



Annual Report 2006
and Work Programme 2007



CEIOPS

Committee of European
Insurance and Occupational
Pensions Supervisors

▶ 1.0.0.	FOREWORD BY THE CHAIRMAN	02
▶ 2.0.0.	MESSAGE FROM THE SECRETARY GENERAL	04
▶ 3.0.0.	INSTITUTIONAL AND OPERATIONAL ORGANIZATION	06
3.1.0.	Institutional Bodies	06
3.2.0.	CEIOPS' Operational Organization	11
▶ 4.0.0.	ACCOUNTABILITY, CONSULTATION AND TRANSPARENCY	16
4.1.0.	CEIOPS' Public Consultations	16
4.2.0.	CEIOPS' Consultative Panel	19
4.3.0.	Self-Assessment	20
4.4.0.	CEIOPS' Public Hearings	21
4.5.0.	CEIOPS' Conference	21
4.6.0.	CEIOPS' Website	22
4.7.0.	Political Events	22
4.8.0.	Informal Dialogues	23
▶ 5.0.0.	DEVELOPING SUPERVISORY TOOLS	24
5.1.0.	Fostering a European Supervisory Culture	26
5.2.0.	The Solvency II Project	27
5.3.0.	Supervision of Insurance Groups	27
5.4.0.	Supervision of Occupational Pension Funds	28
5.5.0.	Supervision of Insurance Intermediaries	28
5.6.0.	Challenges to Greater Convergence	29
▶ 6.0.0.	CEIOPS' ACTIVITIES	30
6.1.0.	Contribution to EU Legislation	30
6.1.1.	The Solvency II Project	30
6.1.2.	Other advice or recommendations to the European Commission	46
6.2.0.	Convergence and Coordination of Supervisory Practices	46
6.2.1.	Occupational Pensions	47
6.2.2.	Insurance Groups Supervision	49
6.2.3.	Insurance Mediation	52
6.2.4.	Accounting	54
6.2.5.	Financial Stability	55
6.2.6.	Task Force on Convergence and Impact Assessment	57
6.3.0.	Cross sector cooperation on convergence	60
6.3.1.	Supervisory convergence across sectors	60
6.3.2.	3L3 Work Programme 2007	64
6.3.3.	Use of 3L3 Definitions - 'Standards', 'Guidelines', 'Recommendations'	68
6.4.0.	The International Environment - Cooperation with Third Countries	69
6.4.1.	Cooperation with Swiss Supervisory Authority	69
6.4.2.	Cooperation with US Supervisory Authorities	70
6.4.3.	Cooperation with Chinese supervisory authorities	71
▶ 7.0.0.	CEIOPS WORK PROGRAMME 2007	72
8.0.0.	ANNEXES	82
8.1.0.	List of Members and Observers	82
8.2.0.	CEIOPS' Role in the Lamfalussy Procedure	85
8.3.0.	Financial Statements	86
8.4.0.	Abbreviations and Terms Used	88



As CEIOPS' new Chair, I am very pleased to present its third Annual Report.

2006 has been a year of extraordinary development for CEIOPS. There have been many achievements. They are detailed in the Report. I would like to use this Foreword to focus on CEIOPS going forward in 2007 and beyond. I identify key themes as our basis.

We fully recognize that CEIOPS operates in markets of increasingly high public expectations. Considerable resources have already been devoted to raising our standards to meet them. This applies both operationally and to our products. We have now set priorities for the coming years, to build on our strong start.

In terms of production and profile, CEIOPS plans to concentrate on the main content and substance of supervision. Solvency II, the proposed new EU prudential insurance regulatory framework, has dominated us. We intend to streamline the work. It is proposed to start our main advice at Level 2 in the Lamfalussy model as soon as possible, to be finalized till the end of 2008. The first of our standards and guidelines at Level 3 will also be framed as soon as possible.

CEIOPS' other work plans include significant new tasks. We will increase our attention to the supervision of pension products. Advice to the European Commission will be initiated in the context of the revision of the Directive on Insurance Intermediation. In this we will adopt the approach of better supervision by better regulation. CEIOPS will continue discussions on basic aspects of consumer protection, such as market conduct, treatment of complaints and possible gaps in existing guarantee schemes.

As regards people and processes, a top CEIOPS priority remains to enhance convergence between all its Members. Specifics are planned to include standardized procedures between solo and group lead supervisors, data-sharing between Members and transparency of supervisory actions, intensified sectoral training on a cross-sectoral platform, and to find practical solutions for crisis prevention and management. We will work closely with our sister Level 3 Committees CEBS and CESR on joint planning and consistencies across sectors, where possible.

Our aspirations are restricted by natural limits on Level 3 within the Lamfalussy model. CEIOPS has identified major hurdles. It is keen to see how those could be addressed, including European mandates for quick convergence processes and milestones, majority voting principles for Members, and workable mediation processes between Members.

Finally we wish to extend our communications, in the broadest sense. International policy matters will feature more in CEIOPS' Meetings. Solvency II technical progress will be carried by us to interested parties beyond Europe. Industry involvement in our activities is to be greater encouraged. Our relationships with EU political institutions, including the European Parliament, are to become more extensive. And consumer associations need to be approached on collective consumer protection.

Such an agenda presents serious challenges. Some of our deliveries may fall short of ideal targets, despite maximum effort. As Chair, after Vice-Chair since CEIOPS' formation, I am a confident realist. I am proud to follow the excellent example set by our immediate past Chair, Henrik Bjerre-Nielsen, to whom CEIOPS is enormously indebted. My colleagues in the Managing Board and I look forward to enjoying the new prospects in CEIOPS' future, and working to make them succeed.

Frankfurt, May 2007

Thomas Steffen



As the centre of CEIOPS' operation, the Secretariat has a broad view of the Committee's many aspects. We see CEIOPS' more obvious features, such as its major work-streams, their players and results. We also know of the problems and setbacks. The proper handling and processing of CEIOPS' issues always involves the Secretariat at some stage. A realistic Secretariat must expect the complete range, and be ready to deal with it.

The year has seen a wide variety. We have moved between finishing products and helping to plan new ones. In addition to welcome outcomes, CEIOPS has had some lively debates yet to be resolved, and difficult compromises to reach. The Secretariat provides permanent support, whatever CEIOPS' current direction. It also offers guidance where appropriate and is always available to help with individual requests. We have carried out all functions this year.

The Secretariat likes to regard itself as completely interactive with our Members. I am always conscious that it is they who create and lift CEIOPS' output. Members' support for us and each other is invaluable. It sets a solid foundation for the development of enhanced cooperation. I welcome the prospect of CEIOPS increasing its achievement in this area, with such spirit to build on.

It all makes for a busy office life. I do not recall an unoccupied moment for staff. By the time we increased last year from four to seven, plus myself, the pressure had become unmanageable. It then eased, but still left us short of giving the level of service CEIOPS deserved. This year we have become ten in all, so far. Our new staff additions are most welcome. The team's dedication and sustained effort are deeply appreciated. Our one departure is missed, but congratulated on a promising move.

The new Secretariat office at the Westhafen Tower in central Frankfurt, is already contributing its improved facilities. We are grateful to the Frankfurt City Authorities for their ongoing support. We have been truly indebted to the German Supervisory Authority, for hosting us from CEIOPS' beginning till our move in December 2006.

CEIOPS' innovations in 2005 became larger and more sophisticated in 2006. CEIOPS' public events were even more notable for their high quality. They have been featured on an enhanced CEIOPS website, along with increased information and documents on CEIOPS and its many activities. Both have been greatly improved to accommodate the needs of Members and the public.

From a Secretariat perspective, our Committee activities are also more efficient. We are better placed to support them. They become more productive. CEIOPS' transparency and its relations with others can be conducted more thoroughly. One result has been that CEIOPS' products themselves have been considered better.

These were among the many benefits helped by having a strengthened Secretariat. I am aware of shortfalls. Whether there has been a misunderstanding in some detail, or a price paid for limitations on time, the Secretariat is usually the first to know. It is part of our job to try and rectify the problem where possible. We will continue to make every effort towards CEIOPS' continued development, and to minimize difficulties. Our website, created from scratch, has reached a point where more user-friendly tools on it are needed. Our procedures have developed rapidly. They would benefit by logical revision, for example in the preparation for our Expert Groups and other Meetings. Our communications policy is ripe for change. Above all, a fully strengthened Secretariat remains a priority. Only then can we deliver the service levels deserved by the Members and our valued external contacts.

The Secretariat is completely open to feedback and any suggestions for improvement. I hope we will engage even more with interested parties in the coming year. I look forward to CEIOPS in 2007, and beyond.

Frankfurt, May 2007

A handwritten signature in white ink on a dark blue background. The signature is cursive and appears to read 'Alberto Corinti'.

Alberto Corinti



INSTITUTIONAL BODIES



Westhafen-Tower,
the new location of CEIOPS

CEIOPS' internal legal framework has remained largely unchanged. Its founding documents and constitution maintain its identity as a German-registered private non-profit organization, based in Frankfurt am Main. The move of offices to new independent central premises in December 2006 confirmed CEIOPS' permanent presence in this easily-reached European location.

CEIOPS continues to be governed by the Managing Board and the Members' Meeting.

