

# EIOPA Consultation Paper on proposals for Solvency II 2020 review

## Reporting and disclosure



In October 2019, EIOPA published a consultation paper on its opinion on the Solvency II 2020 review. This briefing note summarises the section of the consultation paper on Reporting and disclosure. EIOPA has requested stakeholders to provide feedback on this consultation paper by 15 January 2020.

### Overview

On 11 February 2019, the European Commission (**EC**) issued a formal Call for Advice<sup>1</sup> to the European Insurance and Occupational Pensions Authority (**EIOPA**) on the review of the Solvency II Directive. This relates to the full review of the Solvency II rules required by the end of 2020 (**2020 Review**) as required by the Solvency II Directive.

On 25 June 2019 EIOPA published a first wave of consultation papers on its proposals for the 2020 Review regarding supervisory reporting and public disclosure and Insurance Guarantee Schemes. Milliman has written briefing notes on each of these papers (available [here](#)).

On 15 October 2019 EIOPA issued a second wave of consultation entitled "Consultation Paper on the Opinion on the 2020 review of Solvency II" (the **CP**). This was accompanied by an impact assessment document including an assessment of the combined impact of the proposed changes. The CP is 878 pages long and covers a wide range of topics as follows:

- Long-Term Guarantee (**LTG**) and equity risk measures
- Technical Provisions
- Own funds
- Solvency Capital Requirement (**SCR**)
- Minimum Capital Requirement (**MCR**)
- Reporting and disclosure
- Proportionality
- Group supervision
- Freedom to provide Services (**FoS**) and Freedom of Establishment (**FoE**)
- Macroprudential policy
- Recovery and resolution
- Fit and proper requirements

Milliman has produced a briefing note giving a summary of EIOPA's proposals in the CP (available [here](#)) and separate briefing notes covering each of these topics in more detail. This briefing note covers EIOPA advices related to Reporting

and disclosure, and particularly the topics related to Regular supervisory reporting (**RSR**) and Group reporting and disclosure.

### Regular supervisory reporting

#### FREQUENCY OF THE RSR

The Delegated Regulation states that the RSR should be reported at least every three years, which allows National Supervisory Authorities (NSAs) to require a full RSR more often than every three years. EIOPA have noted that producing the reports and obtaining internal approval is highly time consuming, therefore the timeline of RSR is not adequate.

EIOPA considered three options to alleviate this issue: (1) no change to the current regulation, (2) introduce Level 3 tools for achieving supervisory convergence, and (3) amend Article 312 to promote further proportionality in the RSR requirement.

EIOPA considers that the current legal framework is adequate and the issues found should be addressed under supervisory convergence, using a Level 3 tool.

Therefore, EIOPA proposes:

- To introduce Level 3 tools to promote supervisory convergence regarding the frequency of the RSR by keeping the minimum requirement for submission of full RSR once every 3 years; and
- To discuss a possible mandatory assessment by NSAs and communication of the frequency of the RSR to undertakings.

#### CONTENT OF THE RSR

EIOPA believes that the RSR has room for improvement both in terms of simplifications to promote further application of the proportionality principle, as well as to avoid duplications and overlaps within the RSR and between the RSR and other supervisory reports.

EIOPA proposes to improve the structure and content of the RSR. Annex 7.1 of the CP provides further detail on the revised RSR content proposal including examples of minimum information to be included in some areas and some items to be

<sup>1</sup> Formal request to EIOPA for technical advice on the review of the Solvency II Directive

moved from the annual publicly disclosed Solvency and Financial Condition Report to the RSR.

## Group reporting and disclosure

In the CP EIOPA provided advice on the following topics:

- Principle of proportionality
- Group templates
- Group and single SFCR
- Group RSR

### PROPORTIONALITY

EIOPA proposes to amend Article 254 of the Solvency II Directive to allow for exemption of groups reporting without the condition of exemption of all solo insurance undertakings belonging to that group. This is in addition to the proposals made by EIOPA in the CP regarding the principle of proportionality which proposes increasing the threshold for solo undertakings to be excluded from the scope of Solvency II.

### GROUP TEMPLATES

EIOPA considered the relevance and usage of the QRTs applicable to groups, considering the requirements of NSAs. The following sections summarize the advice from EIOPA regarding group templates.

