, we also encourage peer reviews and the development of a central European resource to help lead regulators understand and approve internal models (20.97)
- We strongly support the convergence of supervisory reporting and also recommend convergence of supervisory practices, to ensure best practice regulation and a level playing field throughout the EU (20.94 and 20.109)
- We strongly agree with the need to develop information sharing between supervisory authorities, and suggest that this is based on common definitions, structure and common IT methodology while respecting confidentiality (20.96)
- **We support the appointment of a lead supervisor for each group (20.102)**
- Additionally, we believe it is important that non-EU supervisors who perform similar tasks to EU lead supervisors should be able to assume full responsibility as group lead supervisor, provided they conduct the supervision according to the EU's internally accepted principles and can cooperate appropriately with the solo supervisors responsible for subsidiaries within the EU. Accordingly, we believe the EU should begin negotiations with non-EU supervisors to achieve this (20.102)

CRO Forum recommendations (1 of 2)

- **Appoint an empowered lead supervisor for each group**
- **Move to promote greater consistency and convergence across all financial service sectors**
- **Move to promote a Global/European central competence in internal model review to share best practices**
- **Begin negotiations with non-EU regulators on the role of the group lead supervisor**



We also highlight the EFR position on this topic, discussed in Section 3

CfA 20) Co-operation between supervisory authorities (2 of 2)

There should be enhanced clarity and no duplication regarding the roles of 'group lead' and 'solo' supervisors

CEIOPS advice (continued)

- In the event of financial crisis, supervisors can decide not to consult, if consultation may jeopardize the effectiveness of decisions (20.113)
- Possibility for local supervisor to apply add-ons (20.116)
- Co-operation between supervisory authorities and harmonisation of supervisory reporting to enhance efficiency of the co-operation process (20.117)
- Non-public information exchanged between supervisors should be kept strictly confidential (20.118)
- Supervisors should regularly exchange information on the validation of internal models (20.121)

CRO Forum feedback (2 of 2)

X Concerns:

- Siena and Helsinki Protocols are not enough to ensure efficient and effective co-operation. Complete transparency of regulatory practice and a common set of supervisory principles are needed (20.91)
- Safeguards are necessary to ensure clarity on when and how flexibility in groups' supervision should be applied. Convergence should remain the ultimate overall focus of the framework (20.101)
- Ensure that there is no duplication of effort between group and local supervisors and that systems are in place to resolve any disputes arising (20.102)
- Safeguards are necessary to ensure clarity on when the emergency authority of supervisors **not to consult** can be applied. Mechanisms should be put in place to ensure speedy communication (20.113)
- Care is required that the coordination of local input from supervisors does not impede an efficient process of model approval (20.114)
- Resolution procedure appears to leave open the possibility that after 6 months, a model may be approved at Group level but not for solo use (20.115)
- The process for local supervisors to provide add-ons should be transparent with safeguards. We point out that there are alternatives to capital add-ons that should be considered first (20.116)

CRO Forum recommendations (2 of 2)

- ***Provide more clarity on the extent of supervisory actions and circumstances when flexibility is allowed, particularly regarding the emergency authority of supervisors***
- ***Consider how to make the coordination of input from local supervisors and the process for resolution of differences of opinion between group lead and local supervisors more efficient***

We emphasise that public disclosure can be a powerful regulatory tool

CEIOPS advice (our interpretation)

- Market disclosure should enhance transparency and promote well-functioning markets (21.69)
- Proprietary information and confidentiality should be taken into account (21.71)
- Information should conceptually be the same across all types of insurance, although specific contents may differ (21.76)
- There should be principles to empower supervisors to prescribe the format and scope of supervisory reporting and CEIOPS will develop common formats (21.84)
- Pillar III should allow for items to be disclosed which are not part of the IAS/IFRS framework (21.87)
- Supervisory reporting related to group supervision should be similar to that applying to 'solo' undertakings (21.93)
- Public disclosure should be at least annual but a combination of frequencies is most likely for supervisory reporting (21.94)

CRO Forum feedback



Points of agreement:

- We agree with the bulk of CEIOPS draft answers on this topic
- We agree strongly with the purpose of public disclosure as articulated in 21.69
- **The confidentiality of supervisory reported information is paramount (21.81)**
- We would add that early communication of data requirements will greatly assist supervisory reporting
- The same requirements should be imposed on solo undertakings and the solo supervisor's role maintained (21.93)



Concerns:

- Some of the data with respect to standalone business units that CEIOPS contemplates may require planning and work to make available at Group centres – we hope to work together to allow time for planning (21.83 and 21.93)
- We believe public disclosure is important and we agree that public disclosures via the financial statements may differ in perspective from supervisory objectives. We believe that it is important to be able to reconcile the reported information, and avoid duplication

CRO Forum recommendation

We would welcome the opportunity to collaborate with CEIOPS to elaborate on the data requirements to allow companies to plan ways to meet future supervisory reporting standards

We support risk-sensitive supervision, early warnings and staggered interventions

CEIOPS advice (our interpretation)