Following the increase of Managing Board members after the accession of the 10 new member States in 2005, Jurij Gorisek (Slovenia) was elected in April 2006 as a sixth Board member. All members of the Board continued in office throughout 2006. They have led CEIOPS through a remarkable period of growth and achievement. They are to be congratulated, thanked and wished every future success. In 2006, the Managing Board met 9 times.

The Chair from CEIOPS' beginning, Henrik Bjerre-Nielsen, declared his departure from CEIOPS in late 2006. His resignation was accepted at the March 2007 Members' Meeting, where Thomas Steffen (BaFin, Germany), CEIOPS' former Vice-Chair, was elected as his successor. In this Meeting John Tiner (FSA, UK), former member of the Board, was elected Vice-Chair, and Csaba Varga (PSZAF, Hungary) elected as member of the Board, thus increasing the presence of the new Member States on the Board to one third.

Members' Meetings 2006

The required legal minimum for CEIOPS of three ordinary Members' Meetings annually, was exceeded again in 2006. There were two extraordinary Meetings to accommodate the heavy variety and content of required discussions, documents and decisions. The Meetings' combined time was still insufficient to process properly all CEIOPS' requirements. Additional CEIOPS business was dealt with through written procedures by Members, where appropriate.

There have been changes in CEIOPS' Member Authorities. With the accession of Romania and Bulgaria to the European Union as of 1 January 2007, the Bulgarian Financial Supervision Commission, the Romanian Insurance Supervisory Commission and the Romanian Private Pension System Supervisory Commission as the supervisory authorities competent in the fields of insurance and/or occupational pensions, submitted their application for membership. They have become official members of CEIOPS, after having participated in CEIOPS' work in the past year as active and very welcome observers. CEIOPS' membership has also changed to reflect legal developments in some of the EU Member States.⁰¹

CEIOPS Members' Meetings 2006:

Frankfurt/Kronberg, 22 February 2006

The QIS1 summary report was approved. At the same time a first discussion of the draft QIS2 specifications took place.

A Protocol on cooperation and information exchange in the field of occupational pensions ("Budapest Protocol") was approved after accommodating stakeholders' suggestions received in a public consultation.

A "workplan on supervisory convergence" entailing a number of concrete projects for CEIOPS in order to enhance convergence in supervisory practices was defined.

A Model MoU with the US for the cooperation in the field of insurance group supervision was endorsed.

Pending a legal decision by the European Commission, Members agreed that the Interim Working Committee on Financial Conglomerates (IWCF) should start working in a pragmatic and informal way regarding the supervision of financial conglomerates.

Frankfurt, 25/26 April 2006

The answers on the third wave of Calls for Advice on Solvency II were approved for submission to the European Commission. In addition, CEIOPS on its own initiative made recommendations to the Commission regarding Independence and Accountability. This was complemented by advice on the Treatment of Deeply Subordinated Debt. The technical specifications for the second Quantitative Impact Study (QIS2) were endorsed.

The Protocol on cooperation and information exchange in the field of insurance mediation ("Luxembourg Protocol") was endorsed.

The March 2006 'Report on Financial Conditions and Financial Stability in the European Insurance and Occupational Pension Fund Sector 2004-2005 - Risk Update' was approved, for the first time including data on the pension funds sector.



Members' Meeting October 2006 in Budapest

Frankfurt/Kloster Eberbach, 29 June 2006

Draft advice to the Commission on insurance undertakings' internal risk assessment requirements, supervisors' evaluation procedures and harmonised supervisors' powers and tools including capital add-ons (CP 13) as well as on sub-group supervision, diversification effects, groups with third country connections and issues related to MCR and SCR in a group context (CP 14) was approved for public consultation.

Budapest, 25/26 October 2006

CEIOPS' advice on insurance undertakings' internal risk assessment requirements, supervisors' evaluation procedures and harmonised supervisors' powers and tools, including capital add-ons (former CP 13) and on diversification effects on SCR, sub-group supervision, cooperation with third countries, and issues related to MCR and SCR in a group context (former CP 14) were approved for submission to the European Commission.

In addition, advice on 'further Pillar I issues' (CP 20), leaving to one side some still controversial issues, was approved for consultation. Furthermore, a Paper on Pillar II issues relevant for reinsurance, a Paper on safety measures (limits on assets), a paper on Pillar II add-on, and another one on supervisory powers, were approved for public consultation. Finally, a Consultation Paper on principles of supervisory reporting and public disclosure was approved, to complete the series of advice for the Commission's proposal for a Framework Directive on Solvency II (published as CP 15-19).

The QIS2 Summary Report was approved.

A draft report on the impact of Solvency II on supervisors was discussed and approved by written procedure following the Meeting, to be submitted to the European Commission as a contribution to its impact assessment accompanying the Framework Directive.

Brussels, 8 December 2006

The Pillar I issues left to one side in the Consultation Paper published following the October Members' Meeting, were approved to be submitted for public consultation as a "Supplement to Consultation Paper 20".

An Explanatory Note on the Role of the "Lead Supervisor" under the Helsinki Protocol was approved, to clarify the role of this position and thus facilitate the appointment of lead supervisors in practice.

The draft CEIOPS Work Programme 2007 and the draft 3L3 Work Programme were presented for discussion, to be approved by written procedure following the Meeting.

Consultative Panel

CEIOPS' work is supported by its Consultative Panel. The Panel reviews CEIOPS' Work Programme and CEIOPS' participation in the 3L3 Work Programme. The Panel also comments on CEIOPS' policymaking process. It gives guidance on important documents. Finally it convenes together with CEIOPS representatives, to give any further guidance sought of it. CEIOPS' Consultative Panel therefore provides valuable oversight, discernment and constructive comment, at important stages of CEIOPS' progress.



Consultative Panel meeting in Frankfurt
January 2007

Composition of Consultative Panel

Yanick Bonnet	ACME (Association of European Cooperative and Mutual Insurers)	FR
Asmo Kalpala	AISAM (International Association of Mutual Insurance Companies)	FI
Mick McAteer	BEUC (Bureau Européen des Unions de Consommateurs, The European Consumers' Organisation)	IE
Paul Carty	BIPAR (Bureau International des Producteurs d'Assurances et de Réassurances, The European Federation of Insurance Intermediaries)	IE
Gérard de la Martinière	CEA (Comité Européen des Assurances, The European Insurance and Reinsurance Federation)	FR
Dario Focarelli	CEA (Comité Européen des Assurances, The European Insurance and Reinsurance Federation)	IT
Rolf-Peter Hoenen	CEA (Comité Européen des Assurances, The European Insurance and Reinsurance Federation)	DE
Jaap Maassen	EFRP (European Federation for Retirement Provision)	NL
Penelope Green	EFRP (European Federation for Retirement Provision)	UK
Henri Lourdelle	ETUC (European Trade Union Confederation)	FR
Gerd Geib	FEE (Fédération Européenne des Experts Comptables, The European Federation of Accountants)	DE
Rolf Stölting	GCAE (Groupe Consultatif Actuariel Européen)	DE
Judit Zolnay	Stabilitas Pension Funds Association	HU
Jean-François Engels	UEAPME (Union Européenne de l'Artisanat et des Petites et Moyennes Entreprises, European Union of Artisans - Small and Medium Business)	LU
Jim Stephens	UNICE (Union des Industries de la Communauté Européenne, Union of Industrial and Employers' Confederations of Europe)	UK
Ewa Tomaszewska	UNFE (Association of the Capital Market)	PL



Consultative Panel Meetings 2006

Frankfurt, 11 January 2006

The meeting started with two presentations held by CEIOPS stakeholders' associations: first, the CEA and CRO presentation on the Solvency II project and secondly, the European Federation for Retirement Provision's presentation on the implementation of the IORP Directive.

The Charter of the Panel was amended in order to improve its efficiency and its capability to support and steer CEIOPS' work. The Panel is now to meet at least 3 times per year and ad hoc task forces on specific issues can be established. In addition, chairmanship of the Panel by one of its members was considered appropriate.

Finally, the Panel discussed, and commented on, CEIOPS' Work Programme 2006.

Frankfurt, 11 May 2006

Gerard de la Martinière was appointed as first Chair of CEIOPS Consultative Panel, which met in its new composition.

The "EU Financial Services Committee's report on financial supervision" (Francq Report) was presented, in order to assess whether CEIOPS' current Work Programme adequately addressed the Francq Reports' recommendations and to discuss how to shape CEIOPS' future activity in the light of the recommendations and practical measures highlighted in the report.

CEIOPS' new task force, COMPASS, presented its work plan and main aim to the Panel, which is to facilitate the creation of a European culture of supervision, by addressing for example the exchange of staff between supervisory authorities and the organization of EU-wide training schemes.

Both CEIOPS' Insurance Groups Supervision Committee and Occupational Pensions Committees presented their respective future work plans.

The members of the Panel were finally asked to give preliminary input, comments or suggestions, to the proposed procedure for identifying inconsistencies and overlaps in reporting requirements arising from sectoral provisions, as outlined in a joint Note prepared by the Secretariats of the 3L3 Committees⁰².

Frankfurt, 7 September 2006

The meeting was mainly dedicated to the latest developments of the Solvency II project. CEIOPS presented the main aspects of its Work Plan 2006-2008, which had been developed on the basis of the Solvency II Roadmap of the European Commission. Pillar II issues, including CEIOPS' Con-

sultation Paper 13 covering principles and measures of Pillar II aspects relevant to the preparation of the Framework Directive, and the impact of the Solvency II project on supervisors, were discussed.

