Consultation Paper on proposals for Solvency II 2020 Review

Package on Supervisory Reporting and Public Disclosure

4. Solvency and Financial Condition Report

4.1. Extract from the Call for Advice

3.15. Reporting and disclosure

EIOPA is asked to assess, taking into account stakeholders’ feedback to the Commission public consultation on fitness check on supervisory reporting:

- the ongoing appropriateness of the requirements related to reporting and disclosure, in light of supervisors’ and other stakeholders’ experience;
- whether the volume, frequency and deadlines of supervisory reporting and public disclosure are appropriate and proportionate, and whether the existing exemption requirements are sufficient to ensure proportionate application to small undertakings.

4.2. Previous advice – not applicable

4.3. Relevant legal provisions

1. The legal provision in place to take into account for this Advice are:

   - Directive 2009/138/EC (Solvency II Directive), in particular articles 35 and 254 for supervisory reporting and articles 51, 53 to 56 and 256 for public disclosure;
   - Commission Delegated Regulation (EU) 2015/35, in particular Chapter XII of Title I and Chapter V of Title II for public disclosure and Chapter XIII of Title I and Chapter VI of Title II for regular supervisory reporting;
   - Commission Implementing Regulation 2015/2450 (EU) and following amendments (2016/1868; 2017/2189; 2018/1844);
4.4. Other regulatory background

2. Under the other relevant regulatory framework, the following needs to be considered:

- EIOPA Guidelines on Reporting and Disclosure;
- EIOPA Guidelines on Financial Stability Reporting;
- EIOPA Guidelines on supervision of Third Countries Branches;
- Regulation (EU) No 1374/2014 of the European Central Bank of 28 November 2014 on statistical reporting requirements for insurance corporations (ECB/2014/50);

4.5. Identification of the issues

4.5.1. Addresses of the SFCR

Background

3. The SFCR is a transparency and market discipline tool aimed to provide relevant information to stakeholders. Over the last years, undertakings have published it and adjustments to the information have been made by them to accommodate different expectations. In 2017 EIOPA has also issues a Supervisory Statement focusing on key areas deemed as important for a first step to support stakeholders in the development of the following SFCR content while also allowing for market discipline to be achieved.

4. Different users have different views of the SFCR. During the Call for Input EIOPA received the following comments on the SFCR:

- The addressees of the SFCR should be clearly defined within the regulations, to enable undertakings to produce meaningful and relevant information for these addressees. This perspective needs to be balanced with ensuring that NCAs remain able to validate and challenge the information disclosed in the SFCRs. SFCR should address Summary to policyholders and rest of Report to other stakeholders;

- An alternative approach is to move away from a single report for public disclosure, provided consistency is retained between the reports. Recital 112 of the Delegated Acts creates an explicit link between the structure of the public disclosures and the submissions to the NCA via the Regular Supervisory Report. This results in a constructed linkage between the information needs of supervisors and those of the users of the SFCRs, which is not necessarily justified. Supervisory needs and perspectives naturally focus towards some areas (e.g. governance, risk management) which are not necessarily of interest to other potential readers of the SFCR. Removing the supervisory authorities as a potential addressee for the SFCR would break
this link, thereby enabling more flexibility in designing a public report that addresses the likely concerns of readers;

- The information of policyholders is as important as the information of other stakeholders, one of the goals of SFCR is to help the policyholders to make proper decisions;
- In order to make the SFCR more understandable to policyholders, it should be simplified and supplemented with explanations of main risk indicators of insurance business, highlighting important areas where attention should be paid to (e.g. SCR compliance, loss ratio);
- Other stakeholders, such as shareholders, consumer protection agencies, reinsurance companies, investors have more possibilities to obtain an in-depth information for decision taking directly from insurance undertakings and other publicly available (more complex) financial reports;
- The SFCR addresses a wide target group. In our opinion, the SFCR with its current requirements, does not meet the requirements of the policyholders but beyond that. Focusing the policyholders the requirements could be significantly reduced. The other stakeholder (auditors, rating companies) are additionally informed in another way;
- However, it is hardly feasible to set up a report that satisfies the information needs of both non-professionals (the standard policyholder) and professionals (analysts, consumer agencies, other insurance companies, etc.). Therefore, we believe that there should be a stronger differentiation according to the different types of addressees of the SFCR while avoiding to create additional reports or to further bloat the SFCR.

Options considered
5. EIOPA considered the following options:

1) No change in the SFCR and follow Supervisory Statement indications;
2) Further specify the different addresses and clearly set expectation to the part of the SFCR addressing policyholders.

EIOPA Proposal

EIOPA proposes amendments in Level 1 (Directive) and Level 2 (Delegated Regulation) to distinguish the SFCR part addressed to policyholders from the part addressed to other users (e.g. professional public).

The SFCR part addressing policy holders should comply with the following:
- Only solo information, no information on group level;
- Only to be provided by undertakings which have external policyholders (e.g. exempted for “captives insurance and reinsurance undertakings” and “reinsurance undertakings”);
- Information to be found on the website of the undertaking, each year on the same area, with information to stay on the website for five years, with link to relevant page where the policyholder information can be found in appropriate policyholder documents (and vice-versa);

1 Undertakings doing only business as defined in Article 13, paragraphs (2) and (5), of Solvency II Directive
- Information should be presented in a concise, simple, objective, balanced and non-promotional form that is understandable for an average policyholder;
- Information should be in simple language and in the language of the policyholder (upon request in case of FoS/FoE);
- Standard tables are an appropriate tool to provide required standardised information (e.g. information on MCR/SCR coverage);
- The document must include a disclaimer that more detailed information can be found in the second section of the SFCR and a link to that section.

Content of the SFCR part addressing policy holders:

Business and performance:
- The name and legal form of the undertaking;
- The name and contact details of the supervisory authority responsible for financial supervision of the undertaking;
- A list of the shareholders of qualifying holdings in the undertaking;
- Undertaking being part of a group, need to disclose information on the name of their respective group, legal form and jurisdiction of the group;
- Any significant business or other events that have occurred over the reporting period that have had or may yet have a material impact on the undertaking risk profile, such as run-off or important mergers and acquisitions;
- Quantitative information on the insurance and reinsurance undertaking’s underwriting performance at an aggregate level for material line of business where it carries out business over the reporting period and investment performance, including at least main items such as premiums, claims, investment return and profit and loss;
- Statement regarding the consideration of ESG factors in the investment policy of the insurance or reinsurance undertaking.

System of governance:
- A description of the outsourcing policy of the insurance or reinsurance undertaking in cases of outsourcing of any critical or important operational functions or activities directly affecting policyholders such as claims management or others (but excluding sales/distribution). The descriptions must include information on the jurisdiction in which the service providers of such functions or activities are located.

Risk profile and Capital management:
- A description of the material risks the undertaking is exposed to including any material changes over the reporting period, as well as a description of the applied risk mitigation techniques.

EIOPA will provide a standard text to explain the purpose of the SCR, including the SF and IM calculation, and the MCR and what eligible own funds. Undertakings are asked to include it in the respective part of the report.

- Information whether SCR is calculated with the SF or a IM (partial or full);
- Ratio of the SCR and MCR coverage at the end of the reporting period and last reporting period (with transitionals and LTG measures);
- Regarding any non-compliance with the Minimum Capital Requirement or the Solvency Capital Requirement of the insurance or reinsurance undertaking during the reporting period or at the time of disclosure, the period of each non-
compliance, an explanation of its origin and consequences, any remedial measures taken, as provided for under Article 51(1)(e)(v) of Directive 2009/138/EC and an explanation of the effects of such remedial measures.

Any other information regarding the insurance or reinsurance undertaking that may be material for policyholders.

6. For details referring to the SFCR section dedicated to other users please see section 4.5.2.

4.5.2. Structure and content of the SFCR

Background

7. It is also important that lessons are learnt regarding the structure and the content of the SFCR. This part addresses only the SFCR part addressing other users than policyholders.

8. Different users have different views of the SFCR. During the Call for Input EIOPA received the following comments on the SFCR:

- The requirements themselves in the Delegated Regulation are also very high-level and the way these are communicated are largely a result of internal undertaking practices and their communications approaches. The extent to which redefining the users of SFCR via changing legislation would be beneficial to the utilisation of the SFCR is unclear;
- Sustainability criteria should be introduced within the SFCR. It might be useful to comment on the ESG (Economic, Social and Governance) objectives of the insurer in the SFCR and provide evidence how the insurer is invested and what kind of risks he underwrites that might be affected by climate change;
- Is it really necessary to publish a full SFCR report every year? Wouldn’t it be possible to reduce the frequency for publishing a full SFCR report (i.e. yearly update of material changes and figures; every three year a full report)?
- For captives, SFCR is usually only requested by cedants. They are more interested in figures. Therefore, parts B and C could be simplified. The performance is interesting and everything in relation to SCR/MCR and capital management. Part D should be simplified to only disclose specific valuation rules applied by the captive. It would be better to rather improve the parts A and E.
- As a reinsurance undertaking we do not communicate directly with policyholders and therefore the stakeholders need to be defined.
- There is a large amount of duplication between the RSR and SFCR and therefore the SFCR should be limited to information needed by the public. Once the stakeholders have been defined the content of the report should be reviewed.
- We think that the “Summary” should be maintained for the policyholders, as well as the set of public QRTs more addressed to investors and analysts, but the other section of the SFCR do not fit for purpose and the costs of these reports overcomes the benefits and create undue complexity due to the
preparation of different documents that already disclose the same key information. Since 2016 the number of pages of this report was over 100 pages on average and the overall cost exceeded millions of Euros. The benefits are not material both for preparers and users (the document is not particularly used by the stakeholders).

- The public QRT should be collected and published by the control authorities. This information should not be part of the SFCR anymore.
- Information might be more structured and focused, without unreasonable extension and explaining the clear linkage of the details with the financial condition.
- Might be useful to foresee a Key Information Document which summarizes the most relevant information of the SFCR in order to give the addressees a short and crisp overview.
- It should focus on key quantitative reporting / information. Narrative reporting should be focused on explanation of these key quantitative figures, their movement and reasons for any (non) movement. Narrative disclosures should be clear to average policyholder and other stakeholders.
- Comparing SFCR reports is important for analysts as well as for companies wishing to benchmark themselves. Currently it is difficult to find SFCR reports, extract the information in a structured and automated way, and compare results.
- Adding a requirement to publish the public disclosure templates in XBRL format would make SFCR data easier to gather and compare via an automated process. The specification for SFCR reporting in XBRL format already exists in the taxonomy but we have not seen any company use this voluntarily. Making this reporting a requirement for companies would greatly help.
- Additionally, a central repository for accessing the PDF- and XBRL-based SFCR files would make the data much easier to find for all stakeholders and would also encourage companies to publish their SFCR by the annual reporting deadline.
- The SFCR needs to be analysed thoroughly, and both structure and content should be reviewed by focusing on information that is essential for the appraisal of an undertaking’s financial, solvency and risk situation.
- The last part and the appendices could be reduced/deleted. The QRTs in the appendix do not provide anything other than the assessment.
- To strengthen the SFCR as an effective instrument of disclosure we wonder if for smaller insurers and groups an abbreviated version may be better than a full version of the SFCR. Apart from thresholds as regards size (or criteria like insurers in a run-off or captives) another possibility to differentiate between insurers with a need to prepare a full SFCR and those for which an abbreviated SFCR can be considered to be sufficient would be the listing. Insurers which are not capital-market orientated should be allowed to benefit from reporting reliefs in respect to SFCR.
- Chapter A and B are mostly repetitive, information also available in the Accounting Annual Reports (e.g. the information on the underwriting and investment performance (according to Local GAAP rules) prescribed for under
section A.2 and A.3 of the SFCR is sufficiently described by the undertakings / groups in their financial statements.)

- Chapter A and D of SFCR and Financial Reporting overlap considerably.
- Insurers included a lot of generic information in sections A-C (particularly Section B) and that it might be more useful to narrow the requirements to focus on firm-specific information.
- Information does not differ relevantly from year to year or across companies, e.g. content of chapter B on the system of governance (e.g. fit and proper criteria, description of risk management and internal control system) is rather stable over time.
- In our opinion, the SFCR should be a pure Solvency II report. Switching between national GAAP and Solvency II information causes confusion.
- General information on governance, which seem to be copied and pasted from handbooks are not useful. Only company specific information should be revealed.
- Chapter D is the longest chapter in the reports containing very detailed information on each individual balance sheet position.
- It could be considered whether the own funds and SCR sensitivities reported in the SFCR are meaningful to the policyholder. The actual own funds and SCR information are more useful metrics from the policyholder's point of view.
- Delegated Regulation (EU) 2015/35 Art 293 (1)(b), (c) requires listing of the external auditor, the supervisory authority of the insurer and the group’s supervisory authority. The benefit of this information for the general and professional public remains unclear.
- There are a number of overlaps between the SFCR and the published financial statements/annual report.
- More detail in principle prudent person (PPP) section is needed.
- The version of the balance sheet reported in the SFCR should be the same as the version reported to the FSA, i.e. the column containing "statutory accounts values" (SAV) should be added. This amendment would facilitate the comparison of SI-II-values and SAV-values. In this context, it should be noted that the design of the template S.02.01 deviates from the layout for the balance sheet as laid down by Directive 91/674/EEC.
- In case the undertaking is doing business in other EU counties and the share of that business is significant for the host country market the requirement to publish summary of the SFCR in the national language could be defined in the Regulation.
- It should be obligatory to state that a company stopped writing new business in the summary in case of runoff.
- It would be helpful if the business model could be described in a few paragraphs.
- The balance sheet item “Collective Investments Undertakings” should be used only for non-controlled or public funds.
- It would be more appropriate to use Mio units instead of thousands.