- Procyclicality encompasses 'feedback loops' and 'reinforcement effects' associated with insurance and the general economy, as distinct from the concept used in banking regulation (22.42)
- There are few – if any – data to quantify the potential for procyclicality under the Solvency II framework (22.43)
- Risk sensitivity might increase procyclicality, but better risk management and pricing should mitigate this (22.43)
- Supervisory action should aim to prevent recurrent breaches of the SCR each time a particular phase of the cycle occurs (22.46)
- Supervisors should be flexible in their supervisory actions provided the MCR is always met (22.46)
- Advice on appropriate quantitative monitoring tools should be considered in the light of procyclicality (22.47)
- A systematic countercyclical adjustment of the SCR standard formula should be avoided (22.48)

CRO Forum feedback

✓ Points of agreement:

- We agree that regulatory intervention may have a role in dealing with procyclicality
- **There are great benefits to the more risk-sensitive supervisory action, earlier warnings, staggered interventions and different levels (severity) of intervention that Solvency II will bring about** - the benefits of this approach should far outweigh any potential procyclical effects
- We propose sharing of groups' internal models with supervisors to allow prompt identification of deteriorating financial conditions and regulatory intervention (22.47)
- Recurrent breaches of the SCR should be avoided (22.46)
- **There should be no countercyclical SCR adjustment** (22.48)
- The longer-term nature of many insurance businesses as well as the macroeconomic factors to which they are exposed mean that procyclicality need not be treated in the same way as for banking

✗ Concerns:

- Although regulatory intervention may have a role, the addition of stress tests and similar conditions can actually increase the risk of procyclicality
- Supervisory flexibility should be balanced against the need for certainty and predictability – so when and how supervisory action takes place should be agreed in advance (22.46)
- Undertakings have many options to reflect the future risk profile e.g. reinsurance, derivatives. Greater SCR is not necessarily the best choice

CRO Forum recommendation

We recommend that CEIOPS refrains from invoking any stress tests that are already included in the SCR (e.g. equity / bond market stress tests) and refrains from making arbitrary adjustments to the SCR (e.g. to reflect the future risk profile of the firm), as this has been shown to be one of the worst causes of procyclicality in the insurance industry

We suggest a practical harmonisation approach for small entities

CEIOPS advice (our interpretation)

- Exempt all undertakings exempted by current directives, with an opt-in if they choose to be included in the Directive (23.35)
- Threshold premium income levels should be increased to allow for inflation on an ongoing basis and further discussion is required on further objective threshold conditions (23.36)
- Member states should establish domestic standards for exempt entities (23.37)
- The 'principle of proportionality' ('same principles, different execution') should be developed to apply to small entities (23.38)
- For entities within the Directive, size and legal form should not influence the nature of the supervision (23.40)
- There should be guidance on liability valuation methods (for given confidence levels) for small undertakings (23.43)
- All undertakings should calculate the same SCR, regardless of whether it is greater than the MCR; but the regulator should have an unrestricted right to insist on an internal or benchmark model if the SCR is not considered meaningful (23.44 – 23.46)
- The MCR calculation should be the same for all undertakings (23.48)

CRO Forum feedback



Points of agreement:

- We agree that the principle of proportionality should be invoked (23.38)



Concerns:

- Size is not the best indicator of risk levels and **entities should not be exempt based on size only**, even if they are inflation-adjusted (23.40)
- The establishment of separate standards for small undertakings by individual member states could undermine harmonisation in this section of the market (23.37)
- We envisage a standard approach simple enough to be applied by all undertakings regardless of size, so that exemptions for small undertakings would no longer be necessary (23.35)
- CEIOPS comments suggest that a percentile approach to liability valuation is likely for small entities – we believe that a cost of capital approach may be simpler to use for smaller entities than a percentile approach¹

CRO Forum recommendation

The CRO Forum represents the largest European insurance groups, who will not meet the criteria for treatment as a small undertaking under Solvency II. However, we suggest that it would further the objective of greater harmonisation to promote the use of more standardised or benchmark models for small undertakings.

1. Chief Risk Officer Forum and CEA, *Solutions to Major Issues for Solvency II*, 11 January 2006

Section 3

European Financial Services Roundtable position

We have noted the EFR's findings on the lead supervisor model

PURPOSE OF THE EFR REPORT:

The EFR report (June 2005) expands on the lead supervisor concept proposed in 2004, elaborates on the interaction between supervisors in times of financial crisis, and proposes longer term alternatives for the financial supervision structure in the EU.

