CEIOPS publishes the following Issues Paper to invite stakeholders’ comments on CEIOPS’ proposed way forward regarding its work on Supervisory Reporting and Public Disclosure. CEIOPS will not provide direct feedback to comments, but will take them into account in its future work.

Please send any comments to CEIOPS by email (Secretariat@ceiops.org) by 1 February 2008, indicating the reference “CEIOPS-IGSRR-05/07”.

CEIOPS will make all comments available on its website, except where respondents specifically request that their comments remain confidential.
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1. Purpose

This paper sets out CEIOPS’ views on the degree of harmonisation of both contents and formats\(^1\) for supervisory reporting and public disclosure and explains to all stakeholders CEIOPS’ approach to this process.

The European Commission (EC) already indicated that CEIOPS’ advice on Level 2 implementing measures for supervisory reporting and public disclosure should be delivered by the autumn of 2009. This timetable means that CEIOPS will need to consult on its proposals in early 2009 at the latest. Prior to starting this work, CEIOPS has decided to set out its approach to determining the extent to which the contents and formats of information may or should be harmonised.

While these Level 2 measures would be designed to supplement the principles already stated in the Level 1 directive, CEIOPS considers that in order to foster convergence, a set of Level 3 measures should be developed providing for a complete and adequate supervisory reporting and public disclosure framework.

2. Summary

The Solvency II framework directive states that the EC shall adopt implementing measures specifying the information to be provided for supervisory purposes with a view to ensuring convergence of supervisory reporting to the appropriate extent. Furthermore, implementing measures shall be developed further specifying the information to be publicly disclosed.

CEIOPS’ view is that an adequate high level of harmonisation of contents and formats for supervisory reporting and public disclosure should be the goal to aim for, and thus future work should be build upon this premise. This work should be driven by best-practice considerations, rather than by aggregation of differing national requirements, in order to promote more streamlined supervisory practices in 2012 and beyond. Moreover, the proportionality principle shall be applied to the utmost extent possible.

A number of factors will have to be taken into account as the work progresses. Importantly, much of this will be around the ability to ascertain the degree of harmonisation proposed for the specific items that are disclosed or reported. In order to ensure a coherent and structured approach to the design of those contents and formats, a framework of principles should be adopted, establishing a logical and purposeful discipline on that design, so that all information is ‘fit for purpose’. This will include a clear idea of what information is needed to perform the future supervisory

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\(^1\) Formats in this regard may include not only the presentation of the information (e.g. narrative, tables) and the method of submission, but also the frequency and submission or publication times of that information.
review process and to foster market discipline. The process shall also include an impact assessment.

3. Background

One of the success factors of Solvency II will be the extent to which supervisory convergence between EU supervisors can be achieved while implementing the system. Indeed, the effect of the harmonisation of the valuation rules of assets and liabilities for solvency purposes, the definition of solvency requirements based on the risk profile of the undertaking and even the establishment of a new group solvency approach, just to mention some central aspects of the new regime, will be significantly reduced if the supervisory process can not achieve an adequate degree of convergence.

Consequently, CEIOPS will focus its attention on the development of a new risk-oriented supervisory process that fosters convergence. This will require EU supervisors to review their present “modus operandi”. The necessary modifications of the current supervisory practices on account of the changes to be introduced by Solvency II should be regarded as a unique opportunity to build a common supervisory culture. It is important to recognise that this cannot be easily achieved, and presents a considerable challenge. Different Member States currently have different regulatory structures, approaches, accounting regimes, financing arrangements, currencies and even legal obligations to fulfil and this presents a challenge for CEIOPS.

The harmonisation at an EU level of information reported by insurance undertakings to their supervisors is an important building block in the construction of an appropriate and enhanced level of convergence in insurance supervisory practices.

Moreover, this harmonisation will facilitate the cooperation and exchange of information between insurance supervisory authorities and with national statistical authorities.

Furthermore, an adequate level of harmonisation should be assured regarding the information publicly disclosed by insurance undertakings.