Finally, the European Commission gave a presentation on its White Paper on Financial Services Strategy 2005-2010 and CEA expanded briefly on its document "Contribution of the Insurance Sector to Economic Growth and Employment in the EU".

CEIOPS' OPERATIONAL ORGANIZATION

The detailed thinking and proposals leading to decisions by CEIOPS' Managing Board and Members' Meetings, are carried out by CEIOPS' Permanent Committees and Expert Groups. They comprise delegates from supervisory authorities who are experienced in the particular tasks. The Working Groups have expanded their activities since being formed, with the benefit of that experience. Their output in 2006 was unprecedented.

Organisationally, the Committees and Groups remained broadly the same as last year. Their current and future planned work is regularly updated and published⁰³.

The Solvency II project continued to be shared across CEIOPS' four dedicated Expert Groups – Pillar I, Pillar II, Pillar III/Accounting and Group/Cross-Sectoral Issues. CEIOPS' Financial Stability Committee extended its design and conduct of the Quantitative Impact Studies (QIS) exercises, to completion of the second QIS and framing of the third, all in addition to its normal macroeconomic reviews and reports. The complexity of the project has required greater-than-ever coordination between the Working Groups, also between them and external parties.

CEIOPS' other Committees and Expert Group fulfilled their ambitious work plans during 2006. They are the Occupational Pensions Committee, the Insurance Groups Supervision Committee and the Insurance Mediation Expert Group.

Last year's new cross-sectoral Working Committee, which was established jointly by the Level 3 Committees, the Interim Working Committee on Financial Conglomerates, became fully operational. It started a busy work programme and delivered its first results⁰⁴.

In addition, two Task Forces were established in 2006 to further the cooperation of supervisory authorities and convergence of supervisory practices:

⁰² See chapter 6.3.1.B.

⁰³ See website under About CEIOPS – Work in Progress – CEIOPS Working Groups' Regular Reporting.

⁰⁴ See chapter 6.3.1.A.



First, a Task Force (COMPASS) was established in February 2006 to investigate the possibilities of establishing European training initiatives and the exchange of staff. This was transformed into a permanent Committee with larger scope and Members' participation, and accordingly renamed 'Convergence Committee'.

Secondly, the Members' Meeting of 8 December 2006 decided to review the Protocol relating to the collaboration of the supervisory authorities of the Member States of the European Community in particular in the application of the Directives on life assurance and non-life insurance ("Siena Protocol"). For this purpose, another Task Force was created⁰⁵.



Working Group meeting in Frankfurt

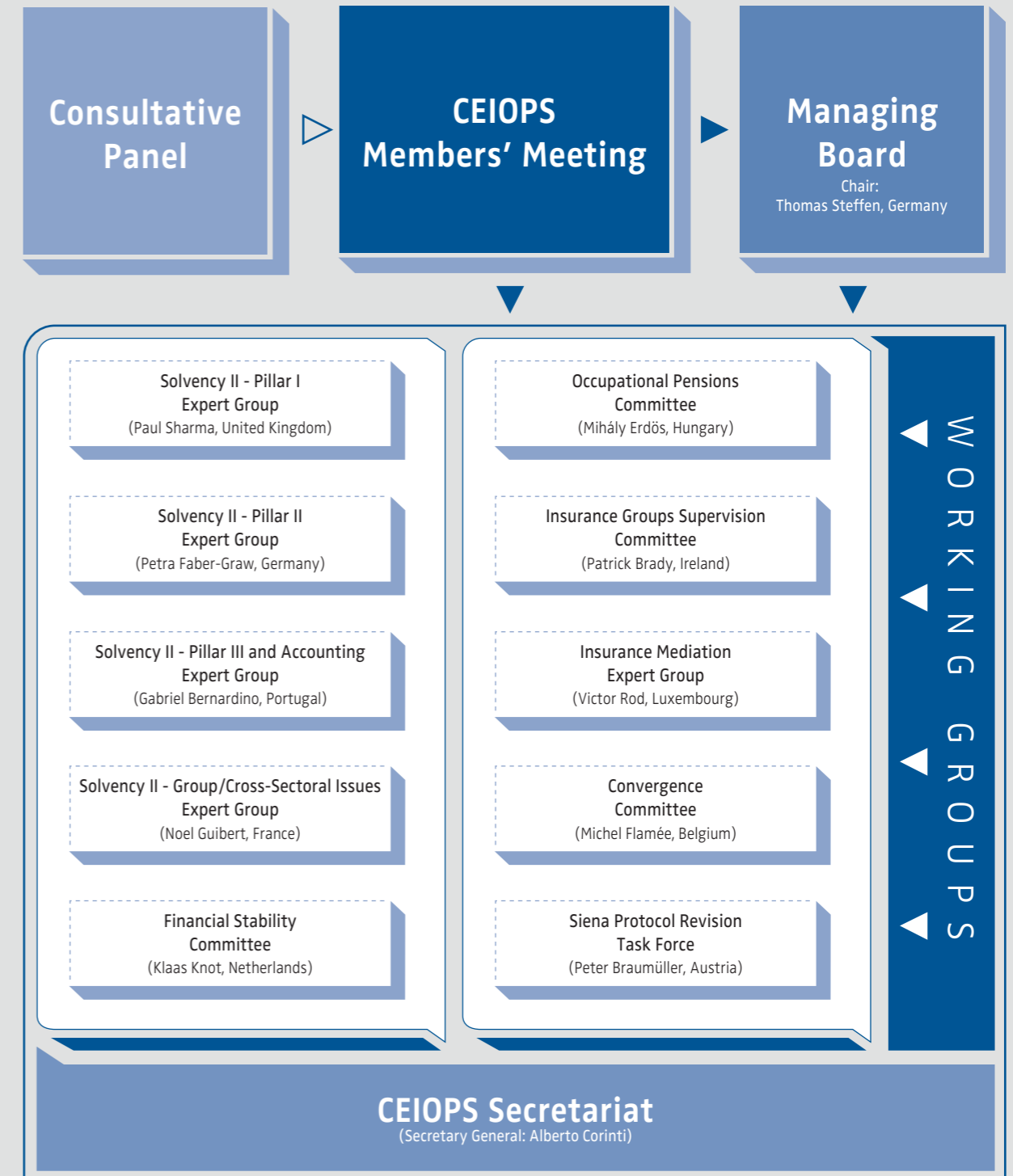
Working Group meetings 2006

CEIOPS Working Groups

Solvency II Pillar I Expert Group	8
Solvency II Pillar II Expert Group	9
Solvency II Pillar III and Accounting Expert Group	6
Solvency II Group/Cross-Sectoral Issues Expert Group	6
Financial Stability Committee	5
QIS Task Force	4
Occupational Pensions Committee	5
Insurance Groups Supervision Committee	4
Insurance Mediation Expert Group	3
Compass (Convergence and Impact Assessment TF)	4

3L3 Working Groups

Interim Working Committee on Financial Conglomerates (IWFCF) ⁰⁶	3
Joint Task Force on Capital ⁰⁷	4
Third Country Supervision Working Group ⁰⁸	1



As of March 2007

⁰⁵ Task Force on the Revision of the Siena Protocol. For more details see chapter 5.1.0.

⁰⁶ This is a Committee with both Members of CEIOPS and CEBS. CESR is an observer.

⁰⁷ This is a joint Task Force of CEIOPS and CEBS comparing the eligible elements of capital in the two sectors.

⁰⁸ This is a joint Working Group of the IWFCF and CEBS' Groupe de Contact. CEIOPS participates through its membership in the IWFCF. The task of this group is to assess the equivalence of the supervision of banking groups and financial conglomerates in the US and in Switzerland.



Support for all CEIOPS' activities and provision of its permanent presence and operational centre, come from the Secretariat. The Secretariat's services include assistance to CEIOPS' Chair and Managing Board, organizational and logistical help to the Committees, Expert Groups and Task Forces, and individual CEIOPS Members, liaison within CEIOPS and with external parties, representation of CEIOPS at important events, and one-off needs as they arise. In addition the Secretariat is responsible for producing and documenting certain work-streams, not only for CEIOPS but as CEIOPS' contribution to joint activities with CEBS and CESR.

Three new staff members joined the Secretariat since last year's Annual Report, seconded by CEIOPS Members. They brought welcome relief to the existing understaffed complement. One existing staff member left at the end of the year, leaving a further vacancy. New central Frankfurt premises presented, for the first time in CEIOPS' existence, opportunities for the Secretariat to hold CEIOPS' meetings and to facilitate mutual collaboration at every level. The first-class facilities are an additional much-appreciated showcase for CEIOPS.



Secretariat staff

(from left to right: standing: Alberto Corinti, Nadine Berger, Federica Cameli, Neil Alton, Sandra Desson, Pamela Schuermans; sitting: Gerlinde Taurer, Tanja Leimbach, Catherine Coucke, Teresa Turner)

Currently, the Team consists of ten staff members. A list of main responsibilities is held available and kept updated on the website; they are necessarily changing with the development of work loads and available resources⁰⁹.

The Team

Alberto Corinti, seconded by ISVAP, Italy, has been Secretary General since the Committee's beginning mid-2004, and was reappointed in his position for another 3 years.

Gerlinde Taurer has been seconded by the FMA, Austria, since September 2004. She was appointed Deputy Secretary General in March 2007.