Options considered
9. EIOPA considered the following options:
1) No change in the SFCR and allow market discipline to further improve
2) Improve structure of the SFCR but on the content allow market discipline to further improve
3) Improve both the structure and the content of the SFCR

10. Additionally the adequacy of the document for captive insurance and reinsurance undertakings was considered, with the following options:

1) Maintain the requirements for captives insurance and reinsurance undertakings;
2) Keep only the information on QRTs complemented by material info;
3) Eliminate the requirement of publishing a SFCR for pure captives.

EIOPA proposal

11. EIOPA agrees that the current structure leads to a number of duplications in the report. However, undertakings are solely responsible to ensure that information provided is focussed, concrete and undertaking specific. The often-observed repetition of requirements and relevant provisions of Solvency II or of accounting standards are not adequate. With the split between different addressees, this becomes even more relevant as professional users should be able to understand Solvency II and other relevant frameworks.

12. To some extent, quality improvements – as called for by professional stakeholders – may not require changes to the regulation but could be achieved by compliance with the existing regulation and improved market discipline.

13. EIOPA has identified relevant improvements in both Level 1 Directive and Level 2 Delegated Regulation.

14. A more detailed proposal on the content of the SFCR is included in Annex I.

<table>
<thead>
<tr>
<th>EIOPA proposes amendments in Level 1 Directive and Level 2 Delegated Regulation to address the following regarding the section of the SFCR addressing other users than policyholders.</th>
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<tbody>
<tr>
<td>- Streamline the structure into only 4 areas: Business and performance, System of Governance, Valuation for solvency purposes and Risk and capital management;</td>
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<td>- Amend the articles regarding the content of the SFCR and Regular Supervisory Reporting in line with Annex I;</td>
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<td>- Regulation needs to clarify requirements on the correction and re-publication of the SFCR. Greater clarity is needed as to when the Article 302 update requirement applies to the SFCR. Better guidance on the term “any major development significantly affecting the relevance of their solvency and financial condition report” is required.</td>
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<thead>
<tr>
<th>EIOPA proposes to include in a future ITS amendment the following:</th>
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<tr>
<td>- QRTs to be included should not be reduced;</td>
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<tr>
<td>- number of QRTs extended/standardised tables on new areas – new QRTs/standardised tables for the SCR sensitivities and own funds variation over the year – (see section 4.5.3.).</td>
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2 Undertakings doing only business as defined in Article 13, paragraphs (2) and (5), of Solvency II Directive
EIOPA proposes to strengthen the following principles either through Guidelines, Supervisory Statements or other tool deemed adequate:
- No padding with information not explicitly required, no repetition of legal requirements;
- No generic statements but relevant undertaking-specific information;
- More structured formats (graphs, tables) could be prescribed in order to improve readability and comparability (collect good practice examples);
- It need to be explicitly stated, were information is non-applicable.

4.5.3. Gaps identified in the SFCR information

Background

15. EIOPA has identified in the 2017 Supervisory Statement the following:

“The information on the risk sensitivity to different scenarios or stresses, should be better structured and more comprehensive: The information regarding the SCR and risk sensitivity is not comparable across different undertakings/groups. It is expected that the reporting of sensitivities to different scenarios or stresses is disclosed in a more structured format. The sensitivity to the different risks should be shown under the section ‘Risk Profile’. In addition under each risk section information on the overall impact should be provided.”

16. During the Call for input the following comments were received regarding the question whether information was missing from the SFCR:

- More business line information could help. To have a coherent approach with the accounting reporting lines (e.g. by geographic regions, kind of reinsurance...);
- SCR-Coverage Ratio (without transitional measures) will remain the main interest of the Reports for policyholders and analysts as well. Therefore we encourage to require "standard sensitivities" in the Reports, e.g. for an interest rate shock up/down, equity shock, real estate shock, mortality, longevity, invalidity, Change of asset allocation or Duration of fixed income assets;
- It would be helpful to be orientated towards the MCEV principles, such as by default different sensitivities on SCR and capital resources and detailed transitions;
- There should be a standardized table with market scenarios e.g. interest rates 1% point up and down, 2% up and down, Equity markets 10%, 20% up and down, Real estates 10% up and down, combined scenarios Mortality 10% up and down, Longevity +1 years/- 1 year;
- No more structured information is needed;
- Current reporting is sufficient and it is important to keep the framework and templates stable in order to build on the accumulated experience within the undertakings and to finally reduce the cost of production;
- Lack of consistency in terms of how insurers explain the drivers behind movements in their solvency position over a reporting period and some insurers do not provide this information at all. It would be helpful to have a
clear and explicit requirement within the rules that require this information to be disclosed to enable readers to understand the drivers behind changes in the entity’s solvency as this is ultimately the core of the SFCR;

- A lot of information is already provided - the requirements should be shortened to help encourage users to read the document. It may be difficult to standardise the information given the differing risk profile of undertakings;

- The SCR sensitivity should be in line with the risk profile of an insurer and their internal limits were relevant. This should not be a fixed format. For AOC (i.e. analysis of change) there are many possible models available. For example, a 1-page information only in which the insurer’s solvency position, own funds and SCR is presented, would be very useful for the senior management. At glance, they could understand the relationship between the developments having an impact on the Solvency position. Additionally, for assessing the Profit and Loss Attribution tests more detailed and granular information is needed. This would require a different analysis of change;

- Template S.01.02 (basic information) should be added into the required template list.

- It would be interesting to include in the SFCR the tables reported in the template S.29.01 and S.29.03 with the analysis of the movements to justify to the stakeholders the changes related to own funds and technical provisions.

- SFCR S.19.01 does not disclose information by LoB.

Options considered
17. The most relevant options considered to fill the gaps of the SFCR are the following:
   a) With respect to the sensitivity of the SCR:
      1. No change
      2. Disclosure of standardised information (preferred)
   b) With respect to the variation of own funds:
      1. No change
      2. Disclosure of information on triggers (preferred)

EIOPA Proposal
18. An important gap identified in the SFCR was the lack of comparability of the information to be provided regarding the sensitivity of the SCR. That was already identified in EIOPA Supervisory Statement issued at the end of 20173 and has been identified by the users of the SFCRs.

19. Other main gap identified is information on the evolution of the Own Funds over the reporting period. It is crucial for analysts to have more information on the triggers of changes in Own Funds.

20. This proposal is the result of the open dialogue with different types of users of the SFCR over the last years. It also reflects the views of NCAs. Other proposals as above were not considered adequate for inclusion at this point.

3 https://eiopa.europa.eu/publications/supervisory-statements
21. Based on the best practices of the market EIOPA proposes to require the disclosure of information on the impact on the SCR coverage ratio and impact on the amount of the Own Funds in million euros of the following key sensitivity tests:

Economic assumptions:

- Equity markets (-25%)
- Equity markets (+25%)
- Interest rates (-50bps)
- Interest rates (+50bps)
- Credit spreads of government bonds (-50bps)
- Credit spreads of government bonds (+50bps)
- Credit spreads of corporate bonds (-50bps)
- Credit spreads of corporate bonds (+50bps)
- Real estate values (-25%)
- Real estate values (+25%)

Non-economic assumptions:

- 10% increase in expenses
- 10% increase in gross loss ratio
- 10% increase in lapse rates

22. Undertakings may in addition present a set of sensitivity analysis that in their view reflect better their risk profile, explaining the reasons behind the sensitivities performed.

23. Regarding the information on the Own Funds variation over the year, EIOPA proposes to require the disclosure of the following information on the triggers for changes in the amount of Own Funds during the period as a % of the OF and in million euros:

- Amount of Own Funds at the beginning of the period;
- Changes due to valuation of the assets;
- Changes due to new capital issued or redeemed;
- Changes due to valuation of technical provisions of existing business;
- Changes due to new business;
- Changes due to taxation;
- Changes due to dividends (foreseeable and paid);
- Changes due to other items;
- Amount of Own Funds at the end of the period.

24. When the Changes due to other items represent more than 20% of the variation the undertaking needs to detail the trigger of the changes included in such item.

EIOPA proposed to require the following standardised information in the SFCR addressing other users than policyholders:

- Impact on the SCR coverage ratio and impact on the amount of the Own Funds in million euros of the following key sensitivity tests:
  Economic assumptions:
  o Equity markets (-25%)
  o Equity markets (+25%)
Undertakings may in addition present a set of sensitivity analysis that in their view better reflects their risk profile, explaining the reasons behind the sensitivities performed.

- Triggers for changes in the amount of Own Funds during the period as a % of the OF and in million euros:
  - Amount of Own Funds at the beginning of the period;
  - Changes due to valuation of the assets;
  - Changes due to new capital issued or redeemed;
  - Changes due to valuation of technical provisions of existing business;
  - Changes due to new business;
  - Changes due to taxation;
  - Changes due to dividends (foreseeable and paid);
  - Changes due to other items;
  - Amount of Own Funds at the end of the period.

When the Changes due to other items represent more than 20% of the variation the undertaking needs to detail the trigger of the changes included in such item.

**Question to stakeholders:**
Still open if it should be a template or a table in the correct part of the SFCR, e.g. in the new section on Risk profile and capital management. EIOPA welcomes views on how (template/table) should be included.

The inclusion as a template facilitates the readability and comparability and would allow the inclusion in the supervisory reporting package. However, the type of information requested should necessarily be accompanied by narrative information and as such its inclusion in the body of the SFCR, within the new section D. Risk profile and Capital Management could be more adequate.

4.5.4. Availability of the SFCR

Background

25. EIOPA has identified in the 2017 Supervisory Statement the following:

"The SFCRs are generally easy to find in the websites of most of the disclosing entities. However, some undertakings still do not own a website. In the websites
of the insurance groups, in general, in addition to the Group SFCR, the solo SFCRs of the major entities of the group are also available at the same address and versions in English are available which facilitates access regarding the full group."

26. In fact current requirements to not required that all undertakings hold a website and does not provide details on where the report shoul be made available.

27. During the Call for Input the following comments were received:

- Some SFCR are very hard to find (or even can't be found) on the websites of insurance companies;
- Access to the SFCR report could be improved e.g. by standardizing where the reports should be published on insurance undertakings website or by central publishing of SFCR (on EIOPA’s website);
- The Central Bank of Ireland has published a consolidated version of the quantitative information appended to the SFCRs (on an individual named basis), which has been well received by stakeholders. We are aware of other NCAs and commercial providers who do similar consolidations. It would be useful for such quantitative information to be available from all (re)insurance undertakings who produce public reporting. This could be at the national level (by each NCA) or the European level (by EIOPA). While it may be premature to determine whether such a publication is feasible/desirable, it may be opportune to use the Solvency II review to amend the legislation to theoretically enable such publications in the future;
- Many of the consumers are not aware of the existence of the SFCR. In our opinion we (supervisory authorities and EIOPA) should increase this awareness e.g. by special publication (e.g. a guidebook how to read SFCR), a public campaign, etc.

Options considered

28. Two options have been considered:

1) Keep publication requirements as in current Solvency II Directive
2) Improve publication requirements

EIOPA proposal

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<th>EIOPA proposes that Level 2 Delegated Regulation requires:</th>
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<tr>
<td>- Information to be found on the website of the undertaking, each year on the same area, with information to stay on the website for five years. Please see also proposal under the document “Individual Quantitative Reporting Templates (EIOPA-BoS-019-305)” requiring the link of address where the SFCRs is available in template S.01.02.</td>
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<tr>
<td>- For the section addressing the policyholders:</td>
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<tr>
<td>o The document must include a disclaimer that more detailed information can be found in the second section of the SFCR and a link to that section;</td>
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<tr>
<td>o In the same area of the website links to other available policyholder information should be included. On the other side links to the SFCR for policyholder should be included in other relevant parts of the undertakings website.</td>
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<td>- The format of the SFCR should be machine-readable (details to be put forward by EIOPA on the second wave of consultation under “Technical issues”).</td>
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EIOPA will discuss with Members the best way to promote a national/European repository; options for this may include, for example, listing links of all SFCRs, creation of consolidate repositories of SFCRs, publication of data already disclosed in SFCRs, etc. In addition, EIOPA will continue its policy of increasing the statistics and information available in its website (considering operational and legal concerns).

4.5.5. Audit of the SFCR information

Background

29. The Solvency II Directive does not require auditing of the Solvency II “figures”. This requirement was extensively discussed in 2015 and EIOPA had published at that time a note highlighting the need for high quality public disclosure standards (Solvency II's report on solvency and financial condition and the potential role of external audit^): "EIOPA believes that to ensure high quality public disclosure for Solvency II purposes, external audit of that information can certainly be a powerful tool. In order to make best use of external audit in the context of SFCR, EIOPA is of the view that at individual and group level main elements of the SFCR (balance sheet, own funds and capital requirements) of all insurance and reinsurance undertakings could fall within the scope of an external audit”.