EXECUTIVE SUMMARY:

- The current institutional set up of financial supervision is too fragmented to be effective or efficient. Especially for international groups, the supervisory responsibilities are no longer suited to the reality of these groups
- The lead supervisor model was proposed by EFR in 2004 – where a lead supervisor is the single point of contact for the financial institution within the prudential supervisory framework, at both the consolidated and the local level
- Local supervisors in member states are represented and involved in the supervisory process, both at the local level and together with the lead supervisor by forming a *college of supervisors*, which works closely with the lead supervisor in normal times and in times of financial crisis
- EFR responds to comments on the lead supervisor concept, demonstrates that these concerns need not be barriers to the successful implementation of the model to improve integration of EU financial markets, and expands on the lead supervisor concept by taking into account the functions of lender of last resort and deposit guarantee schemes
- The lead supervisor concept and the extension of the Lamfalussy approach to banking and insurance sectors: The EFR recognises that some of the practical benefits of implementing the lead supervisor scheme could already be realised if the level 3 committee made full and extensive use of its mandate
- Longer term alternatives to the lead supervisor model include: a) giving greater power to level 3 committees to mediate disputes between committee members, b) establishing a separate and mandatory regime for multi-jurisdictional institutions only, and c) establishing a European System of Financial Supervision with an ESCB structure, and a new EU-level institution that would supervise the relevant pan-European financial institutions

1. European Financial Services Roundtable, *On the Lead Supervisor Model and the Future of Financial Supervision in the EU - Follow-up recommendations of the EFR*, June 2005

We draw your attention to several important findings

FINDING AS REGARDS 3RD WAVE ADVICE

- Both the EFR and CEIOPS identify the need for a lead supervisor to be the single point of contact for coordinating supervision of the group
- In addition to supervising local subsidiaries and branches, the local supervisors are involved in the process of supervision by forming a **college of supervisors** with the lead supervisor
- Although the EFR feels that the lead supervisory concept cannot operate without the interaction of a defined college of supervisors to regularly share information, CEIOPS does not explicitly state the need to define this college of supervisors in its draft answers
- In times of crisis, the EFR recommends that local supervisors work closely with the lead supervisor. The core of this college becomes a management team for the group of supervisory authorities. The group supports the lead supervisor and liaises closely with relevant parties in the countries concerned
- CEIOPS advises that in times of financial crisis, both lead and local supervisors can decide not to consult and rather act independently, if consultation might jeopardize the effectiveness of decisions

CRO FORUM PERSPECTIVE

1. If a college of supervisors is defined for each group, and works closely with the lead supervisor of the group, then efficient communication between supervisors may be promoted at all times
2. In times of crisis, mechanisms should be put in place to ensure speedy communication within the college of supervisors (e.g. it may not be efficient to consult all supervisors if the crisis occurs in only one or two member states)
3. There should be an EU-wide body to ensure that there is no great difference between supervisors' responses and interpretations in times of crisis
4. This same EU-wide body will be able to resolve disputes between member states during times of crisis

1. European Financial Services Roundtable, *On the Lead Supervisor Model and the Future of Financial Supervision in the EU - Follow-up recommendations of the EFR*, June 2005

We have also noted the EFR's findings on consumer protection and choice in the financial services Industry

PURPOSE OF THE EFR REPORT:

The EFR report aims to deepen the concept of consumer protection in retail financial service markets in the EU. Through the case study of unsecured personal loans, the EFR argues that a more pragmatic approach is needed in rule-making policies and suggests a multi-track approach to further integration.

RELEVANT FINDINGS AS REGARDS 3RD WAVE ADVICE

- The traditional approach of minimum directives leaves much room for divergence in interpretation and application
- The EFR disputes the assumption that all-embracing harmonisation of financial service markets is desirable and beneficial. This paper points out that full harmonisation, in the strictest sense, can be extremely time consuming, politically unrealistic and potentially unnecessary. Instead, it advocates **targeted full harmonisation of key requirements**
- A similar approach can be used to look at the Solvency II directive; instead of full convergence, key stakeholders may want to apply **targeted full harmonisation to key areas**, and accept differences in non-key areas

CRO FORUM PERSPECTIVE

- We suggest that CEIOPS may want to identify more explicitly key and non-key issues in the Solvency II framework
- CEIOPS may want to recommend that full harmonisation should be implemented for key issues with strict guidelines on interpretations and execution, in order to minimize divergence in interpretation. Non-key issues would be resolved by minimum directives or mutual recognition by member states

Section 4

Discussion – the way forward

Discussion

- The CRO Forum wishes to continue this constructive dialogue on Solvency II, with the following aims
 - Leaving Solvency I behind fully
 - Resolving the six major issues highlighted in the joint CRO Forum / CEA document
 - Ensuring that the final approach adopted is an economic one, using a total balance sheet, market-consistent approach
 - Establishing a framework for ongoing discussion (i.e. avoiding the need for Solvency III to advance the framework)
- Next steps
 - We are available to continue collaborating with CEIOPS working groups on these important issues