Ines Alpert joined the Secretariat in early 2005 as a secondee from BaFin, Germany, and left the Secretariat at the end of 2006.

Catherine Coucke (Belgium) was employed by CEIOPS in April 2005.

Neil Alton joined the Secretariat in September 2005 as a secondee from the FSA, UK.

Sandra Desson was seconded to the Secretariat also in September 2005, by the DNB, Netherlands.

Federica Cameli was seconded to the Secretariat by COVIP, Italy, as of January 2007.

Pamela Schuermans, a secondee from CBFA, Belgium, also joined the Secretariat in January 2007.

Teresa Turner was the most recent staff member to join the Secretariat so far. She has been seconded from The Pensions Regulator, UK, as of March 2007.

The team is supported by 2 Assistants:

Nadine Berger was seconded to CEIOPS by BaFin, Germany, in February 2005.

Tanja Leimbach (Germany) was employed in February 2006 and acts also as Private Assistant to the Secretary General.



ACCOUNTABILITY, CONSULTATION AND TRANSPARENCY

CEIOPS' approaches to accountability, consultation and transparency are now well-known. They are prescribed by CEIOPS' founding texts and published Public Statement of Consultation Practices¹⁰. CEIOPS puts them into practice at every opportunity. The increased use of its openness and accessibility procedures in 2006 greatly encouraged CEIOPS to benefit from these exchanges. As some of CEIOPS' projects reach milestones and others are announced, wider public recognition has naturally followed. CEIOPS' accountability not only acts as a valued incentive. It is also a discipline. Consultation is part of a formative process, for both CEIOPS' own organization and its work. Transparency for CEIOPS means that its information has to be as available as possible, at all levels. The resulting dialogues have shaped CEIOPS with every stage.

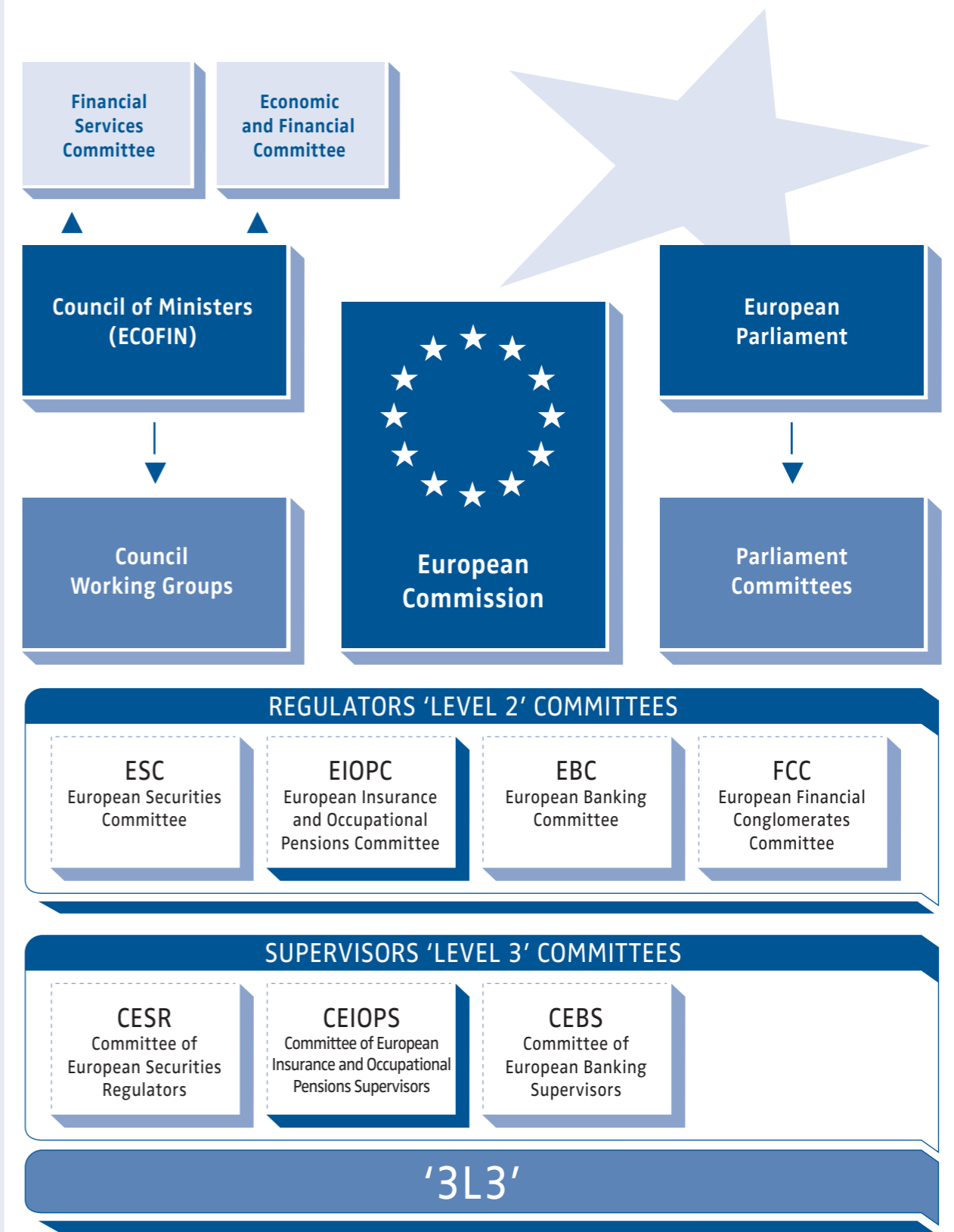
Therefore CEIOPS devotes great effort towards fulfilling these objectives. It finds that its standards increase with each process and feedback. All participants are strongly urged to communicate with CEIOPS. There are a variety of means. Some of the more obvious are listed below.

4.1.0. CEIOPS' Public Consultations

The process for public consultation is a familiar part of most regulatory and supervisory functions. It is recognized at political level to be a core element for the Level 3 Committees.

CEIOPS tries to handle public consultation to allow for proper creation of the resulting invaluable input and its being taken into account by CEIOPS, while meeting the strict limits of inescapable deadlines.

If the three months deadline for public consultations cannot be maintained, due to external factors such as the European Commission's tight time schedule for its proposal of a Framework Directive on Solvency II, CEIOPS is committed to give stakeholders other possibilities to voice their opinions, for example through the organisation of Public Hearings. The task has not been easy this year. CEIOPS owes much to those who comment in response to consultations. They respond in comprehensive but manageable ways. Written comments are published unless confidentiality is stipulated¹¹. CEIOPS' experts formulating CEIOPS' reactions are also to be acknowledged. Their efforts, against similar tight timing, are what make CEIOPS' products as reflective of public comment as they are. All are thanked for their trouble.



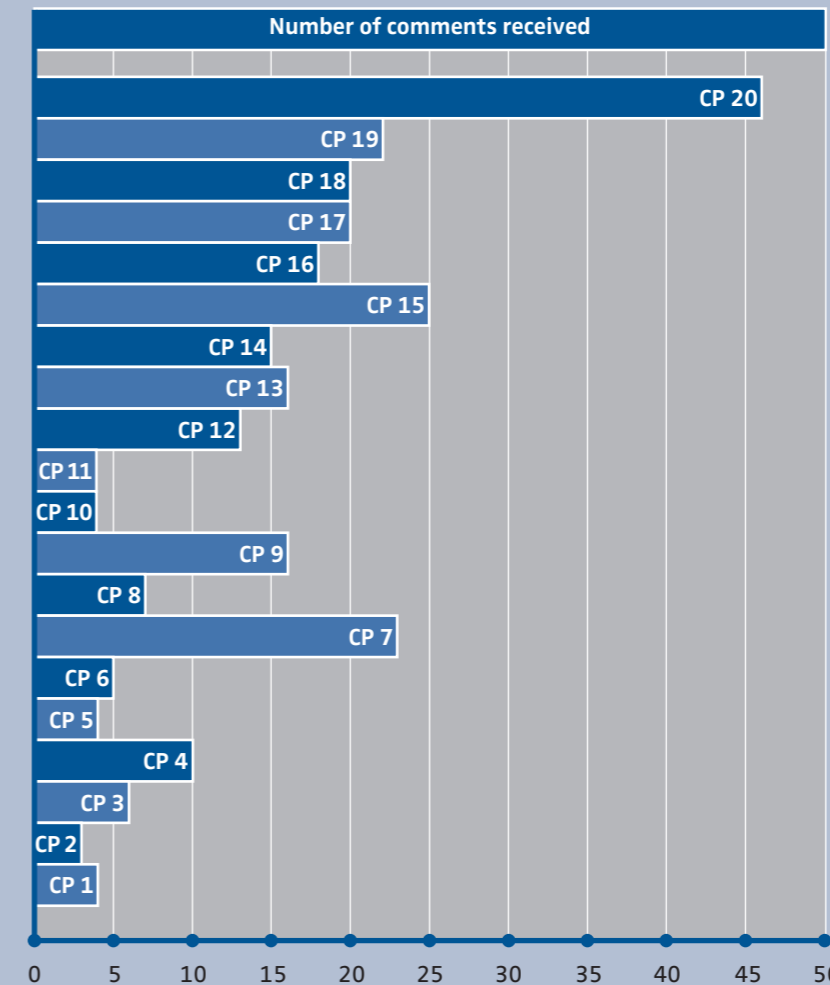
¹⁰ Public Statement of Consultation Practices (CEIOPS-DOC-01/05), February 2005, see website under Consultations – Policy.
¹¹ See website under Consultations – Consultation Papers.