30. After 3 years of implementation, EIOPA believes that enough experience collected to review audit requirements.

31. In the context of the national transposition of Solvency II several Member States have introduced full or partial audit requirements with regard to Solvency II “figures”. The requirement is either limited to the full SFCR or its main elements (BS, SCR/MCR or EOF). In some cases, it might extend to the RSR, including all QRTs disclosed in the SFCR.

32. Member States with an auditing requirement subject either the SFCR, the QRTs or the Solvency II balance sheet to this requirement. Audits count as partial where not the full SFCR is audited or where other constraints apply (e.g. small undertakings and groups are not subject to the requirement or the auditing does not include internal models).

33. In those Member States that currently do not have Solvency II audit requirements this was generally not the option of the NCAs of these Member States but was owing to the fact that such auditing was not a Solvency II Directive requirement that needed transposition.

34. A summary of the current audit requirements across member states:

<table>
<thead>
<tr>
<th>Current status</th>
<th>Members States</th>
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<tbody>
<tr>
<td><strong>No audit of any Solvency II figures</strong></td>
<td>8 Member States</td>
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<tr>
<td></td>
<td>Slovakia, France, Hungary, Latvia, Finland,</td>
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<td>Czech Republic, Estonia, Lithuania</td>
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<td><strong>Audit of Solvency II figures</strong></td>
<td>17 Member states</td>
</tr>
<tr>
<td><strong>Of which:</strong></td>
<td></td>
</tr>
<tr>
<td>Balance Sheet</td>
<td>3 EEA States</td>
</tr>
<tr>
<td></td>
<td>Germany, Denmark, Liechtenstein</td>
</tr>
<tr>
<td>Balance Sheet + SCR + MCR + eligible own</td>
<td>14 Member States</td>
</tr>
<tr>
<td>funds</td>
<td>Austria*, Belgium, Italy, Netherlands,</td>
</tr>
<tr>
<td></td>
<td>Poland*, Portugal, Slovenia**, Spain,</td>
</tr>
<tr>
<td></td>
<td>Sweden, Malta*, Croatia*, Romania*, Ireland**</td>
</tr>
<tr>
<td></td>
<td>* These countries ask for a full audit, Austria ask for</td>
</tr>
<tr>
<td></td>
<td>the audit of the SFCR</td>
</tr>
<tr>
<td></td>
<td>** For SL audit requires assessment if the SFCR</td>
</tr>
<tr>
<td></td>
<td>include and adequately present the contents of some</td>
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<td>of the chapters and correctness of some the</td>
</tr>
<tr>
<td></td>
<td>quantitative reports</td>
</tr>
<tr>
<td></td>
<td>*** as well as * and additionally exclusion of SCR</td>
</tr>
<tr>
<td></td>
<td>and MCR of (partial) internal models</td>
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<tr>
<td></td>
<td>**** For UK the scope excludes information from, or</td>
</tr>
<tr>
<td></td>
<td>deriving from, internal and partial internal models,</td>
</tr>
<tr>
<td></td>
<td>and sectoral information. Smaller undertakings are</td>
</tr>
<tr>
<td></td>
<td>exempt from the audit requirement</td>
</tr>
</tbody>
</table>

35. EIOPA explicitly asked stakeholders for input about audit in the Call for Input and received a number of comments. The comments received could be split by type of stakeholders as follows.

**From Consumer Protection and Other:**

- We favour audited SFCR reports. Actually we discovered a lot of mistakes in the different templates which would have been avoided if the complete SFCR report had been audited;
- To improve the quality and homogeneity of the SFCR between countries and between companies, auditors should be trained by EIOPA;
- External audit requirements of the SFCR cannot replace the assessment of supervisory authorities. The quality of the reporting is driven especially by the supervisory review process. The reliance on external rating agencies should be reduced also in this area. Supervisors must be able and have the
resources to do the necessary checks. The argument for external audit should not be understaffed supervisory authorities and putting the burden/costs on the industry;
- An external audit is a valuable quality control and provides reassurance for management that the document is accurate. However, the audit scope can be confusing to a reader (only parts of the SFCR are in scope and it isn't always obvious what has and hasn't been audited) and in reality external auditors often review the whole document, requesting adjustments to areas of the document that they are not supposed to be auditing.

From Insurance Undertakings:
- We do not see any need for an external Audit of SFCRs, the Quality would not improve but the time and monetary burden (covered by policyholders in the end) would be significant;
- The reports are verified by the internal audit. The added value due to an external auditor is estimated as low under the aspect of cost/benefit ratio. The level of protection for policyholders and financial stability would not be enhanced by an external audit requirement;
- Differing views; many noted that the cost of the audit requirement e.g. in the UK was offset, at least partially, by the assurance provided to the management and Board of small insurers that the requirements had been met;
- External accounting requirements on the most important parts (balance sheet, own fund, SCR) suffice. In our view, the cost of an expansion of the scope of the external audit requirements will lead to disproportionate costs in relation to the possible quality gains;
- There is no need for external audit requirements, as all elements in the SFCR (balance sheet, capital management, etc.) are already supervised through Pillar 1 and through the regular supervisory reporting (RSR). Against this background, the cost in relation to little or no added value of an external audit cannot be justified;
- External audit has a small impact on the quality of the report and the costs (several million € annually) exceed the benefit. Moreover, it should be regulated on a level playing field basis (everyone or no one) and not by the single NSA as it happens today: in fact, this approach creates additional costs that are very relevant for companies belonging to certain country that decided for a more extensive audit compared to others;
- The external auditor’s role overlaps with the duties of the supervisory authorities when conducting the Supervisory Review Process (SRP) according to Article 36 in the Level 1 text. The requirement to audit the undertaking’s balance sheet and the solvency capital requirements necessitate a discussion with auditors about actuarial methods, actuarial assumptions, etc. which in reality should only concern the supervisory authority. The external audit reduces preparation time for the annual submission of data and reporting within deadlines from two to three weeks; Article 308b of the Solvency II Directive did not take into account the time needed to conduct an external audit. In addition, a mandatory audit is extremely costly for the
undertakings, particularly for small and medium-size undertakings. We contend that any sort of external scrutiny and audit should be a choice for the undertakings and not an obligation and that they should therefore be exempted from the external audit requirement.

- In those jurisdictions where the audit of the SFCR is compulsory, supervisors contend that the SFCR needs to be audited because it is viewed by the market, but of course this would not apply to SMEs mutual insurers. Equally for SMEs mutual insurers, the report and accounts are published for members only and where the SFCR may cause confusion and inconsistency, there is no rationale for encouraging policyholders/members to read it;

- From a content point of view, one can also assess the ability of the auditors to provide a meaningful contribution with respect to the quality of the report. The solvency II position and related information depends on (future) assumptions, (actuarial) calculations regarding pre-agreed models and the use of already approved data (IFRS/GAAP information). In most public financial information (annual accounts), risk information is already included (see for example IFRS 7 and IAS 1). This information is already signed off by auditors. We wonder which is the added value for any additional external audit requirement.

- The main advantage to audit is that it gives reassurance to the reader of the report that it has been reviewed. However, in countries where peer review is required then both external audit and peer review can be excessively burdensome.

**From External auditors:**

- We perceive solvency reports as a source of transparency and market discipline. We believe that assurance requirements on solvency reports should be harmonised across Europe under Solvency II in a way that meets public expectations and enhances the quality of private and public reporting. The availability of assurance reports on elements of the Solvency and Financial Condition Report (SFCR) will enhance reliability, confidence, transparency and market discipline across Europe, and therefore contribute to a level playing field in this area;

- Auditors are qualified to carry out an external audit of a sensibly selected subset of the SFCR across the EU, also considering the application of the internationally recognised assurance framework or, where appropriate, of the nationally accepted standards on auditing or assurance engagements to arrive at an opinion on the publicly disclosed information;

- One of the objectives of Solvency II is to harmonise the approach to the supervision of European insurers. This should include harmonising the requirements for obtaining independent assurance from auditors on the public and private solvency reports.

- There is however a clear divergence in the NCA (National Competent Authorities) requirements on audit or assurance on regulatory reporting, which may create doubts about the level of reliability and quality of public disclosures across Europe. In some countries the scope of the statutory audit of insurance undertakings was expanded, while in some other countries the
NCAs have decided to leave the decision for an audit of or assurance on Solvency II reporting to the discretion of the insurance undertakings. Furthermore, we have identified that there is a difference in the scope and level of assurance for regulatory reporting requirements.

- The internal model design as approved by the NCA should be out of audit scope, in line with EIOPA’s recommendation, and as such should be relied on by the independent auditor as part of the Solvency II framework, like a standard formula. The focus of the audit should be on the correct application of the NCA’s approved internal model as regards the data and the reasonableness of the related outcomes.

- We also noted different levels of assurance for regulatory reporting requirements. Positive and negative assurance represent different approaches in terms of the procedures and opinion issued by the auditor. Positive assurance means that certain facts are reasonable and fairly stated and therefore free from material errors. On the contrary, negative assurance means that certain facts are believed to be accurate since no contrary evidence has been found.

- Inconsistent audit/ assurance requirements not only impact the fairness of approaches across jurisdictions, they can also distort competition and create entry barriers to cross-border activity or complicate matters for large multinational insurance groups. For example, a subsidiary may be subject to assurance requirements when the wider group is not, and the auditor of that subsidiary may not support a treatment that is allowed at the unaudited group level. In addition, as noted above, different assurance requirements across Europe might confuse users of the SFCR, making it more difficult to compare insurers’ solvency information across different Member States.

- Work of auditors can enhance the quality of solvency reports, which is a major advantage. Both the public SFCR and private RSR (Regular Supervisory Report) contain some complex, subjective information that requires judgement to be exercised by preparers. Solvency II information includes measurements that are based on forward-looking assumptions. This is consistent with developments in financial reporting, where estimates of current values are used including forward-looking assumptions particularly in estimating insurance liabilities.

- The introduction of IFRS 17 Insurance Contracts (combined with IFRS 9 Financial Instruments for investments), which encompasses a ‘fair value’ model for insurance liabilities, will decrease the differences in terms of preparing and auditing between the IFRS financial reporting and the Solvency II framework, particularly for life insurance businesses. Providing assurance on elements of the solvency reporting will therefore be similar (not identical) to aspects of the audit of financial statements of insurance undertakings. This could result in an improved understanding and insights in the events and drivers underpinning the two sets of calculations. This alignment could also result in an overall reduction in audit costs, particularly in case of the Solvency II balance sheet.

- Experience from those countries where at least the Solvency II balance sheet is audited shows that processes and controls have significantly improved over
time leading also to an improvement in reporting quality. Quality and consistency also have improved since both, Solvency II balance sheet questions but as well questions relating to other elements of SFCR and RSR have been subject to local consultations and the dialogue between supervisors and auditors. Last but not least the increased interest by analysts as well as journalists – both of them analysing on behalf of policyholders and investors respectively – contributes to market discipline as the original purpose of pillar III (as stated above) even if there is currently room for further improvement in transparency and comparability (preparers and regulators) as well as for further learning processes and familiarity (users and intermediaries). The so created value will increase with the establishment of multiyear comparatives.

- It is important to avoid users placing reliance on an assumption that auditors have reviewed information, when that information is, in fact, unaudited.

Options considered

36. Considering the above background, the proposals considered by EIOPA were the following:

1) Keep the legislation as it is – no audit requirement in the Solvency II Directive – Members discretion;
2) Minimum requirement explicit in Solvency II Directive on audit to audit Solvency II Balance-Sheet (Members discretion to additional requirements);
3) Minimum requirement explicit in Solvency II Directive on audit to audit Solvency II BS/MCR/SCR/EOF (Members discretion to additional requirements)

37. All options should explain the level of assurance, in particular regarding the expectations regarding the internal model.

EIOPA Proposal

38. Where auditing requirements are in place all NCAs consider these to be beneficial, improving the quality of the data, assisting in supervision thus helping to protect policyholders and also probably benefiting at least smaller undertakings that struggle more with Solvency II compliance. NCAs believe external audit requirement has materially improved the quality of the information within the SFCRs as they routinely see material corrections/reclassifications between the quarterly return (unaudited) and the final public disclosure which have been explicitly attributed (by the reporting undertaking) to the audit process. In fact, there is a good degree of challenge from auditors during SFCR production, which results in undertakings making improvements to the SFCR.

39. Indeed EIOPA has always been of the opinion that only high quality disclosed figures and good public reports can fulfil the goals set out by Solvency II (please refer to the EIOPA publication5). Otherwise, stakeholders may be misguided in their judgements, in comparison to other public disclosure like financial

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5 EIOPA-BoS-15/154 of the 29th June 2015 “Need for high quality public disclosure: Solvency II’s report on solvency and financial condition and the potential role of external audit
statements, which are strictly regulated and scrutinised. Therefore, EIOPA and its members will be very attentive to the actual application of the Solvency II public disclosure by insurance and reinsurance undertakings and potentially divergent levels of quality in different Member States. Currently auditing requirement are in place in several Member States, and there are contradictory views from stakeholders on the costs (see above). In some Members specific types of undertakings such as captives have identified audit costs as a burden.