Section 5

Appendix – detailed responses to Calls for Advice

CfA 19 – Eligible elements to cover the capital requirements

CfA	CRO Forum Position to CEIOPS
19.138	<ul style="list-style-type: none"> ▪ If what CEIOPS means by “accounting perspective” is “total balance sheet ” approach, then we agree ▪ We also think this section should establish the broad principles supervisors would use to determine eligible capital and the basis of measurement of such capital ▪ Our suggestion is that all assets should be considered and only liabilities that are pari -passu with insurance liabilities should be considered, and all measured on an economic basis. The excess of market value of assets over the economic value of policyholder liabilities and other liabilities that have equal priority claim as policyholders is treated as eligible capital. ▪ Arbitrary limits should be avoided, for example, it should not matter if a particular instrument mitigates a risk or acts as a form of eligible capital. ▪ Under the total balance sheet, market-consistent approach, the assessment of financial risks, as described in § 19.11, should only be part of the assessment of capital requirements, not of the assessment of eligible capital. Otherwise the total balance sheet approach could potentially lead to double counting as it would lead to a capital charge and restrictions on eligibility at the same time.
19.139 – 19.142	<ul style="list-style-type: none"> ▪ We support the view that the reference standard should be based on a market value approach and agree that the same basis for calculating technical provisions should provide this standard for defining eligible capital ▪ Our views on the approach favoured for the valuation of technical provisions are put forward in the joint CRO Forum / CEA Submission on Solvency II issues. <p>We stress that prudential filters should be a means of adjusting accounting values to reflect market value, but not an end in themselves. Moreover, if these prudential filters are intended for other purposes, we ask that CEIOPS clearly state possible uses so that we may understand the potential scope and subjectivity of adjustments. It is also important that prudential filters don't mix capital fungibility issues such as life funds / equalisation reserves with valuation issues.</p> <p>We ask that CEIOPS include in its advice the treatment of derivatives that are attached to forms of capital. For example, consider deeply subordinated perpetual capital securities with a recurring 10-year rate reset that the insurance company swaps to floating. Is the pay floating receive fixed swap attached to the capital security so that together they form the capital security or is the swap considered an asset or liability? We believe that if the derivative obligation (or asset) is subordinate to the policyholder claim, then we should tie the derivative to the capital security. If the derivative counterparty is not subordinated then the derivative should count as an asset or liability when assessing solvency.</p>

CfA 19 (cont'd 1)

CfA	CRO Forum Position to CEIOPS
19.143	<p>We agree. The new regime should reduce the scope for regulatory arbitrage. We however envision a system where both the banking and insurance regulators agree (with the industries) a set of principles, which should naturally lead to a definition of available capital that makes sense. If there were differences in types of capital that are eligible between the industries this would be because we are following inconsistent principles – a rational result that does not create an advantage.</p> <p>We agree that OFR should feed into Solvency II but only <u>where relevant and appropriate</u>. There should be an alignment of insurance and banking rules only where it is applicable to insurance. In particular, insurance rules under Solvency II should not be forced to align with Basel rules if both are likely to change.</p>
19.144	<p>We agree – A principle based approach offers most flexibility.</p> <p>The total balance sheet, market-value based approach has the following implications for calculating capital requirements:</p> <ul style="list-style-type: none"> ▪ The ability for future profit sharing to absorb potential risks in adverse circumstances must be systematically taken into account. ▪ In such a case, we would expect that any unallocated policyholder assets will be eligible to meet the capital requirements of the fund. <p>The eligible elements to cover the capital requirements must also be consistent with the total balance sheet market-value based approach:</p> <ul style="list-style-type: none"> ▪ For example, unrealised gains and hidden reserves should be treated consistently in the value of assets, liabilities and available capital <p>The fundamental eligibility criteria for capital elements should be the economic ability to absorb risk when required.</p>
19.145	<p>No objections to the 3 tier approach providing they reflect risk bearing nature of capital rather than arbitrary splits based on accounting definitions.</p>
19.146	<p>Rather than arbitrary percentage changes which are adjusted to reflect the perceived risk profile of the insurer, the tiers should be more closely linked to the level of capital requirements. Due consideration must be given to the composition of capital used to meet the MCR and SCR but artificial limits based on arbitrary fixed percentages should be avoided</p>
19.147	<p>We agree – treatment of hybrid capital should be made consistent with other sectors, but it is important that clarity is provided on what forms of hybrid capital will be eligible under the higher tier. The definitions within CP12, regarding the treatment of “Deeply Subordinated Debt”, will help to address this issue.</p>

CfA 19 (cont'd 2)

CfA	CRO Forum Position to CEIOPS
19.148	<ul style="list-style-type: none"> ▪ There is little detail given on the actual criteria that capital elements must meet to qualify for the various tiers ▪ Any separation of eligible capital into different categories must be based on the economic ability to absorb risk when required (although any such categorisation is still to be discussed) ▪ A “cut and paste” of the banking requirements will not be acceptable ▪ Tiers should be considered by reference to what capital is designed to protect. Equity and Equity equivalents (for example: non-cumulative preferred, perpetual debt where coupons can be paid in kind with shares) could be used to cover the MCR. If we cover MCR with Tier 1 and other forms can cover SCR, then no further limits may be necessary ▪ The process to be applied for items which may require prior supervisory approval (“so called tier 3”) needs to be open, transparent and consistent across Europe ▪ Supervisors should not consider such discretionary powers as a means to override other elements of the Solvency system
19.149	No objections to this in principle – see also comments to paragraph 19.148.
19.150 & 19.151	Agree – more detail on the form of the SCR and MCR is required before further comment can be made.