In the reporting period the following documents were published for consultation:

CP No	Title	End of Public Consultation	Consultation period	Publication of final document	Document Number
CP 9	Answers to the European Commission on the third wave of Calls for Advice in the framework of the Solvency II project	9 February 2006	2 months	May 2006	CEIOPS-DOC-03/06
CP 10	Developing CEIOPS' Medium-Term Work Programme	10 February 2006	3 months	The input received from stakeholders in this consultation has been used as input to CEIOPS' further work.	
CP 11	Recommendation on Independence and Accountability	9 February 2006	2 months	May 2006	CEIOPS-DOC-04/06
CP 12	Advice to the European Commission on the treatment of 'deeply subordinated debt'	9 February 2006	2 months	May 2006	CEIOPS-DOC-01/06
CP 13	Advice to the European Commission in the framework of the Solvency II project on insurance undertakings' Internal Risk and Capital Assessment requirements, supervisors' evaluation procedures and harmonised supervisors' powers and tools	12 September 2006	2 months and one week	November 2006	CEIOPS-DOC-06/06
CP 14	Advice to the European Commission in the framework of the Solvency II project on sub-group supervision, diversification effects, cooperation with third countries and issues related to the MCR and SCR in a group context	12 September 2006	2 months and one week	November 2006	CEIOPS-DOC-05/06
CP 15	Advice to the European Commission on Supervisory Reporting and Public Disclosure in the Framework of the Solvency II Project	12 January 2007	2 months	March 2007	CEIOPS-DOC-03/07
CP 16	Advice to the European Commission in the Framework of the Solvency II project on Pillar II issues relevant for reinsurance	12 January 2007	2 months	March 2007	CEIOPS-DOC-04/07
CP 17	Advice to the European Commission in the Framework of the Solvency II project on Pillar II capital add-ons for solo and group undertakings	12 January 2007	2 months	March 2007	CEIOPS-DOC-05/07
CP 18	Advice to the European Commission in the Framework of the Solvency II project on Supervisory powers – further advice -	12 January 2007	2 months	March 2007	CEIOPS-DOC-06/07
CP 19	Advice to the European Commission in the Framework of the Solvency II Project on Safety Measures (Limits on Assets)	12 January 2007	2 months	March 2007	CEIOPS-DOC-07/07
CP 20	Advice to the European Commission in the Framework of the Solvency II project on Pillar I issues – further advice	19 January 2007	2 months, extended by a week with publication of Supplement to CP	March 2007	CEIOPS-DOC-08/07

Feedback received from stakeholders in public consultations from CEIOPS' beginning:



- CP 20 Pillar I Issues – Further Advice
- CP 19 Safety Measures (Limits on Assets)
- CP 18 Supervisory Powers – Further Advice
- CP 17 Pillar II Capital Add-Ons
- CP 16 Pillar II Issues Relevant for Reinsurance
- CP 15 Supervisory Reporting and Public Disclosure
- CP 14 Sub-group supervision
- CP 13 Internal Risk and Capital Assessment Requirements
- CP 12 Treatment of Deeply Subordinated Debt
- CP 11 Independence and Accountability
- CP 10 Developing CEIOPS' Medium-Term WP
- CP 9 Answers to Third Wave of CfA on Solvency II
- CP 8 Insurance Mediation Protocol
- CP 7 Answers to Second Wave of CfA on Solvency II
- CP 6 Recommendation on Amendments to the IGD
- CP 5 Occupational Pensions Protocol
- CP 4 Answers to first wave of CfA on Solvency II
- CP 3 Implication of the Introduction of IAS/IFRS
- CP 2 Guidelines for Coordination Committees
- CP 1 Public Statement of Consultation Practices

4.2.0. CEIOPS' Consultative Panel

CEIOPS is fortunate to have retained its **Consultative Panel** membership and function, and to have benefited from some organizational improvements¹². Leading representatives of their sectors have made themselves available for meetings and written communications. Discussions have been open and frank, as to be expected. Their experienced comments, questions and suggestions have stayed a major influence on CEIOPS' progress. The conclusions of the Panel's meetings and the presentations held during those meetings are published on the website¹³.

¹² See chapter 3.1.0.

¹³ See website under Consultations – Consultative Panel.



4.3.0. Self-Assessment

As part of CEIOPS' ongoing self-examination of its accountability, consultation and transparency, it designed and conducted a **'self-assessment'** questionnaire. Titled 'CEIOPS' Performance Assessment Questionnaire', its purpose was to obtain views from all interested parties on various aspects of CEIOPS' performance. The questionnaire was published on the website in March 2007, after helpful suggestions by CEIOPS' Consultative Panel¹⁴.

The questionnaire had two similar formats. One was for the benefit of any interested parties. The other was for CEIOPS' Members and Observers. Separate responses were sought for insurance undertakings and for pension funds.

The exercise was prompted by the 2007 stage of the European Union's review of the Lamfalussy model. The EU's Inter-Institutional Monitoring Group in particular, has been assessing the functioning of the Lamfalussy approach, and in this context, the activity of the three Level 3 Committees. In common with CEBS and CESR, CEIOPS considered that, additional to their reports to EU political institutions and to the review, answers to a questionnaire would inform an evidence-backed specific further input.

The responses are currently being collated. They include some noteworthy comments for CEIOPS to take into account. Initial analysis suggests that most main priorities and their presentation by CEIOPS are rated very positively. A large majority of respondents are very satisfied with the way CEIOPS has presented and explained its general objectives and ongoing policy. Some suggested that greater effort may be needed for the benefit of the industry, and for non-expert consumers, including in communicating ongoing specific priorities.

The restraints connected with the current Solvency II workload are recognised. Pressure is thought to have cost some Consultation Papers full lucidity, conciseness and adequate consultation periods. Prioritising the Pension Funds sector and implementation of the IMD, among other matters, are recommended not to be obstructed.

CEIOPS' work on cooperation with the other Level 3 Committees, and on convergence generally, is satisfactory and valued, but could be more actively and influentially pursued.

Improvements suggested are largely well-known to CEIOPS. Those, and others less obvious, will be analysed in depth and included as input to ongoing planned development.

All responses will shape a self-assessment report by CEIOPS.

4.4.0. CEIOPS' Public Hearings

As the pace of the Solvency II project increased last year, so did the need for open discussion of its latest issues. The overall timetable for the project imposed tight deadlines for CEIOPS' Advices to the European Commission. This impacted on the written consultation periods for its Consultation Papers, which were necessarily shortened¹⁵. To compensate, two further public hearings were held during this period, in fairly quick succession, both in Frankfurt. They were well-attended, appreciated by participants and helped considerably towards a better understanding.

The first of these public hearings took place on 7 September 2006. It supplemented the procedure for written public consultation, which was due to close on 12 September 2006. The aim of this public hearing was to give all stakeholders the opportunity of direct dialogue with CEIOPS' representatives in commenting on Consultation Papers 13 and 14, as well as other outstanding topics of the Solvency II project.

The second public hearing was held on 10 January 2007, also some days before closure of the procedure for written public consultation. The publications under consideration were Consultation Papers 15 to 20, along with further current debates and contentious issues in the project.

CEIOPS took into consideration all useful input in the course of revising its drafts, as well as in developing its further work. Some discussions continued bilaterally in the days following the hearings, which CEIOPS considers also added to the events' value.

4.5.0. CEIOPS' Conference

Following the notable success of its first Conference in 2005, CEIOPS decided to organize a second Conference. Held in Frankfurt again, as part of the city's major "Euro Finance Week", it took place on 14 November 2006. The main purpose was to gather and debate views on insurance and pension supervision, across a wide forum.

The panel discussions focused on issues which were high on CEIOPS' agenda, such as the Solvency II project, the implementation of the pension funds' supervisory regime, the management and supervision of operational risk, and the enhancement of consumer protection in long-term saving business. This year about 300 participants attended, representing European institutions and organizations, as well as the financial services industry.

CEIOPS' organizing team surpassed the previous event, with a number of additional features suggested from feedback, to help formal and informal contacts. The full Programme, available speeches and written statements, are published on the website¹⁶.



Public Hearing on Solvency II in January 2007

¹⁴ See website under Consultations – Surveys & Questionnaires.

¹⁵ See Table in chapter 4.1.0.

¹⁶ See website under Press Room – Speeches and Articles.



Second CEIOPS Annual Conference
November 2006

As last year, the immediate praise and encouragement from delegates at the event has motivated CEIOPS to start arranging another Conference this calendar year. It is planned to take place on **20 November 2007**, in the same Congress Centre in Frankfurt.

As well as this premier occasion for CEIOPS, other Conferences, Seminars and Events increasingly request CEIOPS Members to speak, or just to attend and share in discussions. These range from professional and industry events, to normal leading commercial gatherings. CEIOPS is delighted to help arrange for appropriate representatives to respond, where possible. It regards all such means of communication as highly beneficial.

4.6.0. CEIOPS' Website

The website seems at times to be taking on a life of its own.

The Home page was further designed to offer visitors easy and direct access to CEIOPS' work in progress, including the regular reporting of its Working Groups, ongoing consultations and CEIOPS' latest publications.