4. The Solvency II framework directive

The EC proposal for a Directive on the taking-up and pursuit of the business of insurance and reinsurance (Solvency II framework directive) imposes on insurance and reinsurance undertakings a general requirement to submit any information necessary for the purposes of supervision.

Furthermore, the proposal requires undertakings to publicly disclose annually a report covering essential and concise information on their solvency and financial condition.
Taking account of the proportionality principle, the proposal establishes that the information to be reported and disclosed should reflect the nature, scale and complexity of the risks inherent to the business of the undertaking.

The proposal also envisages the adoption of Level 2 implementing measures further specifying the range of information that must be reported and disclosed, in order to assure an appropriate level of convergence.

The Solvency II framework directive further states that supervision shall be based on a prospective and risk-oriented approach, shall be carried out both off-site and on-site and shall take account of relevant historic, current and forward-looking information.

5. The focus on supervisory convergence

In May 2006, the Council (ECOFIN) adopted, in its Conclusions on financial supervision related to the Financial Services Committee (FSC) Report on Financial Supervision, a number of FSC recommendations on the development of supervisory tools to foster supervisory convergence and cooperation.

The Council underlined that supervisory convergence needs to be intensified to fully benefit from the FSAP and related measures and thus, to reap the benefits of an integrated financial market. The overarching goal should be to further develop the European financial system in contribution to the Lisbon strategy, strengthen the financial stability framework in the EU, and enhance the efficiency of supervision by avoiding both excessive supervisory burden on the industry and inhibiting or restricting fair competition.

Furthermore, the Council invited the 3L3 Committees to further strengthen their cooperation and day to day working arrangements by, among other things, working on reporting requirements and delivering common formats, taking into account the costs and benefits of the different options available.

As a formal impact assessment has not yet been undertaken, the preferences that follow are therefore only an indicative position, and still need to be analysed and justified further when the assessment is actually undertaken. Contents and formats could be considered separately in any impact assessment.

CEIOPS considers that the definition of an appropriate level of harmonised contents and formats for public disclosure and supervisory reporting under the Solvency II regime should be driven by best-practice considerations, rather than by aggregation of differing national requirements, in order to promote more streamlined supervisory practices in 2012 and beyond.
6. Discussion on the level of harmonisation

6.1. Supervisory reporting

As the main tool of regular supervisory off-site monitoring of insurance undertakings’ practices, supervisory reporting is an important instrument of supervisory practices. Level 2 and Level 3 measures will in practice define the level of harmonisation, ranging from minimal harmonisation (as if only the principles-based framework directive would be applied) to full harmonisation (as would be set out by a complete set of Level 2 and Level 3 measures providing a single European format for every undertaking and every canal of supervisory reporting).

The rationale for harmonisation is quite strong. In fact, it is paramount for the implementation of the Solvency II framework directive that the basis for solvency supervision is more harmonised. Furthermore, harmonisation serves the purpose of a single European market for insurance; it will ensure a level playing field and foster convergence of both market and supervisory practices. Its main drivers have been identified as:

- Enhanced quality of reporting – if one single system could be developed for all management, supervisory and financial reporting (e.g. adequate convergence between accounting regimes and Solvency II valuation rules) more accurate and reliable information could be gathered;
- Avoidance of regulatory arbitrage and inequality of treatment;
- Enhanced speed and quality of information collection for statistical purposes across the EU;
- Reduction of the reporting burden of undertakings – the development of a single system would promote the reduction of the reporting costs and would facilitate reporting within cross-border groups;
- Facilitation of the supervisory process – it would foster the dialogue and understanding between supervisors, facilitating the cooperation and exchange of information between supervisors of entities within a cross-border group;

However, full harmonisation may be difficult to achieve in practice given the:

- Local specificities – implementation of certain provisions may require specific details that are available only on a national basis (e.g. formats for the reconciliation of local GAAP with Solvency II valuation rules, consumer protection information, etc);
- Need for flexibility – it is uncertain whether a whole supervisory system can be designed in one go; therefore, room should be left to local supervisors to react to conditions as they appear and assess the specific situations adequately.