CfA 19 (cont'd 3)

CfA	CRO Forum Position to CEIOPS
19.152 & 19.153	We do not object to this in principle – but there are cases where capital can genuinely be used for multiple purposes, providing the extent of “double leverage” is no more than the diversification benefit at group level – such benefit being quantified by approved internal models.
19.154	<p>We do not agree with the statement that “non transferable capital items should as a minimum reflect the sum of the capital requirements of the solo entities”. This is acceptable for the sum of MCRs, but the concept should not apply to SCRs above MCRs, which are about 1 in 200 levels of capital. At group level this would mean holding say 1 in 500 capital.</p> <p>Capital in solo entities in excess of MCR should be freely transferable among the subsidiaries of a group, at least among those which are in jurisdictions of the EU or in those recognized to have equivalent supervision.</p> <p>This should particularly apply in times of financial stress of the group. The advantage for the local solo supervisor would be that the local group company would enjoy a higher solvency standard than on a standalone basis. The advantage for Europe would be that all policyholders of a group, wherever they are located in Europe, could enjoy the same fair treatment in case of financial distress of the group (as well as lower premium rates because of lower cost of capital).</p>
19.155	We agree that some items do need to be in the directives, especially regarding forms of capital “promised” by parent as well as minority issues.
19.156	We have no objections to this in principle – especially re a common approach between sectors. There are however circumstances where the existing minorities’ rules can be overly harsh.
19.157	<p>We agree in principle. We wish to highlight a possible implication of the eligibility of capital items at group level relying solely on being authorised by the local supervisor, and on the principle of transferability being satisfied. In this situation, it is possible that debt issued at group level that is down-streamed to subsidiaries as equity might be authorised as eligible capital by local supervisors.</p> <p>The lead supervisor should have authority on what is eligible capital at group level, and should work with local regulators to agree on what is eligible at solo level.</p>
19.158	<p>We agree. Since the different methods of calculating group solvency are all meant to lead to the same answer, removing one method should not have any material impact.</p> <p>More details should be given on whether non-EU operations should be included in the future framework directive. We suggest that all operations of an EU based company should be included.</p>

CfA 19 (cont'd 4)

CfA	CRO Forum Position to CEIOPS
19.159	<p>No objection to the proposal to maintain existing allowances to be able to deduct other financial sector firms from insurance groups that are not classified as conglomerates.</p> <p>We recommend that CEIOPS clarifies that the consolidation method is still allowed for companies that are not classified as financial conglomerates.</p>
19.160 – 19.163	<p>The wording of the main body is very open and replays well the different options for group supervision, including our proposals. However, the advice refers in 19.162 & 19.163 to “eliminating” double gearing. The basis of our diversification argument is to “control and restrict” double gearing to be no larger than the group diversification benefit.</p> <p>We strongly believe, however, that CEIOPS should allow formalised capital support given by a group to solo entities to be eligible to cover the solo SCRs.</p>
19.164	<p>We think this should only affect the SCR if the risk generated from the eligible capital is not subordinated to policyholder liabilities (derivatives in some jurisdictions).</p> <p>We assume that any decision on how risk in the eligible capital may affect the SCR for companies using internal models would also apply to companies using the Standard SCR. We agree with CEIOPS’ concept that companies with capital invested in higher risk assets should hold more capital than if the same capital were invested in lower risk assets (so as to cover the risk from the investments backing capital).</p>
19.165	<p>We agree in principle – i.e. what is <u>required</u> capital and what can count as capital should be reviewed independently. However, in practice changes in required capital may illustrate situations where proxies used as value for assets and liabilities might need revisiting, e.g. deferred tax.</p>

CfA 19 (cont'd 5)

CfA	CRO Forum Position to CEIOPS
19.166	<p>We agree – any ambiguity would provide the opportunity for inconsistent application by supervisory authorities. However, it places the onus on regulators to provide a suitable level of clarity to ensure that no ambiguity can occur.</p> <p>We believe our proposed rules for allowing committed capital would meet the eligibility requirements for local eligible capital.</p>
19.167	We believe that this approach is sensible.
19.168	We agree.
19.169	<p>See comments under paragraphs 19.164 and 19.165.</p> <p>It does not seem desirable to make inconsistent adjustments to what capital is eligible from one insurer to another. Safeguards should be in place to ensure that there are no divergent interpretations from supervisors. Explicit guidelines should be given on the discretionary power of the lead supervisor on issues such as the capital composition of a group and characteristics of the group's capital.</p>
19.170	<p>Care should be taken with this, as there is greater scope for inconsistency in application/interpretation if supervisory authorities are not provided with guidelines as to the circumstances under which the use of such powers would be appropriate. If CEIOPS opts for the “changing the numbers” route versus “exerting influence” route, we believe that a set of clear guidelines and principles should be adopted for these adjustments and an arbitration mechanism should be in place if needed.</p> <p>See also comments under paragraph 19.164.</p>
19.171	<p>We await CEIOPS further comments.</p> <p>We stress, however, that sometimes the lack of confidentiality can be used as a valuable tool to allow external assessment of the performance of the supervisors. The need for supervisors to defend their position to the other external constituencies, such as rating agencies and the investment community, may cause them to be more thoughtful and exercise more caution.</p>