40. The disclosure of information in the SFCR is to serve transparency which to be meaningful requires that there is some assurance that the information disclosed is complete and correct. There is also the timing dimension to consider.

41. The SFCRs are disclosed to the market and sent to the NSAs at the same time, therefore the review from supervisors can only take place after the undertakings published their SFCR. In the SRP NCAs will of course check the information provided by undertakings on their solvency and financial position in the SFCR However, as much as possible undertakings should not publish deficient data in the first place.

42. Regarding proportionality principle the following was considered:

- Complete exemption: all stakeholders including policyholders deserve the same level of assurance about the completeness and correctness of the information disclosed, regardless of the size or risk profile of the undertakings, therefore it is not recommendable to have different requirements for different type of undertakings. Proportionality should be embedded as audit should be less complex, however there is evidence that audit fees might be significantly higher as a proportion of premium income for small undertakings vs larger undertakings;
- Allow NCAs to exempt with a minimum frequency of auditing every 3 years: as said before, all stakeholders including policyholders, deserve the same level of assurance about the completeness and correctness of the information disclosed, regardless of the size or risk profile of the undertakings, therefore it is not recommendable to have different requirements for different type of undertakings.

43. In fact, EIOPA believes that auditing should be about transparency and accuracy of the information and therefore those values should not be subject to proportionality principle.

EIOPA proposes to introduce an auditing requirement in the Solvency II Directive. This should ensure that as a minimum the Solvency II Balance-Sheet is subject in all Member States to external auditing by a qualified auditor. The output should be an audit opinion published together with the SFCR.

Each Member State/NCA could on top of this minimum requirement request additional auditing requirements, namely covering the MCR, SCR and EOF.

EIOPA will further clarify either through Guidelines, Supervisory Statements or other tool deemed adequate the expectations towards the level of assurance of the audit required.
EIOPA also proposes an extension of the annual reporting and disclosure by 2 weeks to accommodate this audit requirement (see document General issues on supervisory reporting and public disclosure (EIOPA-BoS-019-300). Solvency II Directive should also foresee the situation that the deadline for SFCR disclosure should not be sooner, in any case, than the disclosure of regular Audited Annually Reported Financial Statements in case of listed (public) companies.

Question to stakeholders:

EIOPA invites all stakeholders that already audit the Solvency II Balance-sheet to provide EIOPA with information on the costs, preferably as a percentage of the written premiums, using amounts referring to end of 2018. If more than the Solvency II Balance-sheet is audited additional information on the costs of audit is welcomed. Information regarding specific types of undertakings such as captives or run-off undertakings for example is also welcomed. If no adequate information is received during the consultation, EIOPA will perform a data request to ensure that appropriate information also by size of undertakings is received as an input for the Impact Assessment.

Impact assessment (specific for Audit)

44. In the development of the advice regarding audit of the SFCR, EIOPA has duly analysed the costs and benefits of the main options considered; these options are listed in the table below.

<table>
<thead>
<tr>
<th>Policy issues</th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Audit of SFCR</td>
<td>1.1 Keep the legislation as it is – no audit requirement in the Solvency II Directive – Members discretion; 1.2.Minimum requirement explicit in Solvency II Directive on audit to audit Solvency II Balance-Sheet (Members discretion to additional requirements); 1.3.Minimum requirement explicit in Solvency II Directive on audit to audit Solvency II BS/MCR/SCR/EOF (Members discretion to additional requirements)</td>
</tr>
</tbody>
</table>

Analysis of impacts

45. The following table summarises the costs and benefits for the main options considered regarding this policy issue.

<table>
<thead>
<tr>
<th>Policy issue: Audit of the SFCR information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Option 1.1: No change - Keep the legislation as it is – no audit requirement in the Solvency II Directive – Members discretion</td>
</tr>
<tr>
<td>The lack of audit might undermine policyholder protection due to:</td>
</tr>
</tbody>
</table>

21/60
- poor quality or incompleteness of the information disclosed by undertakings,
- eventual mistakes in the calculation of technical provisions and/or capital requirements not spotted at the time of the public disclosure.

**Industry**

No audit requirement is envisaged in Solvency II. The costs for (re)insurers vary depending on the audit requirements in the national legislation. The feedback received from the industry clearly shows that Members States’ discretion should be avoided as it can affect the fairness of approaches across jurisdictions and might create entry barriers to cross-border activity or complicate matters for large multinational insurance groups with subsidiaries subject to different audit requirements.

**Supervisors**

The lack of audit might lead to higher supervisory costs (e.g. to check and follow up of incorrect information)

**Other**

Lack of reliability of the information disclosed for the financial users of the information disclosed (e.g. analysts)

### Benefits

**Policyholders**

No special benefits are envisaged

**Industry**

No additional costs from the EU legislation.

**Supervisors**

No special benefits are envisaged

**Other**

Lack of reliability of the information disclosed for the financial users of the information disclosed (e.g. analysts)

### Option 1.2: Minimum requirement explicit in Solvency II Directive on audit to Solvency II Balance-Sheet (Members discretion to additional requirements)

#### Costs

**Policyholders**

No material costs are expected.

**Industry**

Additional on-going costs are envisaged with the audit of the SII Balance-Sheet in the form of annual audit fees to be paid by (re)insurance undertakings which are not subject to those requirements yet. However, currently in at least 16 Member States, there is an audit requirement on the Solvency II Balance sheet and for (re)insurance undertakings operating in these Member States no additional costs are expected. In one Member State proportionality is reflected in the audit requirements, in that case even if audit requirements exist costs are expected for undertakings currently exempted. However, the Members discretion to additional requirements will not allow for establishment of a full level playing field basis and might have a negative impact on the consistency especially in case of cross-border insurance groups operating in different Member States, even if minimised.

**Supervisors**

Based on the experience gained in these years the audit requirement only on the Solvency II balance sheet might lead to incorrect information in the SCR, MCR, EOF which will lead to additional supervisory costs in checking and following up of the incorrect information which might occur in the non-audited parts. However, the information submitted to supervisors is subject to supervisory review in any case.

**Other**

Lack of reliability of the information disclosed for the financial users of the information disclosed (e.g. analysts) in information other than the Balance Sheet, even if minimised compared to option 1.1

**Benefits**

**Policyholders**

Benefits for the protection of the policyholders stemming from the audited Balance sheet and the improved quality of the information disclosed.
Industry

For those Member States already having audit on the Balance sheet no additional benefits are expected. For the Member States with no audit requirements at the moment initial costs are justified. Being the Solvency II balance-sheet the basis for the remaining prudential calculations this would lead to improved quality and accurateness of the audited information.

Supervisors

Less mistakes and incorrect information requiring further follow up. Being the Solvency II balance-sheet the basis for the remaining prudential calculations this would lead to improved quality and accurateness of the audited information.

Other

Improved quality of the information disclosed also for other users of the SFCR.

**Option 1.3: Minimum requirement explicit in Solvency II Directive on audit to audit Solvency II BS/MCR/SCR/EOF (Members discretion to additional requirements)**

<table>
<thead>
<tr>
<th>Costs</th>
<th>Policyholders</th>
<th>Additional costs expected as undertakings might pass additional costs to policyholders, increasing the price of insurance products.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>Additional on-going costs in the form of annual audit fees (higher than option 1.2) are envisaged with the introduction of this option. However, it has to be noted that currently in 12 Member States there is already such an audit requirement based on the Members discretion. For (re)insurance undertakings operating in these Member States no additional costs are expected. The Members discretion option will in addition not allow for establishment of a full level playing field basis, however in this option this impact should be minimum as the most important figures are included in the scope of minimum auditing.</td>
<td></td>
</tr>
</tbody>
</table>

| Supervisors | No additional costs from the supervisors are expected. The improved quality and the decrease in the mistakes will reduce the supervisory costs and burden related to the follow up actions required in case of incorrect or wrong information. |

| Other | - |

<table>
<thead>
<tr>
<th>Benefits</th>
<th>Policyholders</th>
<th>Enhanced reliability and confidence in the information disclosed across Europe.</th>
</tr>
</thead>
<tbody>
<tr>
<td>Industry</td>
<td>Valuable quality control; provides reassurance for management that the information disclosed is accurate.</td>
<td></td>
</tr>
<tr>
<td>Supervisors</td>
<td>Improved quality and decrease in the mistakes. Decrease in the supervisory follow up in case of inconsistency and mistakes. However, it is not expected a full assurance and in case of internal models users additional specific guidance would be needed on expectations from the audit.</td>
<td></td>
</tr>
<tr>
<td>Other</td>
<td>Enhanced reliability and confidence in the information disclosed across Europe</td>
<td></td>
</tr>
</tbody>
</table>

46. Options 1.2 and 1.3. will lead among others to regulatory compliance costs for the industry. These costs might be significant for insurance undertakings which are not subject to those requirements yet. However, it has to be noted that currently there are audit requirements in 16 Member States and for (re)insurance undertakings in these states no additional costs are envisaged. In one Member State proportionality is reflected in the audit requirements, in that case even if audit requirements exist costs are expected for undertakings currently exempted. Furthermore, the expected benefits stemming from the
improved quality of the reports, of the decrease of mistakes, of the increased transparency and market discipline are expected to outperform the expected costs, at least in option 1.2.

47. Options 1.2 and 1.3 creates on-going costs associated with the audit of elements from the annual SFCR.

48. According to the time horizon, policy options 1.2 and 1.3 produce material costs on on-going base.

**Proportionality**

49. Proportionality is embedded as for small and less complex (re)insurance undertakings and groups the audit should be less complex. In addition, auditing should be about transparency and accuracy of the information and therefore those values should not be subject to proportionality principle.

**Evidence**

- In the preparation of the analysis the input received from the following events has been used:
  - Public Call for input from stakeholders (December 2018 – February 2019)
  - Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry
  - Stakeholders’ feedback to the Commission public consultation on fitness check on supervisory reporting
  - Additional Insurance Europe proposals – April 2019

50. Furthermore, additional evidence is expected to be collected at a later stage as part of the Public consultation of the proposal during Summer 2019.

**Comparison of options**

**Policy issue: Audit of SFCR**

51. The preferred policy option for this policy issue is Option 1.2: Minimum requirement explicit in Solvency II Directive on audit to audit Solvency II Balance-Sheet (Members discretion to additional requirements) because it will establish consistent minimum audit requirements across Member States in a way that meets public expectations and enhances the quality of private and public reporting and will increase the quality, and the correctness of the information publicly disclosed. The other options considered have been disregarded because even if the quality of the audited information will improve even more than in option 1.2 the costs are expected to outperform the benefits. Furthermore, the practise has shown that the quality and correctness of information improves significantly in cases where there is an audit, therefore Option 1.1. was not considered as adequate following evidence observed by Members where audit requirements were implemented.

52. In addition, the feedback received from the industry clearly shows that Members discretion will need to be avoided as it can affect the fairness of approaches across jurisdictions and create entry barriers to cross-border activity or
complicate matters for large multinational insurance groups. Option 1.2 minimises the discretion, even if does not eliminate it completely.

53. The additional costs for the different options are expected to be proportionate to the additional benefits that the increased accuracy and reliability of the SFCR would bring, in particular to policyholders and supervisors. However a reassessment needs to be done once further information is received.

54. The assessment of each option has taken into account a preliminary view considering the degree to which it meets the relevant objectives e.g. adequate protection of policyholders and beneficiaries; improving transparency and better comparability and ensuring a level playing field through sufficiently harmonised rules. The selected Option 1.2. Requirement explicit in Solvency II Directive on audit to the Solvency II Balance-Sheer (Members discretion to additional requirements) will ensure a minimum level playing field through establishing common requirements in the Member States, will improve transparency and better comparability by improving the quality of the disclosed information and will contribute to the policyholders and beneficiaries protection.

55. In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives. As already mentioned, all options except the baseline involve costs associated with the auditing requirements. However, the improvement of the quality of the information disclosed, of the comparability and the decrease of the mistakes are considered to be more beneficial.

56. The assessment of the effectiveness and efficiency are presented in the table below.

<table>
<thead>
<tr>
<th>Options</th>
<th>Effectiveness (0/+/++)</th>
<th>Efficiency (0/+/++)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Objective 1: Adequate protection of policyholders and beneficiaries</td>
<td>Objective 2: Improving transparency and better comparability</td>
<td>Objective 3: Ensuring a level playing field through sufficiently harmonised rules</td>
</tr>
<tr>
<td>Objective 1: Adequate protection of policyholders and beneficiaries</td>
<td>Objective 2: Improving transparency and better comparability</td>
<td>Objective 3: Ensuring a level playing field through sufficiently harmonised rules</td>
</tr>
<tr>
<td>Objective 1: Adequate protection of policyholders and beneficiaries</td>
<td>Objective 2: Improving transparency and better comparability</td>
<td>Objective 3: Ensuring a level playing field through sufficiently harmonised rules</td>
</tr>
<tr>
<td>Objective 1: Adequate protection of policyholders and beneficiaries</td>
<td>Objective 2: Improving transparency and better comparability</td>
<td>Objective 3: Ensuring a level playing field through sufficiently harmonised rules</td>
</tr>
</tbody>
</table>

Option 1.1: No change
Option 1.2: Minimum audit of BS
Option 1.3: Minimum audit of BS/MCR/SCR/EO
4.5.6. Assess adequacy of receiving the Actuarial Report regularly

Background
57. In accordance to Article 48 of Solvency II Directive the actuarial function needs to provide the AMSB a number of opinions on the adequacy of the TP, including an opinion on the overall underwriting policy and the adequacy of the reinsurance arrangements.