Another element that should be taken into consideration is the cost for the undertakings and for supervisors of implementing the new reporting
system. Considering the significant differences between Solvency I and Solvency II, the new reporting system, whether harmonised or not, will not be a result of a mere adaptation to Solvency II requirements. Thus, there will be costs to implement a new reporting system, and clearly some economies of scale may be achieved through the development of an adequate harmonised system.

Furthermore, it is important to design a supervisory reporting regime that allows undertakings to use their financial reporting system as a basis for regulatory reporting, with a minimum number of solvency adjustments applied to satisfy the needs of supervisors.

Taking into consideration that the requirements to use IFRS may be expanded or transposed into existing accounting requirements, CEIOPS will continue to follow the work of the IASB and seek to identify areas where compatibility with supervisory requirements can be achieved.

The rationale therefore is as follows:

- If undertakings can produce the same figures for regulatory purposes and financial accounting, the cost burden will be significantly reduced;
- If supervisory information is produced solely for supervisory purposes and is not used by management in running their business, that information is likely to be less reliable and less grounded in economic reality;
- Undertakings will be required to carry out their own risk assessment under Solvency II and it is essential that they use this process and its results for their own ongoing risk management purposes. This is unlikely to happen if the underlying information used in the Solvency II risk assessment is not compatible with the undertaking’s own management information;
- Public disclosure of any major differences between regulatory information and financial accounting information (a requirement under the Solvency II framework directive) will be more difficult if valuation and recognition bases for assets and liabilities under the two regimes are fundamentally different.

All these considerations led CEIOPS to distinguish among four possible options for harmonisation. The proportionality principle would apply in all four options.

**Option 1:**  *Harmonisation on a minimum level*

Only a limited range of information would be reported in a harmonised way, and additional regular reporting requirements would remain under the responsibility of individual supervisors. Undertakings could rely on certain information to be reported in a similar way across the EU, but any additional information collection would be at the discretion of local supervisors and remain un-harmonised.
Option 2:  *Harmonisation of information that is newly collected through the development of the Solvency II regime*

This would basically include all information to be reported in the context of the assessment of the solvency and financial conditions of the undertaking, including information on the analysis performed under the Own Risk and Solvency Assessment (ORSA).

Information to be reported to the domestic supervisor not being part of those reports, like certain portfolio information and other regulatory formalities, would not be covered by harmonisation.

Option 3:  *Harmonisation of all information which is likely to be exchanged amongst supervisors*

This would include a focus on group-supervision, but not be limited to it. It would comprise information to be reported at group level, but also information for individual insurance undertakings. This option would cover information that would be shared among CEIOPS authorities and with other interested or related authorities, i.e. EUROSTAT etc. Harmonisation would include contents and formats for simplicity of exchange.

As the previous option, part of the information reported to the domestic supervisor would not be covered by harmonisation.

Option 4:  *Harmonisation of information to be reported from insurance undertakings to supervisors on a comprehensive level*

This option would harmonise information to a sufficiently high level of content and format and would, to some extent, minimize the request of country-specific information on a regular basis (although these may occur where, for example, the legal responsibilities of a local supervisor extend further than those defined under Solvency II, or where local market specificities justify it). While this option would potentially limit local supervisory authorities’ ability to collect additional information on a regular basis, and thus potentially reduce the reporting burden from an industry perspective, it could also be seen as introducing a possible lack of flexibility to react to market developments.

Balancing the pros and cons of all four options for harmonisation, CEIOPS is of the opinion that **an adequate high level of harmonisation of contents and formats for public disclosure and supervisory reporting should be the goal to aim for, and thus future work should build upon Option 4.**
6.2. Public disclosure

Public disclosure requirements aim at developing a level playing field and strengthening market discipline. They should be essentially principles-based, and can build on existing requirements.

Publicly disclosed information will have a similar market discipline effect to accounting disclosures. If public disclosure requirements are not harmonised and commonly applied, not only will the market discipline objective be undermined, but stakeholders may also be misled and the disclosures could therefore ultimately become redundant.

However, full harmonisation may be difficult to achieve, as requirements may already be set at national level and differ in scope, nature and form.

The existence of divergences as to what constitutes publicly available information would not be compatible with a level playing field; neither would clearly differing quality of information provided to policyholders across the EU; nor the possibility of regulatory arbitrage.