#### Premiums, claims and expenses – S.05.01

EIOPA proposes to delete template S.05.01 at a group level, in order to decrease the burden on group reporting.

#### Premiums, claims and expenses – by country – S.05.02

EIOPA proposes to keep template S.05.02 as it is at group level but to delete “Changes in other technical provisions”. For the template S.06.01, the proposals published for solo are equally applicable at group level.

#### List of assets – S.06.02

EIOPA proposes to make the following additions to the list of assets template (S.06.02) and CIC table:

- Include ECB add-on items relevant for prudential supervision purposes
- Additional item regarding ESG-compliant/sustainable investments
- Additional data item on applicability of bail-in rules
- Additional item on RGLA (Regional Government and Local Authorities )
- Additional item on cryptocurrencies related investments
- Additional item regarding Custodian LEI code
- New CIC code to identify government bonds issued in a different currency
- Improvements to the reporting instructions and to the definition of CIC codes, with the objective of provide specific clarifications and reflecting the outcome of Q&A on reporting

EIOPA proposes that suggested changes in reporting requirements regarding the list of assets be balanced with complementary external financial information from NSAs.

EIOPA further proposes to amend the second paragraph of the instructions for Issuer Code in S.06.02.04, in order to request that the LEI code be reported mandatorily for assets issued by EEA insurance, reinsurance undertakings, and other EEA regulated undertakings. A code should be provided by the group in case of assets issued by non-EEA undertakings and non-regulated undertakings within the scope of the group (as per Article 212(1)(c) of the Solvency II Directive).

Further, for the templates S.06.02 to S.23.01 applicable at group level, the proposals published for solo entities are also applicable at the group level.

#### Own funds – S.23.01

EIOPA proposes that the template not be changed, and to further clarify instructions for the template at the group level.

Changes to the group OF templates may follow after any revision of the Solvency II Directive and Delegated Regulation, in particular with regard to classification and availability of own funds.

#### Detailed information by tiers on own funds – S.23.02

EIOPA proposes that item 23.02.04.03 be deleted from template S.23.02 regarding the attribution of valuation differences for the excess of assets over liabilities.

Proposals made for solo entities are also applicable at the group level for the templates S.23.02 to S.32.01, including the proposals for internal models.

#### List of items on own funds – S.23.04

EIOPA proposes that the table for the calculation of non-available OF at group level be amended, and that the following risk-based threshold is introduced: the template will only be required when S.23.03 is required (see the solo proposal for further details), or when RFF (Ring Fenced Funds) or non-available OF exist.

The scope of Table 11 (on the calculation of non-available OF at the group level) is changed to cover all non-available OF rather than only those that exceed the contribution. It is proposed that a new column requiring information on the amount exceeding the contribution be added.

#### Solvency Capital Requirement – for groups using an internal model – S.25.02

EIOPA proposes to delete code MCRFI\_QUE\_XXX\_R1\_C1 in the solo template, and request this information (as an extra column) in template S.32.01, since different solos could use different approaches for group reporting.

#### Undertakings in the scope of the group – S.32.01

EIOPA proposes the following amendments to S.32.01:

1. C0020 – Identification code of the undertaking: Amend this item in order to require the LEI code to be mandatorily used for

EEA insurance, reinsurance, and other EEA regulated undertakings, while the approach for non-EEA undertakings and non-regulated undertakings remains.

2. For direct and ultimate parents and direct subsidiaries, add information for LEI codes (where available), names, and participating interests/voting rights in the EEA undertaking and country.

3. The following three columns are proposed to be added to this template:

- Covered by internal model for Group SCR calculations: a closed list with two options: i) Yes and ii) No
- Uses the group model for solo SCR calculations: a closed list with two options: i) Yes and ii) No.
- Type of VA being used: a closed list with four options: i) No VA, ii) Constant VA, iii) Dynamic VA; iv) Other for non-EEA entities

4. The proposal to have similar templates for individual undertakings will be considered after the consultation period.

#### **Insurance and Reinsurance individual requirements – S.33.01**

EIOPA proposes that the information regarding OF and SCR (i.e. cells C0060 to C0230) also be reported for all EEA and all non-EEA insurance and reinsurance undertakings under method 1 in order to provide NSAs an overview of all solo SCRs, together with an estimation of the diversification benefits at the group level.