The Home page headline News facility was enhanced, with more direct links to the relevant items mentioned. CEIOPS' announcements are now a regular feature. The Public area is indicating a steady increase in use, which corresponds to the large volume of CEIOPS' documents published for information and consultation.

The Members' area now has an extensive amount of material, generated by CEIOPS' work and by newer initiatives such as CEIOPS' own training and educational documents. CEIOPS is developing facilities for Members to communicate questions and information between themselves. There are tools being designed for exchanges and monitoring. Interactive use is growing.

The growth and popularity of the website will require review of its capacity. CEIOPS is very pleased to be in this position earlier than expected. It will continue to expand the website, in line with demand.

4.7.0. Political Events

As to be expected with CEIOPS' increased activities, its presence at political and supervisory events has expanded.

Following the EU Financial Services Committee's Report on Financial Supervision in February 2006, CEIOPS was invited to comment on it to the Economic and Financial Committee - Financial Stability Table (EFC-FST) meeting considering the Report, in March 2006. In June, CEIOPS' Chair was one of the speakers at the 25th anniversary of the European Federation for Retirement Provision, where thoughts were shared on the outlook for the regulation and supervision of occupational pensions in Europe. The following day saw the

Chair addressing the European Commission's Insurance and Pensions Unit's Public Hearing on Solvency II.

At the July meeting of the Financial Services Committee, CEIOPS summarized the work it had accomplished and the lessons drawn so far. It again spoke at an EFC-FST meeting, in September, covering CEIOPS' part of the 3L3 Report on cross-sectoral risks.

The European Parliament Committee of Inquiry into the Crisis of the "Equitable Life" Assurance Society invited CEIOPS to present its views, at a sitting in October. The Chair spoke on CEIOPS' role and responsibilities, and the positions of consumer rights and policyholder protection within them.

Also in October, CEIOPS' Vice-Chair gave an introductory speech at the first meeting of the Sino-EU Regulatory Dialogue. He expressed the pleasure of EU representatives to be there, and went on to outline possible areas of mutual interest for developing the Dialogue.

Finally in 2006, the Vice-Chair represented CEIOPS at an Inter-Institutional Monitoring Group Hearing in November. The Hearing had a number of advance question areas on the Lamfalussy process, in response to which CEIOPS' positions were described.

All speeches which were not confidential are published on the website¹⁷.

4.8.0. Informal Dialogues

Where individuals or bodies have opinions to convey relevant to CEIOPS, these do not have to remain formal. CEIOPS is constantly in spoken and written informal relationships, with many counterparties.

They take different routes. The central contact point and if appropriate, clearing house, is the Secretariat. But anyone from the Managing Board, to Working Groups and Members' representatives, can receive approaches for CEIOPS. Bilateral dealings may be held with the most suitable CEIOPS person, where known.

Suggestions for external Presentations to CEIOPS' Expert Groups and Committees are often communicated through their Chairs or members. During 2006, they included:

- ▶ by an intermediaries federation, to CEIOPS' Insurance Mediation Expert Group, on issues concerning the implementation of the Insurance Mediation Directive;
- ▶ by the European Commission, to CEIOPS' Occupational Pensions Committee, on the draft Pensions Portability Directive;
- ▶ by an insurance group, to the Insurance Groups Supervision Committee, on possibilities for improving groups supervision in the current legal framework;

¹⁷ See website under Press Room – Speeches and Articles.

- ▶ by the mutuals and cooperative insurance sector, to the Solvency II Pillar I Expert Group, on its concerns and expectations regarding Solvency II;
- ▶ by an actuaries group, to the Solvency II Group/Cross Sectoral Issues Expert Group, on input to the QIS3 technical specifications;
- ▶ by a consultancy, to the Solvency II Pillar II Expert Group, on excellence assessments for business processes, and by a ratings agency, to that Group, on its view of enterprise risk management.

Less formal meetings can usually be arranged. All are very welcome.

DEVELOPING SUPERVISORY TOOLS



Since CEIOPS' formation as a Level 3 Committee in the Lamfalussy model¹⁸, its principal role in the new financial services committees' structure was intended to be enhancing cooperation between supervisors and convergence in supervisory practices. It shared this official prescribed function with the other two Level 3 Committees, CEBS and CESR.

However, the new Committee was immediately tasked with the privilege of providing technical advice to the European Commission, on the proposed new EU prudential regime for insurance undertakings, the 'Solvency II project'¹⁹. CEIOPS has been dominated by this work, directed both at **Level 1**, where the Commission, and then the Council and Parliament, define framework principles and implementing powers, and at preparatory work at **Level 2**, where the Commission adopts detailed implementing measures.

Having submitted and published its advice for the Framework Directive on Solvency II by March 2007, CEIOPS has been able to carry forward planning the fulfilment of its original Lamfalussy objective for **Level 3** work. CEIOPS has taken into account responses to its published discussion paper on CEIOPS' role and policy options for supervisory tools²⁰. CEIOPS' most accessible resulting review of its Level 3 activities was in its second report on progress to the European Financial Services Committee²¹. The work-streams laid out there were supplemented later last year by further work on supervisory cooperation, with a special focus on consumer protection²². In brief, possible tools which CEIOPS intends to develop for playing its role at Level 3 cover:

CONTRIBUTING TO EFFECTIVE EU REGULATORY CONVERGENCE:

- ▶ **The exchange of information on national interpretation and implementation.** Where Member States' adoption of EU regulation differs, the sharing of those approaches and details by supervisors can help smooth them in practice.
- ▶ **Comparisons on national transpositions.** CEIOPS is well-placed to assemble and contrast Member States' transposition of EU regulation, including use of CEIOPS' website. The information can be provided in different forms most helpful to supervisors and other interested parties.
- ▶ **Surveys and analysis of any issue or consistency.** If fact-finding and mapping assist any project, for CEIOPS or an external exercise, CEIOPS can design and conduct suitable questionnaires and analyse responses. In most cases this is an essential step before taking any supervisory initiative.
- ▶ **Standards on areas not covered by EU legislation.** EU law may helpfully leave matters to be covered by supervisory standards for insurance and occupational pensions, and one of CEIOPS' prime functions as a Level 3 Committee will be to develop these.
- ▶ **Recommendations to the EU Commission.** CEIOPS makes recommendations on its own initiative, where its work reveals matters properly for the Commission's consideration.

CONVERGING SUPERVISORY PROCESSES AND TOOLS:

- ▶ **Standards on a supervisory tool-kit and best practices.** Tools and their use vary between supervisory authorities according to their individual culture and tool-kits, so CEIOPS' establishment of supervisory standards will help towards a level playing field.
- ▶ **Common reporting and sharing of data between supervisors.** Work on converged supervisory reporting and data is under way, as part of the Solvency II project and jointly with the other two Level 3 Committees. It is considered a precondition for an effective sharing of supervisory data and cooperation.
- ▶ **Supervisory disclosure.** Appropriate transparency of process and results of supervisory action is an essential objective of good supervision and can help triggering market driven incentives for enhanced convergence.
- ▶ **Follow-up of implementation of CEIOPS standards.** CEIOPS has yet to reach this stage, but will set up a machinery for Peer Reviews between supervisors of their implementation achievements, as a new CEIOPS tool.
- ▶ **A self-managed system for reconciling, where necessary, any diverging views.** A mechanism to resolve divergencies between supervisory authorities will again be a new tool for CEIOPS, which is to be explored. Under a cross sector approach, CEIOPS plans to present a proposal in this field in the course of 2007.

CREATING A COMMON SUPERVISORY CULTURE:

- ▶ **Think-tank and discussion forum.** CEIOPS has numerous opportunities to brainstorm and table views, described elsewhere throughout this Report.
- ▶ **EU-wide training programmes.** Supervisory training seminars have already commenced and will be expanded using requests, feedback and experience.

¹⁸ See a summary of CEIOPS' role in the Lamfalussy Procedure in chapter 8.2.0. This model was originally proposed by a 'Committee of Wise Men' chaired by Baron Alexandre Lamfalussy for the regulation of securities markets. It was later extended to the fields of insurance, reinsurance and occupational pensions as well as to banking. The Committee's Report was endorsed by the European Council. The relevant Directive establishing the new organisational structure for European

financial services committees was published two years ago (Directive 2005/1/EC of the European Parliament and of the Council of 9 March 2005, OJ L79 of 24 March 2005).

¹⁹ See chapter 6.1.1.

²⁰ Consultation Paper 10 'Developing CEIOPS' Medium-Term Work Programme', 11 November 2005, see website under Consultations - Consultation Papers.

²¹ Second Progress Report on Supervisory Convergence in the Field of Insurance and Occupational Pensions for the Financial Services Committee (FSC), (CEIOPS-SEC-45/06), June 2005; see website under Publications - Other Documents.

²² See further below the work on the revision of the 'Siena Protocol'.



- ▶ **Platform for exchange of staff of EU Supervisory Authorities.** There are difficulties not in CEIOPS' control with effecting staff exchanges, so CEIOPS will concentrate on providing a platform and incentives for individual supervisory authorities to use bilaterally.