Therefore, Level 2 implementing measures on Solvency II public disclosure requirements should be developed with the aim of providing insurance undertakings with:

a) A **clear definition of contents**, so that they are able to comply with the Directive, and the disclosure fulfils its objectives;

b) An **understanding of what constitutes public disclosure of solvency information** and the availability of it.

Implementing measures will clarify supervisors’ expectations in this regard. They should point out how existing non-solvency specific disclosure requirements may constitute part of the required disclosure.

Level 2 implementing measures should prevent essential divergences by making the nature of the directive’s principles as explicit as possible and Level 3 measures should seek to formalise and publicise a common understanding of those requirements, and what would constitute their appropriate fulfilment.

Furthermore, Level 3 measures should also be developed based on experience with the application of Level 2 measures and issues that might arise when comparing industry practices within the EU.

7. Towards a sufficiently high level of harmonisation

In order to ensure a coherent and structured approach to the design of a harmonised reporting and disclosure regime under Solvency II, a framework of principles must be adopted establishing a logical and purposeful discipline on that design, so that all information is ‘fit for purpose’.

This will include a **clear idea of what and why information is needed in order to perform the future supervisory review process and to foster market discipline**.
The process shall also include an **impact assessment** in order to consider changes that are likely to occur and how any resulting negative impacts can be mitigated (e.g. lack of consistency with business information).

Furthermore, **regular reviews** should be performed to ensure that the information remains relevant and necessary.

As far as possible, the means of submission, frequency of reporting, currency of reporting and submission times should be harmonized, nevertheless providing a flexible structure to allow for local specificities and future changes.

Moreover, particular care should be taken to ensure that the harmonisation of contents and formats is not too burdensome for small and medium-sized insurance undertakings, by applying the **proportionality principle** to the utmost extent possible.

### 7.1. Supervisory reporting

The first step towards the establishment of harmonised reporting requirements shall be the definition of the reporting needs by supervisory authorities to perform the supervisory review process when applying the Solvency II regime.

The principles for defining common supervisory reporting needs are not uniquely applicable to the harmonisation objective, but are also important to articulate in the context of the risk based proportionate reporting framework envisaged under the directive. In fact, the criteria established for the information collection should allow a risk oriented supervisory process.

Furthermore, CEIOPS believes that there must be a clear understanding of why the information is needed and what it will be used for. **Supervisory reporting requirements shall avoid duplications and make optimal use of the information developed by insurance undertakings for internal management purposes.**

Consideration should also be given to the fact that **local specificities must be taken into account.** However, local specificities should be **justified by the characteristics of local business or risks** and not by substantial differences in the supervisory process.

Considering the Solvency II framework directive, the information to be provided for supervisory purposes under the Solvency II reporting (S2R) may be segmented in three separate blocks:

### B1 Information related to authorisation/notification processes

This block includes:

- Information required for prior authorisation of the taking up of business;
- Information regarding the notification under the right of establishment and the freedom to provide services;
- Information regarding the authorisation of branch establishment;
- Information regarding the authorisation of portfolio transfer;
- Information required during the process of acquisitions and disposals of qualifying holdings;
- Statistical information to be provided by undertakings concerning their cross-border activities.

**B2 Information necessary to perform the Supervisory Review Process (SRP)**

The information necessary to perform the SRP includes information needed on pre-defined events and requested on a regular basis.

**B2.1 Information on pre-defined events**

This block includes:
- Information required for internal or partial model approval;
- Information regarding the notification of fit and proper requirements;
- Information regarding the notification of deteriorating financial conditions and non-compliance with the MCR or the SCR;
- Information regarding the non-compliance of the internal model.

**B2.2 On-going information**

The second block is composed of 5 different modules comprising information on:

- **A** – the business overview and performance;
- **B** – the system of governance;
- **C** – the valuation principles applied for solvency purposes;
- **D** – the risks exposure, concentration, mitigation and sensitivity;
- **E** – the capital structure, needs and management.