#### **Other regulated and non-regulated financial undertakings including insurance holding companies and mixed financial holding company individual requirements – S.34.01**

EIOPA proposes no change to S.34.01. The information currently provided is relevant for the assessment of the contributions from undertakings belonging to other financial sectors and non-regulated undertakings in the scope of group solvency.

EIOPA suggests that the instructions should be clarified in cases when groups report banking contribution on a sub-consolidated basis.

#### **Contribution to group Technical Provisions – S.35.01**

EIOPA proposes no change to S.35.01, as it provides useful information to the group supervisor.

#### **IGT – Equity-type transactions, debt and asset transfer – S.36.01**

EIOPA proposes a clarification of the instructions and scope of S.36.01, and further to consider alignment with work under development for the FiCo (Financial Conglomerates).

#### **Risk concentration – S.37.01**

EIOPA suggests amending template S37.01 in order to align with the proposal under discussion regarding the ESA work on the risk concentration reporting at the level of the financial

conglomerate, once this proposal is finalised. The draft template on RC (Risk Concentration) under discussion, is simplified and less granular with expected benefits for both the groups and the supervisors.

EIOPA further suggest to clarify the instructions and the scope of the template.

### **GROUP SOLVENCY AND FINANCIAL CONDITION REPORT**

#### **Addressees of the SFCR**

EIOPA proposes no amendments to the Directive and the Delegated Regulation regarding the addressees of the group SFCR, unlike the solo SFCR where EIOPA proposes splitting it into a policyholder section and a non-policyholder section with more technical information.

EIOPA proposes to keep the group SFCR as it currently is, i.e. one SFCR including an executive summary.

EIOPA further proposes amendments to the Directive and the Delegated Regulation in order to align the content of the group SFCR with that proposed at the solo level.

#### **Audit of the SFCR**

EIOPA proposes that an auditing requirement be introduced in the Directive for both group and the single SFCR. The aim is to ensure that in all Member States the group Solvency II balance sheet is subject to a harmonised minimum level of external auditing by a qualified auditor. The results will be an audit opinion published together with the SFCR.

In addition to this minimum requirement, each member state NSA could request additional auditing requirements, for example covering the SCR and eligible own funds.

EIOPA will further clarify the expectations regarding the level of assurance of the required audit through Guidelines, Supervisory Statements or other means.

#### **Language requirements**

EIOPA proposes that Article 360 of the Delegated Regulation be amended so as to not require the translation of the summary into the official language of the Member States where any of the insurance or reinsurance subsidiaries of the participating undertaking, insurance holding company or mixed financial holding company has a head office. This entails deleting Article 360(3).

#### **Templates used in the SFCR**

EIOPA proposes no change to the templates currently disclosed in the SFCR.

#### **Deadlines of disclosing SFCR**

EIOPA proposes to extend the deadline of the group SFCR by two weeks (i.e. from 20 to 22 weeks). This is in order to accommodate the proposal for the audit of the Solvency II balance sheet.

The Solvency II Directive should be amended to prevent the situation where the deadline for SFCR disclosure is sooner

than the disclosure of the regular audited annual reported financial statements in case of listed (public) companies.

## GROUP RSR

While it is currently possible for entities to apply for a single SFCR or ORSA report (i.e. one report filed for the whole group), this option is not provided for the RSR. EIOPA have considered the situation and propose not to include the option for a single RSR. This decision is based on the following arguments:

- **The nature of the document:** The RSR is a detailed, lengthy document containing sensitive information that is not appropriate for sharing among supervisors as a group level.
- **Reporting deadlines:** the frequency of the RSR of each solo undertaking and the group can be different, these different deadlines may have an impact on the performance and utility of a single RSR.
- **Language:** translation into a different language may impact the quality of the information provided in the RSR. This is not convenient from a supervisory perspective given the importance of the RSR information.



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[milliman.com](http://milliman.com)

## CONTACT

### PARIS

Veille Réglementaire  
[veille.reglementaire@milliman.com](mailto:veille.reglementaire@milliman.com)

### BENELUX

Kendall Carolissen  
[Kendall.Carolissen@milliman.com](mailto:Kendall.Carolissen@milliman.com)



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