CfA 20 – Co-operation between supervisory authorities

CfA	CRO Forum Position to CEIOPS
20.91	The goals of efficient and effective co-operation were only partly met by the Siena and Helsinki protocols. It is essential that we grasp the opportunity to develop a solvency regime which achieves convergence in the application and practice of regulatory supervision and addresses a true level playing field across Europe far more successfully than has been achieved in the past. This should involve complete transparency of regulatory practice and a common set of supervisory principles which are adopted by European regulators. Co-operation between supervisory authorities will thus need to go far beyond the two mentioned protocols. In addition, where possible, there should be consistency with the supervisory requirements of the draft Capital Requirements Directive. It is vital that work by CEIOPS on providing the building-blocks to achieve convergence begin immediately. We are keen to understand what concrete steps are being taken to accomplish this.
20.92	We agree in that it is imperative that confidentiality is maintained. Additionally, companies would need to be aware of the extent and content of information shared between supervisors.
20.93	We agree.
20.94	We agree. Additionally, 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.
20.95	We agree.
20.96	We agree. Additionally, exchange of information between supervisory authorities should be based on common definitions and structure as well as on a common IT methodology. We encourage supervisors to explore all technical possibilities to ease information sharing while respecting confidentiality. We encourage CEIOPS to consider the work that the Committee of European Banking Supervisors (CEBS) has undertaken with regards to this matter.

CfA 20 (cont'd 1)

CfA	CRO Forum Position to CEIOPS
20.97	<p>We agree. Areas that are likely to require supervisory co-operation include approval of internal models, allowance for diversification and capital allocation within a group.</p> <p>To this end:</p> <ul style="list-style-type: none"> ▪ We encourage CEIOPS members to start working with their industry as soon as possible to acclimatise and prepare for supervision with internal models ▪ We strongly encourage peer reviews, as we believe that it is in the best interests of insurance regulation in the EU that best practice supervision is shared between the supervisory authorities. ▪ In addition, we encourage supervisors to develop a central resource of CEIOPS-coordinated European expertise to facilitate common understanding and approval by lead regulators of internal models. This might include a database of “pre approved” modelling techniques and methods for internal models or the development of “benchmark models” that could act as proxies for internal models. This would be particularly helpful for jurisdictions where modelling techniques and supervisory knowledge are not yet well developed
20.98	We agree.
20.99	We believe that the exchange of information with law enforcement agencies should be restricted to cases of criminal offences, and the current wording should be clarified in this regard.
20.100	We agree. This should be firmly based on the concept of a Group Supervisor with ultimate responsibility for group supervision, approval of internal models, assessment of group level diversification benefits and reallocation to the solo entities.
20.101	While we appreciate that flexibility may be necessary, we believe that safeguards are necessary to ensure clarity on when and how this flexibility is applied. The overall focus should be on convergence, in the interests of ensuring best practice regulation and a level playing field across Europe.

CfA 20 (cont'd 2)

CfA	CRO Forum Position to CEIOPS
20.102	<p>We agree. The concept of a lead supervisor with the ability to take action where necessary is critically important for group supervision. Additionally, we believe it is important that non-EU supervisors who perform similar tasks to EU lead supervisors should be able to assume full responsibility as group lead supervisor, provided they conduct the supervision according to the EU's internally accepted principles and can cooperate appropriately with the solo supervisors responsible for subsidiaries within the EU. Accordingly, we believe the EU should begin negotiations with non-EU supervisors to achieve this.</p> <p>Care should be taken to ensure that there is no duplication of effort between group and local supervisors and that there are systems in place to resolve any disputes arising.</p>
20.103	We agree.
20.104	We agree.
20.105	We agree.
20.106	We agree.
20.107	We agree.
20.108	We agree.
20.109	<p>We strongly agree. We fully support the convergence of supervisory reporting. Additionally, we believe convergence of supervisory practices is also critically important in the interests of ensuring best practice regulation and a level playing field across Europe. It is vital that work by CEIOPS on providing the building-blocks to achieve convergence begin immediately. We are keen to understand what concrete steps are being taken to accomplish this.</p>

CfA 20 (cont'd 3)

CfA	CRO Forum Position to CEIOPS
20.110	We agree.
20.111	We agree.
20.112	We agree.
20.113	We believe that safeguards are necessary to ensure clarity on when and how this emergency authority of supervisors not to consult is applied. Mechanisms should be put in place to ensure speedy communications between regulators.
20.114	We agree. Care is required that the coordination of local input from supervisors does not impede an efficient process of model approval.
20.115	The resolution procedure appears to leave open the possibility that after 6 months, a model may be approved at Group level but not for solo use. See comments in 20.116 also.
20.116	We appreciate that it may be necessary for the solo supervisor to have the ability to provide Pillar II capital add-ons. However, if this is permitted, we believe that this should be a transparent process, with safeguards and strict limits, in the interests of ensuring best practice regulation and a level playing field across Europe. It is vital that work by CEIOPS on providing the building-blocks to achieve this should start immediately. We wish to point out that Pillar 2 does not just entail capital add-ons, but other actions available to regulators, for example, improved risk management requirements and additional reporting requirements that regulators should be encouraged to consider first.
20.117	We strongly agree.
20.118	We agree.