58. Article 272 (8) of the Delegated Regulation states: “The actuarial function shall produce a written report to be submitted to the administrative, management or supervisory body, at least annually. The report shall document all tasks that have been undertaken by the actuarial function and their results, and shall clearly identify any deficiencies and give recommendations as to how such deficiencies should be remedied”. 

59. Many NCAs request this report to be submitted to them on a regular basis while others do it on an ad-hoc basis.

60. During the EU-US dialogue, it was acknowledged that a similar report is received regularly by US supervisors and also was identified that to support the assessment of the outcome of TP tools developed by NCAs most NCAs already ask for it as well.

Options considered
61. Considering the above background, the proposals considered by EIOPA were the following:

   1) Keep the Report internally;
   2) Include the report in article 304 as a regular report to be submitted to NCAs regularly using a machine learning compatible format.

EIOPA Proposal
62. EIOPA considers the Actuarial Report as a crucial tool for supervisors when assessing the adequacy of the level of technical provisions in particular to complement supervisory tools developed to assess the level of technical provisions.

63. However, it also believes the Report should be kept primarily an internal report and therefore the Report should not be subject to a standardisation of its structure that a machine-readable format would require.

EIOPA proposes to keep the status quo and keep the Actuarial Function report internal.

4.5.7. Language requirements

Background
64. As part of the assessment, it was important to know from stakeholders their views on the language requirements.

65. The comments received from stakeholders were as follows:

   - We consider the current language requirements as adequate;
- Disclosing the Group SFCR in multiple languages (local language and English based on the request of the Group Supervisor according to articles 360 (1) and (2) of the Delegated Act) is a very costly and labour-intensive requirement due to the volume of the required information in the SFCR. The necessity of translating the executive summary of the Group SFCR into local languages of the EEA (re)insurance subsidiaries as stipulated by Article 360 (3) of the Delegated Act should be revised. This is a very burdensome requirement for a group that has subsidiaries in numerous EEA-states and has very little added value;
- Flexibility should be allowed regarding the reporting language.
- We would like to request that there be an option to report in English in agreement with the local NCA. This would eliminate an extensive amount of work and expense incurred in the preparation of the regulatory reports (RSR, SFCR, ORSA).
- For us as an international company with business to business dealings we should be allowed to provide the SFCR in English only, as providing a public document only in our national language is not beneficial to our stakeholders. This would allow us to reduce the costs of preparing this report. For this purpose, Article 360 of the delegated acts should be adjusted accordingly.
- Undertakings should always have the option to report SFCR in English. Disclosing the Group SFCR in multiple languages (local language and English based on the request of the Group Supervisor according to articles 360 (1) and (2) of the Delegated Act) is due to the volume of the required information in the SFCR a very costly and labour-intensive requirement.
- In addition, the necessity of translating the executive summary of the Group SFCR into local languages of the EEA (re)insurance subsidiaries as stipulated by Article 360 (3) of the Delegated Act should be revised. This is a very burdensome requirement for a group that has subsidiaries in numerous EEA-states and has very little added value.
- The language requirement should also refer to the various stakeholders to whom the SFCR is addressed to. If for example a national language is used, the investors/analyst/rating agencies will normally not be able to understand the information. Therefore, a version in English is always prepared doubling the workload. However, we wonder whether policyholders from an undertaking preparing the report in English would be able to understand the information. If the SFCR were to be split into different parts to provide meaningful information to the different users of information, different languages could be allowed without increasing the burden for insurers.

**Options considered**

66. Two options have been considered:
1) Keep language requirements as laid out in current Delegated Regulation
2) Improve publication requirements for the SFCR addressing policyholders

EIOPA Proposal

67. Although most supervisors believe the language requirements are adequate, some believe improvements could be observed:

- In case of cross-border providers:
  o require publication in all languages of the countries where the business is underwritten, and
  o inclusion of specific paragraphs on data and information about the business and activities done in others country

  in order to provide policyholders and possible clients proper and full information available in the language of the respective Member State;

- the summary must be available in national language and more detailed information could be provided in English. Regarding the SFCR for group, English seems to be the most relevant language. Only the executive summary should be translated in the national languages.

- All content directed to insured should be in local language. This is less important for market participants;

- The “Summary” should be disclosed in English and in the language of the country of operation of each solo undertaking;

- At present, the language requirements are clear for group SFCRs (Article 360 of the delegated acts) and single SFCRs (Article 366), such clarity does not extend to SFCRs produced for solo undertakings. The language requirements for the SFCR should be explicit. In particular, it should be clear what the expectations are for undertakings with policyholder/beneficiaries in multiple jurisdictions (and hence potentially with multiple native languages).

68. EIOPA agrees that it is important that all policyholders receive information in their language. The split in two sections of the SFCR opens the opportunity to request this without an undue burden.

69. Regarding the part of the SFCR addressing other stakeholders EIOPA acknowledges the different needs but believes that an extension of the languages required would not be proportionate to the value added.

EIOPA proposes amendments in Level 1 Directive and Level 2 Delegated Regulation to clearly distinguish the SFCR part addressed to policyholders from the part addressed to other users and to require for the SFCR part addressing policyholders that information should be in simple language and in the language of of the respective Member State (upon request in case of FoS/FoE).
4.5.8. Templates used in the SFCR

Background

70. The aim of this section is to address the templates already included in the SFCR and assess if changes are needed.

Options considered

71. Two options have been considered:

1) Keep templates as in current Commission Implementing Regulation 2015/2452
2) Improve the templates

EIOPA proposal

72. This proposal needs to be seen together with the proposal under 4.5.3 (Gaps).

73. There are currently different versions of S.25.01 for the full annual QRT and the publicly available (SFCR) version. The individual SCR components are different between the two versions due to the different treatment of aggregation and diversification benefits. The benefit of having the two different versions of this QRT was questioned. It adds extra work to the preparation of the SFCR QRTs that is needless.

EIOPA proposes to keep unchanged the templates that are currently disclosed. For S.05.02 this means that a new entry point only for SFCR is needed due to the changes being proposed in the supervisory reporting package.

4.6. Analysis

Impact assessment

74. In the development of the advice regarding the SFCR, EIOPA has duly analysed the costs and benefits of the main options considered; these options are listed in the table below.

<table>
<thead>
<tr>
<th>Policy issues</th>
<th>Options</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Addressees of the SFCR</td>
<td>1.1. No change in the SFCR and follow Supervisory Statement indications</td>
</tr>
<tr>
<td></td>
<td>1.2 Further specify the different addresses and clearly set expectation to the part of the SFCR addressing policyholders (preferred)</td>
</tr>
<tr>
<td>2. Structure and content</td>
<td>2.1. No change in the SFCR and allow market discipline to further improve</td>
</tr>
<tr>
<td></td>
<td>2.2 Improve structure of the SFCR but on the content allow market discipline to further improve</td>
</tr>
<tr>
<td></td>
<td>2.3 Improve both the structure and the content of the SFCR (preferred)</td>
</tr>
<tr>
<td>2. Structure and content (for captives)</td>
<td>2.1 Maintain the requirements for captives insurance and reinsurance undertakings;</td>
</tr>
<tr>
<td></td>
<td>2.2 Keep only the information on QRTs complemented by material info (preferred);</td>
</tr>
<tr>
<td></td>
<td>2.3. Eliminate the requirement of publishing a SFCR for pure captives.</td>
</tr>
</tbody>
</table>
3. Gaps identified

<table>
<thead>
<tr>
<th></th>
<th>(a) Sensitivity of the SCR</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.a.1</td>
<td>No change</td>
</tr>
<tr>
<td>3.a.2</td>
<td>Disclosure of standardised information</td>
</tr>
<tr>
<td></td>
<td>(preferred)</td>
</tr>
<tr>
<td>(b)</td>
<td>Variation of own funds</td>
</tr>
<tr>
<td>3.b.1</td>
<td>No change</td>
</tr>
<tr>
<td>3.b.2</td>
<td>Disclosure of information on triggers</td>
</tr>
<tr>
<td></td>
<td>(preferred)</td>
</tr>
</tbody>
</table>

4. Availability

<table>
<thead>
<tr>
<th></th>
<th>4.1 Keep publication requirements as in current Solvency II Directive</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>4.2 Improve publication requirements</td>
</tr>
<tr>
<td></td>
<td>(preferred)</td>
</tr>
</tbody>
</table>

5. Audit

|         | Covered in point 4.5.5. specific impact assessment                   |

6. Actuarial Function Audit

|         | 6.1 Keep the Report internally and requested on an ad-hoc basis       |
|---------|                                                                      |
|         | (preferred);                                                        |
|         | 6.2 Include the report in article 304 as a regular report to be      |
|         | submitted to NCAs regularly using a machine learning compatible      |
|         | format.                                                              |

7. Language

|         | 7.1 Keep language requirements as laid out in current Delegated     |
|---------|                                                                      |
|         | Regulation                                                           |
|         | 7.2 Improve the language requirements for the SFCR addressing        |
|         | policyholders (preferred)                                           |

8. Templates

|         | 1) Keep templates as in current Commission Implementing Regulation   |
|---------|                                                                      |
|         | 2015/2452 (preferred)                                                |
|         | 2) Improve the templates                                            |

### Analysis of impacts

75. The following table summarises the costs and benefits for the main options considered regarding the addresses, structure and content of the SFCR.

76. The costs and benefits of the different options considered regarding the requirement of auditing the SFCR (policy issue 5) have been analysed separately (see section 4.5.5). An impact assessment of the options considered for other policy issues is not presented separately since none of the proposed changes is expected to give raise to material costs individually.

### Policy issues 1 to 8 (except 5)

#### Option 2.1: No changes

<table>
<thead>
<tr>
<th>Costs</th>
<th>Policyholders</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>No additional financial cost. However, based on the experience gained in these years and the feedback received from the stakeholders during the call for input this option will not allow to improve the usefulness of the SFCR for the policyholders. The report will continue not to be used by policyholders due to too technical and complicated amount of information presented in a big amount of pages. Accessibility problems would remain as well as relevant information in the language of the Member State in case of cross-border business.</td>
</tr>
<tr>
<td></td>
<td>Industry</td>
</tr>
<tr>
<td></td>
<td>No additional costs are envisaged as this is the current option. However, based on the experience of the first 2 years the gaps</td>
</tr>
</tbody>
</table>
identified will not be addressed and the structure of the SFCR will not be streamlined to avoid repetitive information. Thus the disclosure burden as mentioned by some undertakings will not be eased and the usefulness of the report improved.

**Supervisors**

No additional cost is envisaged. In addition, supervisors are not the main addressees of the SFCR as they receive RSR. Still there will be overlapping of information reported both in SFCR and RSR which together with increased reporting might require some additional supervisory efforts in review of the SFCR. With the preferred option the structure is changed – part of information required previously in the SFCR is moved to the RSR and not required anymore in the SFCR. In addition, the structure of the SFCR will be better streamlined to avoid repetitive information.

Regarding the Actuarial Function Report no costs are identified as the regular need was not fully evidenced.

**Other**

No additional financial cost. However, based on the experience gained in these years and the feedback received from the stakeholders during the call for input this option will not allow to improve the usefulness of the SFCR.

**Benefits**

**Policyholders**

No additional benefits are envisaged as the option is kept as of today.

**Industry**

No special benefits except that the industry will follow the same approach already followed in the last 2 years.

**Supervisors**

No special benefits are envisaged

**Other**

No special benefits are envisaged

### Option 2.2: Improvements in the SFCR in general

**Costs**

**Policyholders**

No material costs are expected as any of the change proposed have a material impact for undertaking as well.

**Industry**

Some additional costs are expected with the implementation of this options. The change effects only the addressees of the SFCR with introduction of separate section for the SFCR while keeping the content of the report as it is the additional costs are expected to be minimal. Additional one-off costs are envisaged with the introduction of this option to adapt the structure and the content of the SFCR. On an on-going basis, the amended content of the SFCR will reduce the burden (by avoiding repetitive information and by moving part of the information to the RSR) while the differentiation between policyholders and professional users of financial information will be beneficial for the market and for the policyholders’ protection.

Some costs are expected from the requirement that all undertakings have a website to make the SFCR available as some of them might not have a website currently. The new information requested reflects the best practices from the market and is already being disclosed by part of the market, however some additional costs might be expected. The language requirement for policyholders section in case of cross-border will also have some additional costs.