FACILITATING COOPERATION IN DAY TO DAY SUPERVISION:

- ▶ **Conclusion and review of agreements.** Where day to day cooperation benefits from formalising in an EU-wide agreement for all supervisors, CEIOPS has negotiated Protocols and reviewed them after, for its different sub-sectors, as listed and described elsewhere in this Report.
- ▶ **Developing operational networks for groups.** Insurance groups' supervisory arrangements include supervisory network for a streamlined exchange of information, a common assessment of groups, delegation of supervisory tasks, joint supervisory actions such as on-site inspections, and procedures for crisis management.

The above concepts form the basis of all CEIOPS' Level 3 activities. In the following paragraphs some relevant examples are described.

5.1.0. Fostering a European Supervisory Culture

CEIOPS' CONvergence and iMPact ASSESSment Task Force (COMPASS), which was established in February 2006, was mandated to come forward with proposals for facilitating the creation of a European culture of supervision.

The European Commission separately asked CEIOPS to deliver input for the impact assessment of the Solvency II regime on the structure and functioning of supervisory authorities. CEIOPS mandated COMPASS to work on that issue as well. This work-stream was finalised with the deliverance of CEIOPS' Report to the Commission in early 2007²³.

The original work of the Task Force was to support the creation of a European culture of supervision, by facilitating the exchange of staff between supervisory authorities and by analyzing how to organize EU-wide training schemes. After a first analysis carried out by COMPASS, CEIOPS decided to follow up this work. It extended the scope in terms of content and timing and the membership of the Task Force. Work on other tools was added which, in addition to the issuance of standards, guidelines and recommendations, were relevant to fostering convergence of day-to-day supervisory practices, such as peer reviews and mediation mechanisms. With this in mind, COMPASS was transformed into a permanent Committee. It received new Terms of Reference in March 2007, and was renamed "Convergence Committee". Its activities will be carried out in close coordination with the work of the other Level 3 Committees²⁴.

Work on the revision of the "Protocol relating to the collaboration of the

supervisory authorities of the Member States of the European Community in particular in the application of the Directives on life assurance and non-life insurance ("Siena Protocol") is of landmark significance. This Protocol, which was concluded end-1997, sets out basic procedures for the cooperation and exchange of information between supervisory Authorities regarding licensing of insurance undertakings, the setting up of branches and the provision of cross-border services. CEIOPS decided that the Protocol was in need of review and updating. By the end of 2006 a Task Force²⁵ was established to conduct this work. Its experts will revise the Protocol from the benefit of past experience and changes in the law, structure and practice of the supervisory environment. During their review, special attention will be paid to the cooperation of supervisory authorities over non-financial issues, and in particular policy-holder protection.

5.2.0. The Solvency II Project

Prominent examples of 2006 work-streams on Solvency II have been in the area of the conceptual framework and criteria for validation of internal models, and in the area of the methods and tools for defining requests for additional capital (capital add-on) based on the supervisory review process.

The work leading to the adoption of the new prudential regime is itself already fostering a joint understanding of the objectives, concepts and tools that will form the basis of supervision. It is therefore paving the way for the successful deployment of eventual Level 3 measures.

In this respect, CEIOPS continues to emphasise the importance of leaving sufficient room for Level 3 measures when Levels 1 and 2 are being decided. CEIOPS considers a robust and appropriately harmonised regulatory framework will profit from a substantial Level 3. CEIOPS has stated its belief that standards, guidelines and recommendations, as tools for enacting Level 3 measures, will enable the system to respond to relevant changes quickly and flexibly, as well as cover aspects that so far have not been dealt with in the project.

5.3.0. Supervision of Insurance Groups

The work-streams undertaken in this context with particular relevance for fostering convergence and cooperation, were the development of a framework model for clarifying the role of the "lead supervisor" in the context of the Coordination Committees, and the collection of information on how Member States have exercised the various options provided for in the Insurance Groups Directive (IGD). CEIOPS will publish this survey. It will serve the transparency of regulation and supervisory practices, and foster convergence.

CEIOPS has identified a number of areas where Level 3 measures could be beneficial to enhancing the effectiveness and efficiency of group supervision. To follow up CEIOPS' intention to reduce supervisory burdens and achieve further

²³ Report on the Impact of Solvency II on Supervisory Authorities (CEIOPS-DOC-02/07), 12 February 2007, see website under Publications - Submissions to the European Commission.

²⁴ See website under About CEIOPS - Organisation - Working Groups - Convergence Committee.

²⁵ Task Force on the Revision of the Siena Protocol, see website under About CEIOPS - Organisation - Working Groups.



convergence, its Insurance Groups Supervision Committee is addressing the areas covered in its Recommendation to the European Commission and in its previously published "Guidelines for Coordination Committees"²⁶.

CEIOPS is aware, however, that the introduction of appropriate legislative amendments in the context of the Solvency II project would be a better means of achieving more streamlined supervision, while maintaining legal clarity and appropriate prudential standards, in line with the approach used for example by the Financial Conglomerates Directive.

5.4.0. Supervision of Occupational Pension Funds

In the light of the transposition of the IORP Directive into national jurisdictions, CEIOPS has been working on facilitating cooperation and exchange of information between supervisors, thus enabling a common approach to supervisory issues. For this purpose a cooperation protocol was concluded in February 2006²⁷. It covers the general principles for co-operation between the Competent Authorities and for furthering effective supervision. It also provides the specific procedures for the notification of cross border activity by IORPs and for their ongoing supervision, including the respective roles of the Competent Authority of home and host Member States.

In addition to this cooperation framework, CEIOPS has started work on a mapping of the implementation of the IORP Directive. The objective is to increase the common understanding of the European legal framework and its different pensions systems and supervisory approaches, and foster supervisory convergence. This should also enable CEIOPS to identify any need for further Level 3 measures in areas where common approaches seem necessary to further convergence. The work will lead to input to the European Commission for its planned revision of the IORP Directive, which is scheduled for 2008.

Further work-streams related to monitoring of market developments and financial stability are described in chapter 6.2.1 and 6.2.5.

5.5.0. Supervision of Insurance Intermediaries

The implementation of the Insurance Mediation Directive (IMD) is CEIOPS' main priority in this field, for convergence. CEIOPS has therefore concluded a Protocol to facilitate the close cooperation of supervisory authorities and the exchange of information between them²⁸. The Protocol sets out details of registration and notification, ongoing supervision and information exchange related to it, standardised forms for communications and contact details for all competent authorities. Authorities that are competent under the Directive but who are not Members of CEIOPS, were also invited to join the Protocol, by signing a joinder agreement²⁹.

In order to further a common understanding of the Directive and identify any issues needing CEIOPS' further work to enhance convergence of supervisory

practice, CEIOPS has conducted a mapping exercise on the implementation of the IMD's key provisions. The result of this exercise is summarised in a Report that was published in March 2007³⁰. The mapping exercise, and the regular exchange of information between CEIOPS experts on supervisory issues, will determine any future advice to the European Commission on amending the Directive, as well as any revision of the Protocol.

5.6.0. Challenges to Greater Convergence

Enhancing convergence requires that supervisors develop their actual supervisory practices in line with the standards and practices agreed within CEIOPS.

Differences in terms of traditions and approach to supervision represent a challenge to this process. CEIOPS' activity is intended to smooth these differences through time. However, this requires that competent authorities are sufficiently resourced to allow for both active and informed engagement in the work of CEIOPS and to develop their own practices accordingly.

In this regard, CEIOPS' experience to date suggests that it would be beneficial for there to be more commonality in the powers, objectives and resources of competent authorities.

Most of the current limits to greater convergence are expected to be resolved or softened by forthcoming changes in EU legislation (the Solvency II project) or through the implementation of recent EU legislation (the IORP Directive and IMD). The challenges for CEIOPS in obtaining converging supervisory practices across the EU, will be eased by limiting the scope for options left to national discretion in the Solvency II legislation, and by an appropriate transposition of the recent EU Directives. However, CEIOPS recognises that national supervision needs to take account of legitimate market differences and that there are limits to convergence which extend beyond the remit of supervisors (e.g. taxation) and consequently a Level 3 committee cannot, by itself, bring about full convergence.

Differences in supervisory positions will also be open to resolution through a new **mediation mechanism** between supervisory authorities, to be created and put in place by CEIOPS. Overcoming these challenges will also be subject to smoothing, at a higher EU level, those divergences which come from solutions adopted through the political process.

²⁶ For further details, see chapter 6.2.2.

²⁷ Protocol Relating to the Collaboration of the Relevant Competent Authorities of the Member States of the European Union in Particular in the Application of Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the Activities and Supervision of Institutions for Occupational Retirement Provision (IORPs) operating Cross-Border (the Budapest Protocol), CEIOPS-DOC-08/06, see website under Publications, Protocols; See also chapter 6.2.1.

²⁸ Protocol Relating to the Cooperation of the Competent Authorities of the Member States of the European Union in Particular Concerning the Application of Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on Insurance Mediation (the Luxembourg Protocol), CEIOPS-DOC-02/06, see website under Publications, Protocols.

²⁹ For details see chapter 6.2.3.

³⁰ See website under Publications-Submission to the EC.



CEIOPS' ACTIVITIES

6.1.0. Contribution to EU Legislation

From its creation as a Level 3³¹ Committee in 2003, and its operational establishment in 2004, CEIOPS has been asked to contribute to the European Commission's work in the design and construction of Solvency II. While the proposed regime's legislative landscape has been taking shape, CEIOPS' contributions have spanned input at Level 1 towards the Framework Directive, and the preparation of advice at Level 2 towards the development of possible implementing measures.