CfA 20 (cont'd 4)

CfA	CRO Forum Position to CEIOPS
20.119	We agree.
20.120	We agree.
20.121	We agree.
20.122	We agree.
20.123	We agree.
20.124	We agree.
20.125	We agree with the need for an efficient early warning system and await CEIOPS further comments
20.126	We agree.
20.127	We appreciate that it may be necessary for the solo supervisor to have the overall responsibility for actions in emergency situations of a financial crisis. However, we believe that this should be a transparent process, with safeguards, in the interests of ensuring best practice regulation and a level playing field across Europe. It is vital that work by CEIOPS on providing the building-blocks to achieve this start immediately.

CfA 21 – Supervisory reporting and public disclosure

CfA	CRO Forum Position to CEIOPS
21.71	<p>In terms of public disclosure:</p> <ul style="list-style-type: none"> ▪ We expect public disclosure will be at a suitably aggregate level ▪ Disclosure requirements would exclude commercially sensitive information <p>We also expect the confidentiality of interaction between supervisor and insurance entity to be respected.</p>
21.72	We agree. We also invite CEIOPS to provide us with the data requirements for supervisory reporting as early as possible, in order to facilitate the supervisory reporting process.
21.83 & 21.93	CEIOPS should not assume that all information it deems relevant is readily available. Particularly large groups might not have built up information systems adapted to all the newly identified needs, particularly those of their single legal entity subsidiaries. Equally, no standard should be assumed on the necessary breadth, depth and granularity of information. We hope to work together with CEIOPS to elaborate on the data requirements to allow companies to plan ways to meet future supervisory reporting standards.
21.84	We agree, but safeguards should be put in place to ensure a minimum level of harmonisation in these supervisory requirements across Europe.
21.85	CEIOPS should emphasise the objective of convergence in supervisory reporting and reporting standards. Many insurance groups use single or common data platforms and satisfying varying reporting formats will cause delays and additional expense. We appreciate that it is possible that the economic value of assets and liabilities used for Solvency purposes may be different to the accounting values, and in such a case, management should be able to reconcile the values of assets and liabilities used for solvency purposes to those used for accounting purposes. Early communication of the new data requirements will assist companies in their preparation for Solvency II supervisory reporting.
21.88	We agree that due to the differences of aims, measurement criteria under IAS/IFRS and Solvency II may differ. We agree with adjustments being made to public financial data so long as these adjustments achieve the exact same outcome as a total balance sheet market-value consistent approach.
21.89	We are concerned that, without further supervisory convergence, application of the materiality principle by individual supervisors will lead to differences of treatment across Member States.
21.90	We agree in principle, however, the criteria used to evaluate the entity should be further elaborated.
21.93	CEIOPS should maintain the requirement on both solo and consolidated level supervisory reporting. This will serve to reinforce the role of solo supervisors within a supervisory framework dominated by the group (or lead) supervisor.

CfA 22 – Procyclicality

CfA	CRO Forum Position to CEIOPS
22.8	Care is required here as the use of prudential filters, arbitrary haircuts and simplistic stress tests can all in fact exacerbate the effects of procyclicality.
22.26	Through-the-cycle (TTC) elements are already taken into account in many components of the internal models used for determining capital requirements – for example, financial market volatilities are selected from the “best estimate” (TTC) world, as are the correlations/dependencies. Although the starting point for capital modelling is a point in time, it is too simplistic to assume that Pillar I will only reflect point-in-time (PIT) elements
22.32	Care is required here as often in the past, supervisors have generally exacerbated the problems of procyclicality in their specific attempts to make the capital adequacy framework “more robust” e.g. by designing a stress test, changing the rules of that stress test as market conditions change, withdrawing the stress test and then later reinvoking it, all in the name of more robustness. In practice, the CRO Forum considers this to be potentially the greatest threat to procyclicality.
22.34 & 22.36	In fact the approach recommended by the CRO Forum for determining the risk margin for the market value of liabilities (i.e. the so called cost of capital approach) also provides an element of a multi-year approach. If the CoC approach were embraced, then each insurer would be required to consider the capital requirements beyond the first year in respect of in-force business (i.e. the long term perspective would automatically be integrated into the supervisory framework in respect of the in-force book). CEIOPS should therefore not underestimate the added discipline that comes from the CoC approach. Arguably this discipline is as important as the determination of the loading to apply to the best estimate liability.
22.37	Refer answer to 22.32. The CRO Forum is strongly opposed to the overlaying of stress tests on top of SCR requirements.
22.38	Refer answer to 22.34 & 22.36. The discipline of the CoC approach can also be useful for highlighting other risk mitigating options available to the insurer (e.g. use of reinsurance (via loss portfolio transfers or other instruments), financial derivatives, securitizations, etc). CEIOPS should not assume that an undertaking merely needs to remedy a multi-year effect using more capital.