**Supervisors**

The additional information requested based on the gaps identified might lead to additional supervisory efforts. However the streamline of the information and the improved structure will be beneficial.
<table>
<thead>
<tr>
<th>Other</th>
<th>No material costs are expected</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Benefits</strong></td>
<td></td>
</tr>
<tr>
<td>Policyholders</td>
<td>Dedicated section of the SFCR to the policyholder in an easy to understand language, providing in ‘2 pager’ providing the most important information with clear access to additional information. Information easily available and in their language in case of cross-border. The protection of the policyholders will benefit from the transparent and easy to understand information.</td>
</tr>
<tr>
<td>Industry</td>
<td>Better streamlining of the information for different stakeholders allowing better understanding, focused information. Avoiding repetitive reporting of information already available, streamlining and improving the content of the report thus improving its usefulness also for internal use. This option also address the comments made from the industry to revise the structure and also the comments from the stakeholders to report risk sensitivity. Improve transparency, comparability and use of the SFCR by a higher number of stakeholders. For captives undertakings the costs are reduced through the reduction of the requirements on the SFCR.</td>
</tr>
<tr>
<td>Supervisors</td>
<td>Different information from the RSR. Dedicated section for policyholders, which improve the policyholder protection. Disclosure of additional information already identified as good to have but currently missing</td>
</tr>
<tr>
<td>Other</td>
<td>Clear distinction of the sections for policyholders and for other financial users will increase the usefulness of the report, in particular considering the new information being proposed to be included in a standardised format.</td>
</tr>
</tbody>
</table>

77. Option 2 will lead to additional non-material costs which are mainly foreseen at the beginning with some adaptations needed in the disclosure requirements. These one-off costs will be outweighed by the benefits of the improved content of the SFCR and streamline of its structure, which will lead to decrease in the reporting burden over time resulting in an overall reduction in the on-going reporting costs; the report will be better fit for its purpose and improved based on the experience gained in the first years of its disclosure.

**Proportionality**

78. Proportionality is embedded as for small and less complex (re)insurance undertakings and groups the information disclosed should be less complex. In addition the policyholders section is not required for captives or reinsurance undertakings.

**Evidence**

79. In the preparation of the analysis the input received from the following events has been used:

- Public Call for input from stakeholders (December 2018 – February 2019)
- Public workshops on Reporting and Disclosure over the last 2 years, including ECB/EIOPA/NCB/NCA Workshops with industry
- Stakeholders’ feedback to the Commission public consultation on fitness check on supervisory reporting
Moreover, additional evidence is expected to be collected at a later stage as part of the Public consultation of the proposal during Summer 2019.

**Comparison of options**

**Policy issues 1 to 8 (except 5):**

81. The preferred policy option for this policy issue is Option 2: “Improvements in the SFCR in general” because it builds on the experience gained in the first years of disclosure, takes into account the feedback received from the stakeholders, avoids repetitive information and reduces the disclosure burden over time and specifically for captives undertakings. The other options considered have been disregarded because they do not tackle the structure and the content of the SFCR – the areas where improvements are needed.

82. In addition, the feedback received from the stakeholders clearly shows that the addressees of the SFCR, its structure and content need to be revised, that some information was missing and the use by policyholders needed to be enhanced.

83. The assessment of each option has taken into account the degree to which it meets the relevant objectives e.g. Adequate protection of policyholders and beneficiaries; Improving transparency and better comparability and Ensuring a level playing field through sufficiently harmonised rules. The selected Option 2: “Improvements in the SFCR in general” will improve the transparency and will address better the needs of the 2 major groups of SFCR addressees: policyholders and professional users.

84. In the assessment of the options, also the efficiency is considered regarding the way in which resources are used to achieve the objectives. As already mentioned, option 2 involve some additional costs with the implementation of the revised requirements. However, option 2 will also lead to decrease of some existing reporting costs based on the streamlining of the structure and will ease the reporting burden.

85. The assessment of the effectiveness and efficiency are presented in the table below.

<table>
<thead>
<tr>
<th>Policy issues 1 and 2: Addressees, structure and content of SFCR</th>
<th>Effectiveness (0/+;+++)</th>
<th>Efficiency (0/+;+++)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Options</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Objective 1</td>
<td>Adequate protection of policyholders and beneficiaries</td>
<td></td>
</tr>
<tr>
<td>Objective 2:</td>
<td>Improving transparency and better comparability</td>
<td></td>
</tr>
<tr>
<td>Objective 3:</td>
<td>Ensuring a level playing field through</td>
<td></td>
</tr>
<tr>
<td>Objective 1</td>
<td>Adequate protection of policyholders and beneficiaries</td>
<td></td>
</tr>
<tr>
<td>Objective 2:</td>
<td>Improving transparency and better comparability</td>
<td></td>
</tr>
<tr>
<td>Objective 3:</td>
<td>Ensuring a level playing field through</td>
<td></td>
</tr>
</tbody>
</table>
5.7. Advice

EIOPA proposes amendments in Level 1 (Directive) and Level 2 (Delegated Regulation) to distinguish the SFCR part addressed to policyholders from the part addressed to other users (e.g. professional public).

The SFCR part addressing policy holders should comply with the following:
- Only solo information, no information on group level;
- Only to be provided by undertakings which have external policyholders (e.g. exempted for “captives insurance and reinsurance undertakings” and “reinsurance undertakings”);
- Information to be found on the website of the undertaking, each year on the same area, with information to stay on the website for five years, with link to relevant page where the policyholder information can be found in appropriate policyholder documents (and vice-versa);
- Information should be presented in a concise, simple, objective, balanced and non-promotional form that is understandable for an average policyholder;
- Information should be in simple language and in the language of the policyholder (upon request in case of FoS/FoE);
- Standard tables are an appropriate tool to provide required standardised information (e.g. information on MCR/SCR coverage);
- The document must include a disclaimer that more detailed information can be found in the second section of the SFCR and a link to that section.

Content of the SFCR part addressing policy holders:

Business and performance:
- The name and legal form of the undertaking;
- The name and contact details of the supervisory authority responsible for financial supervision of the undertaking;
- A list of the shareholders of qualifying holdings in the undertaking;
- Undertaking being part of a group, need to disclose information on the name of

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6 Undertakings doing only business as defined in Article 13, paragraphs (2) and (5), of Solvency II Directive
their respective group, legal form and jurisdiction of the group;
- Any significant business or other events that have occurred over the reporting period that have had or may yet have a material impact on the undertaking risk profile, such as run-off or important mergers and acquisitions;
- Quantitative information on the insurance and reinsurance undertaking’s underwriting performance at an aggregate level for material line of business where it carries out business over the reporting period and investment performance, including at least main items such as premiums, claims, investment return and profit and loss;
- Statement regarding the consideration of ESG factors in the investment policy of the insurance or reinsurance undertaking.7

System of governance:
- A description of the outsourcing policy of the insurance or reinsurance undertaking in cases of outsourcing of any critical or important operational functions or activities directly affecting policyholders such as claims management or others (but excluding sales/distribution). The descriptions must include information on the jurisdiction in which the service providers of such functions or activities are located.

Risk profile and Capital management:
- A description of the material risks the undertaking is exposed to including any material changes over the reporting period, as well as a description of the applied risk mitigation techniques

EIOPA will provide a standard text to explain the purpose of the SCR, including the SF and IM calculation, and the MCR and what eligible own funds. Undertakings are asked to include it in the respective part of the report.

- Information whether SCR is calculated with the SF or a IM (partial or full);
- Ratio of the SCR and MCR coverage at the end of the reporting period and last reporting period (with transitionals and LTG measures);
- Regarding any non-compliance with the Minimum Capital Requirement or the Solvency Capital Requirement of the insurance or reinsurance undertaking during the reporting period or at the time of disclosure, the period of each non-compliance, an explanation of its origin and consequences, any remedial measures taken, as provided for under Article 51(1)(e)(v) of Directive 2009/138/EC and an explanation of the effects of such remedial measures.

Any other information regarding the insurance or reinsurance undertaking that may

7 Stakeholders are invited to provide feedback on EIOPA’s Opinion on sustainability within Solvency II, under consultation until 26 July 2019, on disclosure requirements with regard to sustainability risks and factors. The European Commission stated the intention to take into consideration the Opinion in finalising the report for Solvency II 2020 Review. See: https://eiopa.europa.eu/Pages/Consultation-on-an-opinion-on-sustainability-within-Solvency-II.aspx
be material for policyholders.

EIOPA proposes amendments in Level 1 Directive and Level 2 Delegated Regulation to address the following regarding the section of the SFCR addressing other users than policyholders.

- Streamline the structure into only 4 areas: Business and performance, System of Governance, Valuation for solvency purposes and Risk and capital management;
- Amend the articles regarding the content of the SFCR and Regular Supervisory Reporting in line with Annex I;
- Regulation needs to clarify requirements on the correction and re-publication of the SFCR. Greater clarity is needed as to when the Article 302 update requirement applies to the SFCR. Better guidance on the term “any major development significantly affecting the relevance of their solvency and financial condition report” is required.

EIOPA proposes to include in a future ITS amendment the following:
- QRTs to be included should not be reduced;
- number of QRTs extended/standardised tables on new areas – new QRTs/standardised tables for the SCR sensitivities and own funds variation over the year – (see section 4.5.3.)

EIOPA proposes to strengthen the following principles either through Guidelines, Supervisory Statements or other tool deemed adequate:
- No padding with information not explicitly required, no repetition of legal requirements;
- No generic statements but relevant undertaking-specific information;
- More structured formats (graphs, tables) could be prescribed in order to improve readability and comparability (collect good practice examples);
- It need to be explicitly stated, were information is non-applicable.

EIOPA proposed to require the following standardised information in the SFCR addressing other users than policyholders:
- Impact on the SCR coverage ratio and impact on the amount of the Own Funds in million euros of the following key sensitivity tests:
  Economic assumptions:
  o Equity markets (-25%)
  o Equity markets (+25%)
  o Interest rates (-50bps)
  o Interest rates (+50bps)
  o Credit spreads of government bonds (-50bps)
  o Credit spreads of government bonds (+50bps)
  o Credit spreads of corporate bonds (-50bps)
  o Credit spreads of corporate bonds (+50bps)
  o Real estate values (-25%)
  o Real estate values (+25%)

  Non-economic assumptions:
  o 10% increase in expenses
  o 10% increase in gross loss ratio
  o 10% increase in lapse rates

Undertakings may in addition present a set of sensitivity analysis that in their view
better reflects their risk profile, explaining the reasons behind the sensitivities performed.

- Triggers for changes in the amount of Own Funds during the period as a % of the OF and in million euros:
  - Amount of Own Funds at the beginning of the period;
  - Changes due to valuation of the assets;
  - Changes due to new capital issued or redeemed;
  - Changes due to valuation of technical provisions of existing business;
  - Changes due to new business;
  - Changes due to taxation;
  - Changes due to dividends (foreseeable and paid);
  - Changes due to other items;
  - Amount of Own Funds at the end of the period.

When the Changes due to other items represent more than 20% of the variation the undertaking needs to detail the trigger of the changes included in such item.

EIOPA proposes that Level 2 Delegated Regulation requires:

- Information to be found on the website of the undertaking, each year on the same area, with information to stay on the website for five years. Please see also proposal under the document “Individual Quantitative Reporting Templates (EIOPA-BoS-019-305)” requiring the link of address where the SFCRs is available in template S.01.02.
- For the section addressing the policyholders:
  - The document must include a disclaimer that more detailed information can be found in the second section of the SFCR and a link to that section;
  - In the same area of the website links to other available policyholder information should be included. On the other side links to the SFCR for policyholder should be included in other relevant parts of the undertakings website.
- The format of the SFCR should be machine-readable (details to be put forward by EIOPA on the second wave of consultation under “Technical issues”).

EIOPA will discuss with Members the best way to promote a national/European repository; options for this may include, for example, listing links of all SFCRs, creation of consolidate repositories of SFCRs, publication of data already disclosed in SFCRs, etc. In addition, EIOPA will continue its policy of increasing the statistics and information available in its website (considering operational and legal concerns).

EIOPA proposes to introduce an auditing requirement in the Solvency II Directive. This should ensure that as a minimum the Solvency II Balance-Sheet is subject in all Member States to external auditing by a qualified auditor. The output should be an audit opinion published together with the SFCR.

Each Member State/NCA could on top of this minimum requirement request additional auditing requirements, namely covering the MCR, SCR and EOF.

EIOPA will further clarify either through Guidelines, Supervisory Statements or other tool deemed adequate the expectations towards the level of assurance of the audit required.
EIOPA also proposes and extension of the annual reporting and disclosure by 2 weeks to accommodate this audit requirement (see document General issues on supervisory reporting and public disclosure (EIOPA-BoS-019-300). Solvency II Directive should also foresee the situation that the deadline for SFCR disclosure should not be sooner, in any case, than the disclosure of regular Audited Annually Reported Financial Statements in case of listed (public) companies.

EIOPA proposes to keep the status quo and keep the Actuarial Function report internal.

EIOPA proposes amendments in Level 1 Directive and Level 2 Delegated Regulation to clearly distinguish the SFCR part addressed to policyholders from the part addressed to other users and to require for the SFCR part addressing policyholders that information should be in simple language and in the language of the respective Member State (upon request in case of FoS/FoE).

EIOPA proposes to keep unchanged the templates that are currently disclosed. For S.05.02 this means that a new entry point only for SFCR is needed due to the changes being proposed in the supervisory reporting package.
ANNEX I

Please note that this Annex focus on the current content and does not yet reflect the streamlining of the structure proposed under this document.