**B3 Specific information regarding group supervision**

This block comprises the additional specific information to be provided by undertakings to the group supervisor, namely:
- Information required in the application for permission to be subject to the group support regime;
Information regarding the significant risk concentration at the level of the group;
Information regarding the significant intra-group transactions.

The harmonisation of contents and formats under S2R could be set at different levels depending on the block and/or the particular issue in question. In general, CEIOPS considers that latitude should be given to insurers with regard to the form of - as opposed to content, frequency and time of - reporting of qualitative information.

CEIOPS believes that the content of information related to authorisation/notification processes should be harmonised as far as possible, but will not give it a high priority because it is not a Solvency II specific issue.

The information necessary to perform the Supervisory Review Process represents the bulk of S2R and consequently deserves a special attention and high priority.

Information on pre-defined events shall be subject to harmonisation of contents. However, further work needs to be undertaken with regard to the Solvency II requirements on some of these issues (e.g. approval of internal models).

Regarding the business overview and performance, CEIOPS has already developed some analysis of the information to include in terms of describing the insurance undertaking’s business, corporate structure, external environment, objectives and strategies and consequently believes that their content could be subject to harmonisation.

CEIOPS further believes that information on an insurance undertaking’s performance should be subject to harmonisation of contents and formats. However, this is a piece of information that has close links with the accounting framework and should be treated in a consistent way.

The scope, nature and timeline of both the IASB’s work and the possible expansion of IFRS requirements within the EU are not well known and may influence undertakings within the range of application of Solvency II. In this context, the extent of the development of predefined formats for performance information should particularly take into account the impact analysis and the costs for insurance undertakings.

Given these considerations, CEIOPS would tentatively assign a medium priority to this part of S2R, in order to further analyse the merits of the development of a “Solvency II/Economic Balance Sheet/Reporting Format”.

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The information related to the **system of governance** will be a fundamental part of S2R and should be subject to harmonisation of contents. In fact, CEIOPS has already internally developed some work on the information to report for describing the insurance undertaking’s governance structures relevant for the solvency and financial condition assessment.

Regarding the **valuation basis used for solvency purposes**, CEIOPS believes that the quantitative information concerning technical provisions, assets covering technical provisions and capital requirements and other assets and liabilities could be subject to harmonisation of contents and formats. However, there are some details of the valuation basis that need further clarification within the Level 2 work.

Nevertheless, some specific information can already be developed given its non-questionable substance and its clear need by supervisors (e.g. formats for claims development triangles).

Furthermore, CEIOPS envisages as a high priority the harmonisation of contents of the qualitative part of the information.

On the information related to the **risks** exposure, concentration, mitigation and sensitivity, CEIOPS has already internally developed some work on the information to provide for each separate category of risk, as well as about the respective risk appetite, exposure, concentration, mitigation and sensitivity.

Consequently, contents and formats of this information could be subject to harmonisation and taken as a high priority (e.g. formats for risk exposures, contents of qualitative information on individual risk categories, risk matrix).

Finally, the information related to the **capital structure, needs and management** included in the S2R could be subject to harmonisation in terms of content as well as in terms of format, namely the one related with the structure and amounts of capital elements and the calculation of the MCR and the standard SCR. However, due to the fact that the final MCR and SCR standard formulas are still unknown, the development of the appropriate format should be dealt with at a later date.

It is worth mentioning that the information necessary to perform the SRP should be developed for application both at solo and group level. Concerning the additional specific information regarding **group supervision**, CEIOPS believes that harmonisation of contents is adequate for all aspects, and additional format harmonisation could be envisaged for the information regarding the significant intra-group transactions.
7.2. Public disclosure

The following parameters should be observed when identifying the information to be publicly disclosed:

- Information should have a clear and necessary market discipline objective;
- Information should be relevant, reliable and readily understandable;
- Information should be available on a timely basis and in a format that can be easily used by the public;
- Requirements respect reasonable commercial concerns about confidentiality;
- Insurance undertakings can make use of - or refer to - public disclosures made under other legal or regulatory requirements, to the extent that those disclosures are equivalent in both their nature and scope.

When appropriate, specific formats for Solvency II public disclosure will be developed.