CfA 22 (cont'd 1)

CfA	CRO Forum Position to CEIOPS
22.42	We agree
22.43	It is dangerous if the flexibility proposed by CEIOPS for individual supervisors (e.g. use of stress tests) in fact exacerbates the problems associated with procyclicality. See our responses to 22.32.
22.46	<p>Flexibility in supervisory action must be carefully thought through – insurers must be aware of these in advance and not be subject to new requirements in the difficult phase of the cycle.</p> <p>We note that as a result of their own internal objectives, not all companies will operate at the minimum required level. It is highly unlikely that there would be simultaneous regulatory breach across the insurance industry.</p> <p>Other mechanisms that might reduce the impact of procyclicality in the new system include:</p> <ul style="list-style-type: none"> ▪ Using a two tier approach (with the MCR and SCR) and a range of increasing regulatory intervention between these tiers ▪ This avoids “cliff edge” requirements while allowing timely supervisory interaction commensurate to the situation. ▪ For the system to function sufficiently well, flexibility and discretion will be required by supervisors when intervening between the SCR and MCR ▪ Guidelines as to the intended supervisory actions are helpful for companies to understand the consequences of supervisory breach. However, it is equally important for supervisors to understand the reason for the breach ▪ This requires dialogue with the companies and should allow supervisors to identify one-time rare events or short-lived fluctuations that require special consideration
22.47	See our answers to 22.32 and 22.38. We oppose the use of arbitrary stress tests overlaid onto the SCR framework if these contain any risk factors already captured in the SCR (e.g. equity and bond market stresses). Also, undertakings have many options available to them to consider other than increasing capital requirements to reflect the future risk profile. CEIOPS should not therefore presuppose that the best way to take account of the future risk profile is via increasing the SCR. The discipline associated with the CRO Forum-recommended cost of capital approach delivers the necessary input to a full consideration of the range of options available to the undertaking (i.e. use of reinsurance (via loss portfolio transfers or other instruments), financial derivatives, securitizations, etc).
22.48	We do not however support any intervention level in excess of the SCR.

CfA 23 – Small undertakings

CfA	CRO Forum Position to CEIOPS
23.35	<p>We agree in principle. However, the need for, and scope of, exemption will be dependent on the approach / formula chosen. In general, we believe that the simpler and more principle-based the formula is to calculate, the less exemptions would have to be considered.</p> <p>In this context we point out that:</p> <ul style="list-style-type: none"> ▪ A reasonable criterion for amount of risk and hence exemption needs to be applied. Premium is one proxy, but there may be others, which are more appropriate ▪ Depending on the design of the standard approach, the cost of applying the standard approach in order to determine the SCR may be considerably smaller for small undertakings with less complex risk profiles so that an exemption may not be justified by the argument about the cost of regulation <ul style="list-style-type: none"> • For instance, the Field Test for the Swiss Solvency Test indicated that the total work load for small undertakings in applying the standard approach was less than 3 person months ▪ It should be possible for all undertakings to apply the Solvency II framework, albeit limited in scope for small companies, at a defensible amount of cost if the chosen model is reasonable and sufficiently flexible to accommodate small companies
23.37	<p>We do not believe that smaller companies should be exempted from the Directive based solely on premium income:</p> <ul style="list-style-type: none"> ▪ Premium income by itself is not necessarily an indicator of the risk profile ▪ Exempting companies from the directive in favour of domestic standards is not consistent with the aim of European harmonisation ▪ As a result, the Solvency II framework should be applicable for all market segments, including small undertakings (with appropriate lighter requirements for companies which can demonstrate lower risk) <p>Rather than Member States establishing and applying their domestic standards for exemptions of small undertakings, we wish to reiterate our proposal of the practical harmonisation approach for small entities.</p>

CfA 23 (cont'd 1)

CfA	CRO Forum Position to CEIOPS
23.38	<p>We support the principle of proportionality but “different execution” should be further defined. In the standard approach, this principle of proportionality should be implicit and automatically reflected. In other words, applying the standard approach creates automatically less work load for smaller companies with less complex risk profiles. Consequently, no explicit reference to the treatment of smaller undertakings needs to be made (in contrast to statement 23.39)</p> <ul style="list-style-type: none"> ▪ The application of the Swiss Solvency Test and the experience gained so far may be a point of reference how this could be structured pragmatically and efficiently.
23.40	<p>Differential treatment of companies should be based on levels of risk and not only on size:</p> <ul style="list-style-type: none"> ▪ We would support the current exemption regime to the extent that this is based on underlying risk factors, for example, undertakings which can demonstrate no risk such as pooling organisations should be exempted from the Directive ▪ For other lower risk businesses, lighter requirements in the context of a risk based approach may be appropriate
23.42	<p>We agree with CEIOPS’ recommendation of simplified treatments for small undertakings, but wish to stress that these treatments should be harmonized across Europe.</p>
23.44	<p>We agree. We would like to add that one of the requirements for the standard approach should be that the SCR can be calculated without specific adaptations for small undertakings.</p>