<table>
<thead>
<tr>
<th>Art. of DR</th>
<th>Current text</th>
<th>Proposal</th>
<th>Explanation</th>
</tr>
</thead>
<tbody>
<tr>
<td>Art. 293</td>
<td>Business and performance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>1.</td>
<td>The solvency and condition report shall include all of the following information regarding the business of the insurance or reinsurance undertaking:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(a)</td>
<td>the name and legal form of the undertaking;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(b)</td>
<td>the name and contact details of the supervisory authority responsible for financial supervision of the undertaking and, where applicable, the name and contact details of the group supervisor of the group to which the undertaking belongs;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(c)</td>
<td>the name and contact details of the external auditor of the undertaking;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(d)</td>
<td>a description of the holders of qualifying holdings in the undertaking;</td>
<td>name and description of the holders of qualifying holdings in the undertaking;</td>
<td>Clarification that name is required</td>
</tr>
<tr>
<td>(e)</td>
<td>where the undertaking belongs to a group, details of the undertaking's position within the legal structure of the group;</td>
<td>where the undertaking belongs to a group, details of the undertaking's position within the legal structure of the group;</td>
<td>To allow the use of charts</td>
</tr>
<tr>
<td>(f)</td>
<td>the undertaking's material lines of business and material geographical areas where it carries out business;</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(g)</td>
<td>any significant business or other events that have occurred over the reporting period that have had a material impact on the undertaking.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td>The solvency and financial condition report shall include qualitative and quantitative information on the insurance or reinsurance undertaking's</td>
<td>Introduction of a harmonised table for the quantitative information to be considered</td>
<td>In order to enhance comparability</td>
</tr>
</tbody>
</table>
underwriting performance, at an aggregate level and by material line of business and material geographical areas where it carries out business over the reporting period, together with a comparison of the information with that reported on the previous reporting period, as shown in the undertaking's financial statements.

3. The solvency and financial condition report shall include all of the following qualitative and quantitative information regarding the performance of the investments of the insurance or reinsurance undertaking over the reporting period together with a comparison of the information with that reported on the previous reporting period, as shown in that undertaking's financial statements:

(a) information on income and expenses arising from investments by asset class and, where necessary for a proper understanding of the income and expenses, the components of such income and expenses;

(b) information about any gains and losses recognised directly in equity;

(c) information about any investments in securitisation.

4. The solvency and financial condition report shall describe the other material income and expenses of the insurance or reinsurance undertaking incurred over the reporting period together with a comparison of the information with that reported on the previous reporting period, as shown in that undertaking's financial statements.

<table>
<thead>
<tr>
<th>3.</th>
<th>The solvency and financial condition report shall include all of the following qualitative and quantitative information regarding the performance of the investments of the insurance or reinsurance undertaking over the reporting period together with a comparison of the information with that reported on the previous reporting period, as shown in that undertaking's financial statements:</th>
</tr>
</thead>
<tbody>
<tr>
<td>Consider the inclusion of information on the investment policy, including qualitative and quantitative information regarding the consideration of ESG factors in the investment policy of the insurance or reinsurance undertaking and a list of the kind of investments the undertaking is not prepared to engage in on account of ESG factors</td>
<td></td>
</tr>
<tr>
<td>To enhance information on investment strategies</td>
<td></td>
</tr>
<tr>
<td>(a) information on income and expenses arising from investments by asset class and, where necessary for a proper understanding of the income and expenses, the components of such income and expenses;</td>
<td></td>
</tr>
<tr>
<td>Introduction of a harmonised table for the quantitative information to be considered</td>
<td></td>
</tr>
<tr>
<td>In order to enhance comparability</td>
<td></td>
</tr>
<tr>
<td>(b) information about any gains and losses recognised directly in equity;</td>
<td></td>
</tr>
<tr>
<td>(c) information about any investments in securitisation.</td>
<td></td>
</tr>
</tbody>
</table>
5. The solvency and financial condition report shall include in a separate section any other material information regarding their business and performance of the insurance or reinsurance undertaking.

<table>
<thead>
<tr>
<th>Art. 294</th>
<th>System of governance</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td>The solvency and financial condition report shall include all of the following information regarding the system of governance of the insurance or reinsurance undertaking:</td>
</tr>
</tbody>
</table>

(a) the structure of the undertaking's administrative, management or supervisory body, providing a description of its main roles and responsibilities and a brief description of the segregation of responsibilities within these bodies, in particular whether relevant committees exist within them, as well as a description of the main roles and responsibilities of key functions; |

(b) any material changes in the system of governance that have taken place over the reporting period; |

Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward. | Mostly of interest for the NCA |
### RSR and Future Potential Proposals

The frequency of the RSR needs to be taken into consideration before final proposals are put forward.

### Remuneration Policy and Practices

- **(c)** Information on the remuneration policy and practices regarding administrative, management or supervisory body and, unless otherwise stated, employees, including:
  - **(i)** Principles of the remuneration policy, with an explanation of the relative importance of the fixed and variable components of remuneration.
  - **(ii)** Information on the individual and collective performance criteria on which any entitlement to share options, shares or variable components of remuneration is based.
  - **(iii)** A description of the main characteristics of supplementary pension or early retirement schemes for the members of the administrative, management or supervisory body and other key function holders.
- **(d)** Information about material transactions during the reporting period with shareholders, with persons who exercise a significant influence on the undertaking, and with members of the administrative, management or supervisory body.

### Solvency and Financial Condition Report

The solvency and financial condition report shall include all of the following information regarding the ‘fit and proper’ policy of the insurance or reinsurance undertaking:

- Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be
- Mostly of interest for the NCA
<table>
<thead>
<tr>
<th>(a)</th>
<th>a description of the undertaking's specific requirements concerning skills, knowledge and expertise applicable to the persons who effectively run the undertaking or have other key functions</th>
<th>Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</th>
<th>Mostly of interest for the NCA</th>
</tr>
</thead>
<tbody>
<tr>
<td>(b)</td>
<td>a description of the undertaking's process for assessing the fitness and the propriety of the persons who effectively run the undertaking or have other key functions.</td>
<td>Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</td>
<td>Mostly of interest for the NCA</td>
</tr>
<tr>
<td>3.</td>
<td>The solvency and financial condition report shall include all of the following information regarding the risk management system of the insurance or reinsurance undertaking:</td>
<td>Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</td>
<td>Mostly of interest for the NCA</td>
</tr>
<tr>
<td>(a)</td>
<td>a description of the undertaking's risk management system comprising strategies, processes and reporting procedures, and how it is able to effectively identify, measure, monitor, manage and report, on a continuous basis, the risks on an individual and aggregated level, to which the undertaking is or could be exposed;</td>
<td>Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</td>
<td>Mostly of interest for the NCA</td>
</tr>
<tr>
<td>(b)</td>
<td>a description of how the risk management system including</td>
<td>Removal to the RSR to be considered. The</td>
<td>Mostly of interest for</td>
</tr>
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</table>
the risk management function are implemented and integrated into the organisational structure and decision-making processes of the undertaking.

<table>
<thead>
<tr>
<th>4. The solvency and financial condition report shall include all of the following information regarding the process the insurance or reinsurance undertaking has adopted to fulfil its obligation to conduct an own risk and solvency assessment:</th>
<th>Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</th>
<th>Mostly of interest for the NCA</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) a description of the process undertaken by the undertaking to fulfil its obligation to conduct an own risk and solvency assessment as part of its risk management system including how the own risk and solvency assessment is integrated into the organisational structure and decision making processes of the undertaking;</td>
<td>Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</td>
<td>Mostly of interest for the NCA</td>
</tr>
<tr>
<td>(b) a statement detailing how often the own risk and solvency assessment is reviewed and approved by the undertaking’s administrative, management or supervisory body;</td>
<td>Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</td>
<td>Mostly of interest for the NCA</td>
</tr>
<tr>
<td>(c) a statement explaining how the undertaking has determined its own solvency needs given its risk profile and how its capital management activities and its risk management system interact with each other.</td>
<td></td>
<td></td>
</tr>
<tr>
<td>5. The solvency and financial</td>
<td>Removal to the RSR</td>
<td>Mostly of</td>
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<tr>
<td>Condition report shall include all of the following information regarding the internal control system of the insurance or reinsurance undertaking:</td>
<td>to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</td>
<td>interest for the NCA</td>
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<tr>
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<tr>
<td>(a) a description of the undertaking's internal control system;</td>
<td>Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</td>
<td>Mostly of interest for the NCA</td>
</tr>
<tr>
<td>(b) a description of how the compliance function is implemented.</td>
<td>Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward. Number of people in the compliance function may be of interest</td>
<td>Mostly of interest for the NCA</td>
</tr>
<tr>
<td>6. The solvency and financial condition report shall include all of the following information regarding the internal audit function of the insurance or reinsurance undertaking:</td>
<td>Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</td>
<td>Mostly of interest for the NCA</td>
</tr>
<tr>
<td>(a) a description of how the undertaking's internal audit function is implemented;</td>
<td>Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</td>
<td>Mostly of interest for the NCA</td>
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<tr>
<td><strong>Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</strong></td>
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<tr>
<td>Number of people in the internal audit function may be of interest</td>
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<tr>
<td><strong>(b)</strong></td>
<td>a description of how the undertaking's internal audit function maintains its independence and objectivity from the activities it reviews.</td>
<td>Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</td>
</tr>
<tr>
<td>7.</td>
<td>The solvency and financial condition report shall include a description of how the actuarial function of the insurance or reinsurance undertaking is implemented.</td>
<td>Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</td>
</tr>
<tr>
<td>8.</td>
<td>The solvency and financial condition report shall include a description of the outsourcing policy of the insurance or reinsurance undertaking, that undertaking's outsourcing of any critical or important operational functions or activities and the jurisdiction in which the service providers of such functions or activities are located.</td>
<td>Consider removing to RSR the description of the outsourcing policy, keeping the information on the outsourcing of any critical or important operational functions. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.</td>
</tr>
</tbody>
</table>

Mostly of interest for the NCA
9. The solvency and financial condition report shall include an assessment of the adequacy of the system of governance of the insurance or reinsurance undertaking to the nature, scale and complexity of the risks inherent in its business.

Removal to the RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on the frequency of the RSR needs to be taken into consideration before final proposals are put forward.

Mostly of interest for the supervisor and “lengthy” if properly done to provide useful information.

10. The solvency and financial condition report shall include in a separate section any other material information regarding the system of governance of the insurance or reinsurance undertaking.

Art. 295 Risk profile

1. The solvency and financial condition report shall include qualitative and quantitative information regarding the risk profile of the insurance or reinsurance undertaking, in accordance with paragraphs 2 to 7, separately for the following categories of risk:

(a) underwriting risk;
(b) market risk;
(c) credit risk;
(d) liquidity risk;
(e) operational risk;
(f) other material risks.

2. The solvency and financial condition report shall include the following information regarding the risk exposure of the insurance or reinsurance undertaking, including the exposure arising from off-balance sheet positions and the transfer of risk to special purpose vehicles:

(a) a description of the measures used to assess these risks within that undertaking, including any material changes over the reporting period;
(b) a description of the material
<table>
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<th><strong>risks that that undertaking is exposed to, including any material changes over the reporting period;</strong></th>
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<td><strong>(c)</strong></td>
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<td><strong>3.</strong></td>
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<td><strong>4.</strong></td>
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<td><strong>5.</strong></td>
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<td><strong>6.</strong></td>
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<td><strong>7.</strong></td>
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</table>

**Art. 296 Valuation for solvency purposes**

1. The solvency and financial condition report shall include all of the following information
2. The solvency and financial condition report shall include all of the following information regarding the valuation of the technical provisions of the insurance or reinsurance undertaking for solvency purposes:

(a) separately for each material line of business the value of technical provisions, including the amount of the best estimate and the risk margin, as well as a description of the bases, methods and main assumptions used for its valuation for solvency purposes;

(b) a description of the level of uncertainty associated with the value of technical provisions;

(c) separately for each material line of business, a quantitative and qualitative explanation of any material differences between the bases, methods and main assumptions used by that undertaking for the valuation for solvency purposes and those used for their valuation in financial statements;

(d) where the matching adjustment referred to in Article 77b of Directive 2009/138/EC is applied, a description of the matching adjustment and of the
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<tr>
<td>portfolio of obligations and assigned assets to which the matching adjustment is applied, as well as a quantification of the impact of a change to zero of the matching adjustment on that undertaking's financial position, including on the amount of technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the basic own funds and the amounts of own funds eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement;</td>
<td></td>
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<tr>
<td>(e)</td>
<td>a statement on whether the volatility adjustment referred to in Article 77d of Directive 2009/138/EC is used by the undertaking and quantification of the impact of a change to zero of the volatility adjustment on that undertaking's financial position, including on the amount of technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the basic own funds and the amounts of own funds eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement;</td>
</tr>
<tr>
<td>(f)</td>
<td>a statement on whether the transitional risk-free interest rate-term structure referred to Article 308c of Directive 2009/138/EC is applied and a quantification of the impact of not applying the transitional measure on the undertaking's financial position, including on the amount of technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the basic own funds and the amounts of own funds eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement;</td>
</tr>
<tr>
<td>(g)</td>
<td>a statement on whether the</td>
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transitional deduction referred to in Article 308d of Directive 2009/138/EC is applied and a quantification of the impact of not applying the deduction measure on the undertaking's financial position, including on the amount of technical provisions, the Solvency Capital Requirement, the Minimum Capital Requirement, the basic own funds and the amounts of own funds eligible to cover the Minimum Capital Requirement and the Solvency Capital Requirement.

(h) a description of the following:

(i) the recoverables from reinsurance contracts and special purpose vehicles;  

(ii) any material changes in the relevant assumptions made in the calculation of technical provisions compared to the previous reporting period.

3. The solvency and financial condition report shall include all of the following information regarding the valuation of the other liabilities of the insurance or reinsurance undertaking for solvency purposes:

(a) separately for each material class of other liabilities the value of other liabilities as well as a description of the bases, methods and main assumptions used for their valuation for solvency purposes;

(b) separately for each material class of other liabilities, a quantitative and qualitative explanation of any material differences with the valuation bases, methods and main assumptions used by the undertaking for the valuation for solvency purposes and those used for their valuation in financial statements.

4. The solvency and financial condition report shall include
| **5.** | The solvency and financial condition report shall include in a separate section any other material information regarding the valuation of assets and liabilities for solvency purposes. |

| **Art. 297** | **Capital management** |
| **1.** | The solvency and financial condition report shall include all of the following information regarding the own funds of the insurance or reinsurance undertaking: |

| (a) | information on the objectives, policies and processes employed by the undertaking for managing its own funds, including information on the time horizon used for business planning and on any material changes over the reporting period; Consider removing to RSR the description of policies and processes, keeping the information on the objectives an the rest information on the specific objectives, policies and processes employed by the undertaking for managing its own funds, including information on the time horizon used for business planning and explanations for any material changes over the reporting period; Mostly of interest for the NCA |

| (b) | separately for each tier, information on the structure, amount and quality of own funds at the end of the reporting period and at the end of the previous reporting period, including an analysis of the significant changes in each tier over the reporting period; separately for each tier, information on the structure, amount and quality of own funds at the end of the reporting period and at the end of the previous reporting period, including an analysis of the material changes in each tier over the reporting period; Analysis of material changes (avoid “significant” which could be read as very material) is already a pointer that more than some perfunctory |
(c) the eligible amount of own funds to cover the Solvency Capital Requirement, classified by tiers;

(d) the eligible amount of basic own funds to cover the Minimum Capital Requirement, classified by tiers;

(e) a quantitative and qualitative explanation of any material differences between equity as shown in the undertaking’s financial statements and the excess of assets over liabilities as calculated for solvency purposes;

(f) for each basic own-fund item that is subject to the transitional arrangements referred to in Articles 308b(9) and 308b(10) of Directive 2009/138/EC, a description of the nature of the item and its amount;

(g) for each material item of ancillary own funds, a description of the item, the amount of the ancillary own-fund item and, where a method by which to determine the amount of the ancillary own-fund item has been approved, that method as well as the nature and the names of the counterparty or group of counterparties for the items referred to in points (a), (b) and (c) of Article 89(1) of Directive 2009/138/E;

(h) a description of any item deducted from own funds and a brief description of any significant restriction affecting the availability and transferability of own funds within the undertaking.

For the purposes of paragraph (g), the names of the counterparties shall not be disclosed where such disclosure is legally not possible or impracticable or where the counterparties concerned are not mate.
2. The solvency and financial condition report shall include all of the following information regarding the Solvency Capital Requirement and the Minimum Capital Requirement of the insurance or reinsurance undertaking:

(a) the amounts of the undertaking's Solvency Capital Requirement and the Minimum Capital Requirement at the end of the reporting period, accompanied, where applicable, by an indication that the final amount of the Solvency Capital Requirement is still subject to supervisory assessment;

(b) the amount of the undertaking's Solvency Capital Requirement split by risk modules where that undertaking applies the standard formula, and by risk categories where the undertaking applies an internal model;

(c) information on whether and for which risk modules and sub-modules of the standard formula that undertaking is using simplified calculations;

(d) information on whether and for which parameters of the standard formula that undertaking is using undertaking-specific parameters pursuant to Article 104(7) of Directive 2009/138/EC;

(e) where applicable, a statement that the undertaking's Member State has made use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC;

(f) unless the undertaking's Member State has made use of the option provided for in the third

| (f) | unless the undertaking's Member State has made use of the option provided for in the third | Deletion | By the time, the changes proposed in
| (e) | where applicable, a statement that the undertaking's Member State has made use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC; | Deletion | the review are implemented, the timeline for applying the option will have run out.
| (d) | information on whether and for which parameters of the standard formula that undertaking is using undertaking-specific parameters pursuant to Article 104(7) of Directive 2009/138/EC; | | |
| (c) | information on whether and for which risk modules and sub-modules of the standard formula that undertaking is using simplified calculations; | Consider adding structured information on diversification benefits |
| (b) | the amount of the undertaking's Solvency Capital Requirement split by risk modules where that undertaking applies the standard formula, and by risk categories where the undertaking applies an internal model; | |
| (a) | the amounts of the undertaking's Solvency Capital Requirement and the Minimum Capital Requirement at the end of the reporting period, accompanied, where applicable, by an indication that the final amount of the Solvency Capital Requirement is still subject to supervisory assessment; | | |

| (f) | unless the undertaking's Member State has made use of the option provided for in the third | Deletion | By the time, the changes proposed in
| (e) | where applicable, a statement that the undertaking's Member State has made use of the option provided for in the third subparagraph of Article 51(2) of Directive 2009/138/EC; | Deletion | the review are implemented, the timeline for applying the option will have run out.
| (d) | information on whether and for which parameters of the standard formula that undertaking is using undertaking-specific parameters pursuant to Article 104(7) of Directive 2009/138/EC; | | |
| (c) | information on whether and for which risk modules and sub-modules of the standard formula that undertaking is using simplified calculations; | Consider adding structured information on diversification benefits |
| (b) | the amount of the undertaking's Solvency Capital Requirement split by risk modules where that undertaking applies the standard formula, and by risk categories where the undertaking applies an internal model; | | |
| (a) | the amounts of the undertaking's Solvency Capital Requirement and the Minimum Capital Requirement at the end of the reporting period, accompanied, where applicable, by an indication that the final amount of the Solvency Capital Requirement is still subject to supervisory assessment; | | |
subparagraph of Article 51(2) of Directive 2009/138/EC, the impact of any undertaking-specific parameters that undertaking is required to use in accordance with Article 110 of that Directive and the amount of any capital add-on applied to the Solvency Capital Requirement, together with concise information on its justification by the supervisory authority concerned;  

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<tbody>
<tr>
<td><strong>(g)</strong></td>
<td>information on the inputs used by the undertaking to calculate the Minimum Capital Requirement;</td>
<td></td>
</tr>
<tr>
<td><strong>(h)</strong></td>
<td>any material change to the Solvency Capital Requirement and to the Minimum Capital Requirement over the reporting period, and the reasons for any such change.</td>
<td>It may be necessary to provide guidance on when a change should be considered to be material. The compliance with this requirement also needs to be monitored and enforced if necessary.</td>
</tr>
</tbody>
</table>

3. The solvency and financial condition report shall include all of the following information regarding the option set out in Article 304 of Directive 2009/138/EC:

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<tbody>
<tr>
<td><strong>(a)</strong></td>
<td>an indication that that undertaking is using the duration-based equity risk sub-module set out in that Article for the calculation of its Solvency Capital Requirement, after approval from its supervisory authority;</td>
<td></td>
</tr>
<tr>
<td><strong>(b)</strong></td>
<td>the amount of the capital requirement for the duration-based equity risk sub-module resulting from such use.</td>
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</table>

4. Where an internal model is used to calculate the Solvency Capital Requirement, the solvency and
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<tr>
<td>financial condition report shall also include all of the following information:</td>
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</tr>
<tr>
<td>(a) a description of the various purposes for which that undertaking is using its internal model;</td>
<td></td>
</tr>
<tr>
<td>(b) a description of the scope of the internal model in terms of business units and risk categories;</td>
<td></td>
</tr>
<tr>
<td>(c) where a partial internal model is used, a description of the technique which has been used to integrate any partial internal model into the standard formula including, where relevant, a description of alternative techniques used;</td>
<td></td>
</tr>
<tr>
<td>(d) a description of the methods used in the internal model for the calculation of the probability distribution forecast and the Solvency Capital Requirement;</td>
<td></td>
</tr>
<tr>
<td>(e) an explanation, by risk module, of the main differences in the methodologies and underlying assumptions used in the standard formula and in the internal model;</td>
<td></td>
</tr>
<tr>
<td>(f) the risk measure and time period used in the internal model, and where they are not the same as those set out in Article 101(3) of Directive 2009/138/EC, an explanation of why the Solvency Capital Requirement calculated using the internal model provides policy holders and beneficiaries with a level of protection equivalent to that set out in Article 101 of that Directive;</td>
<td></td>
</tr>
<tr>
<td>(g) a description of the nature and appropriateness of the data used in the internal model.</td>
<td>a description of the nature of the data used in the internal model and an explanation why the data is appropriate.</td>
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<td></td>
<td>IM users tend to just claim that the data is appropriate</td>
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</table>

5. The solvency and financial condition report shall include all of the following information regarding any non-compliance with the Minimum Capital
<table>
<thead>
<tr>
<th>Requirement or significant non-compliance with the Solvency Capital Requirement of the insurance or reinsurance undertaking:</th>
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<tbody>
<tr>
<td>(a) regarding any non-compliance with that undertaking's Minimum Capital Requirement: the period and maximum amount of each non-compliance during the reporting period, an explanation of its origin and consequences, any remedial measures taken, as provided for under Article 51(1)(e)(v) of Directive 2009/138/EC and an explanation of the effects of such remedial measures;</td>
</tr>
<tr>
<td>(b) where non-compliance with the undertaking's Minimum Capital Requirement has not been subsequently resolved: the amount of the non-compliance at the reporting date;</td>
</tr>
<tr>
<td>(c) regarding any significant non-compliance with the undertaking's Solvency Capital Requirement during the reporting period: the period and maximum amount of each significant non-compliance and, in addition to the explanation of its origin and consequences as well as any remedial measures taken, as provided for under Article 51(1)(e)(v) of Directive 2009/138/EC and an explanation of the effects of such remedial measures;</td>
</tr>
<tr>
<td>To be considered: regarding any significant non-compliance with the undertaking's Solvency Capital Requirement during the reporting period: the period and maximum amount of each significant non-compliance with a solvency ratio below x % and, in addition to the explanation of its origin and consequences as well as any remedial measures taken, as provided for under Article 51(1)(e)(v) of Directive 2009/138/EC and an explanation of the effects of such</td>
</tr>
<tr>
<td>It is likely that a non-resolution at the reporting date has already forced the NCA to take ultimate action.</td>
</tr>
<tr>
<td>For convergence reasons clarification when a non-compliance with the SCR is considered to be significant.</td>
</tr>
</tbody>
</table>
(d) where a significant non-compliance with the undertaking's Solvency Capital Requirement has not been subsequently resolved: the amount of the non-compliance at the reporting date.

6. The solvency and financial condition report shall include in a separate section any other material information regarding the capital management of the insurance or reinsurance undertaking.

**Art. 359 Structure and contents**

<table>
<thead>
<tr>
<th>Articles 290 to 298 of this Regulation shall apply to the group solvency and financial condition report which participating insurance and reinsurance undertakings, insurance holding companies or mixed financial holding companies are required to disclose publicly. In addition, the group solvency and financial condition report shall include all of the following information:</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a) regarding the group's business and performance:</td>
</tr>
<tr>
<td>(I) a description of the legal structure and the governance and organisational structure of the group, with a description of all subsidiaries, material related undertakings within the meaning of Article 256a of Directive 2009/138/EC and significant branches within the meaning of Article 354(1) of this Regulation;</td>
</tr>
<tr>
<td>(ii) qualitative and quantitative information on relevant operations and transactions within the group;</td>
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<tr>
<td>(b) regarding the group's system of governance:</td>
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<tr>
<td>(i) a description of how the risk management and internal control systems and reporting procedures are implemented consistently in all the undertakings within the scope of Removal to RSR to be considered. The outcome of on-going Peer Review on the RSR and future potential proposals on This is information that mostly only relevant for the supervisor</td>
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<td>(d)</td>
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<tr>
<td>(e)</td>
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<tr>
<td>(i)</td>
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</tbody>
</table>
as referred to in Articles 230 and 233 of Directive 2009/138/EC, is used to calculate the group solvency and where a combination of method 1 and 2 is used for which related undertakings method 2 is used;

(ii) qualitative and quantitative information on any significant restriction to the fungibility and transferability of own funds eligible for covering the group Solvency Capital Requirement;

(iii) where method 1 is used to calculate the group solvency, the amount of the consolidated group Solvency Capital Requirement, with separate indication of the amounts referred to in Article 336 of this Regulation;

(iv) qualitative and quantitative information on the material sources of group diversification effects;

(v) where applicable, the sum of amounts referred to in points (a) and (b) of the second subparagraph of Article 230(2) of Directive 2009/138/EC;

(vi) where applicable, a description of the undertakings which are in the scope of any internal model used to calculate the group Solvency Capital Requirement;

(vii) a description of the main differences, if any, between any internal model used at individual undertaking level and any internal model used to calculate the group Solvency Capital Requirement.