The work has been comprehensive, while keeping to the Commission's Roadmap³². At times it has been remarkably inventive, intensive, and strongly debated. CEIOPS would not have expected such a daunting task to be different. Its successes reflect the huge communal effort of all involved.

Looking ahead, with the Commission's current Calls for Advice to CEIOPS answered³³, CEIOPS' work will increasingly turn to Level 3 preparation of supervisory standards, guidelines and recommendations.

6.1.1. The Solvency II Project

Solvency II is the European Union's fundamental, root-and-branch review of the prudential supervision regime for insurance undertakings.

Solvency II is concerned with establishing an adequate level of solvency capital for insurance undertakings sufficient to meet their liabilities to policyholders and certain third parties. This long running project has first of all examined, and then concluded, that there is a great need to redesign the existing regime fundamentally. Now, the focus has shifted to designing, agreeing and implementing, under the Lamfalussy model, appropriate EU legislation at Level 1 and Level 2. It is also foreseen that successful implementation will be enhanced by action to seek real supervisory convergence through Level 3 work. The underlying objective of the Solvency II project is to encourage and embed enhanced risk management in insurance undertakings, and thus achieve a high level of policy holder protection and further support market stability. Furthermore, the project seeks to achieve greater harmonization across the EU, thus facilitating the development of the Single Market and fostering competitive equality.

Contributing to the Solvency II project has been, and continues to be, CEIOPS' biggest and most important task. The outcome of the project will have implications for every Member State and insurance and reinsurance undertaking in the EU. Making sure that the future framework is practicable, achieves the high level

standards that both policyholders, as well as insurance undertakings, can legitimately expect, and will be a success, explains why most of CEIOPS' time and resources has been devoted to this project.

Despite the multitude of traditions and approaches that each CEIOPS Member brought with them when CEIOPS started to work on this project, significant progress has been made. CEIOPS can say that there are a large number of key areas where consensus has been achieved. It is also fair to mention that on a number of areas further work, analysis and discussion is needed. But in one sense Solvency II has already proved a success, underlying the benefits of the Lamfalussy approach: there is an increasing appreciation amongst CEIOPS Members of the multitude of joint problems and issues which are being sought to be solved cooperatively; information and ideas are being exchanged; trust is being formed.

6.1.1.1. Background

The Solvency II project has become the subject of so much attention while CEIOPS has been working on it, that further general introductory descriptions here are thought unnecessary.

For a simple resumé of the outline and CEIOPS' activities, this same chapter in last year's Annual Report can easily be accessed³⁴. There is a wealth of other material published by CEIOPS, the European Commission, and almost every professional and industry association affected, in Europe and beyond.

Following CEIOPS' advice on the first three Calls for Advice³⁵, the European Commission in a letter dated 24 January 2006³⁶ asked CEIOPS to develop further, certain issues it has already commented on in its past advice, but which were not fully elaborated or defined. These therefore required additional input from interested parties. The additional advice concerned key Pillar I issues such as the valuation of technical provisions, the development of the SCR standard formula and the MCR formula, and the recognition of reinsurance. Also certain Pillar II issues (Pillar II "capital add-ons" and the treatment of re-insurers) and group and cross-sectoral issues (e.g. admission of diversification effects, sub-group supervision and cooperation with third countries, the integration of the group dimension in QIS3) needed to be elaborated.

Following this letter, CEIOPS drafted five further Consultation Papers, which were published in July and October 2006. In addition to the issues outlined in the European Commission's letter, CEIOPS issued Consultation Papers concerning further Pillar II issues (safety measures, supervisory powers, internal risk and capital requirements) and Pillar III issues (supervisory reporting and public disclosure). This further advice was aimed at giving the European Commission more detailed information for the development of the Framework Directive. It also takes into account the results of QIS1 and QIS2, while preparing the ground for the next quantitative impact study, QIS3, which was launched in April 2007.

³¹ For the scope of the different Levels, see chapter 8.2.0.

³² Note to the Members of the European Insurance and Occupational Pensions Committee, Solvency II Roadmap – towards a Framework Directive, Updated version (July 2005), MARKT/2502/05-rev.2., see http://ec.europa.eu/internal_market/insurance/committee_en.htm.

³³ See website under Publications – Submissions to the European Commission.

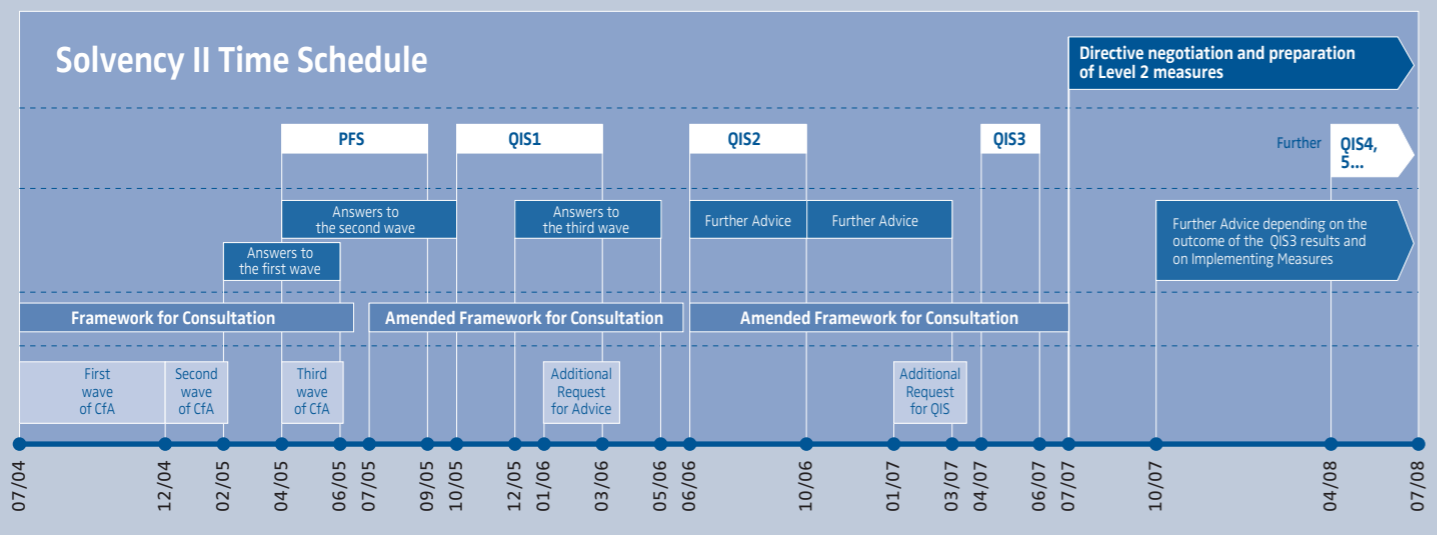
³⁴ See website under Publications – Annual Reports.

³⁵ CEIOPS' answers to the "First Wave of specific Calls for Advice" were submitted to the European Commission on 30 June 2005, the answers to the "Second Wave" on 1 November 2005 and the answers to the "Third Wave" on 3 May 2006. All of these can be found on the website under www.ceiops.org – Publications - Submissions to the European Commission.

³⁶ See www.ceiops.org – Requests for Advice.

The series of advice submitted to the European Commission is detailed in the Table in chapter 4.1.0.

The Commission's published timetable anticipates the adoption of a proposal for a Directive in July 2007. The history of the whole Solvency II project since the beginning, including all stages of development - calls for advice from the Commission, advice given in response by CEIOPS, and quantitative impact studies - can be seen below³⁷.



In the context of this activity, CEIOPS is also continuing its preparatory work for delivering answers to expected requests for advice, on potential implementing measures. The European Commission is planning the preparation of implementation measures in parallel to that of the Framework Directive. This activity, of course, will be also aimed at paving the way for future Level 3 measures. It is bound to become even more important once the Level 1 measures have been finalised in the Framework Directive.

In developing its advice to the European Commission, CEIOPS is occasionally confronted by CEIOPS Members' divergent views. These are often due to the long lasting different traditions and practices in European Member States. To solve these highly sensitive issues, some political guidance from the European Commission has proved necessary. Thus, after discussion at an EIOPC meeting in April 2006, an amended Framework for Consultation (MARKT/2515/06) was published³⁸.

In the framework of the Solvency II project, several rounds of quantitative impact studies (QIS) are foreseen. These exercises provide a key input for the impact assessment report of the European Commission for the Solvency II Framework Directive. They are also indispensable in testing the practicability and materiality of certain decisions that need to be taken under Solvency II.

From mid-October to the end of December 2005, CEIOPS conducted a first round of QIS (QIS1), restricted to technical provisions in life and non-life, with particular regard to the level of prudence to be embedded in their measurement. In line with the European Commission's note on The Impact Assessment of the Solvency II Level 1 Directive (MARKT/2519/05)³⁹ the European Commission received the results of QIS1 in March 2006. The QIS1 summary report was approved at CEIOPS' Members' Meeting on 22 February 2006⁴⁰.

From May 2006 till July 2006, CEIOPS conducted a more comprehensive second round of QIS (QIS2). That focused on the design of the solvency requirements. The summary report was approved in CEIOPS' October 2006 Members' Meeting⁴¹.

A third round of QIS (QIS3) was launched in April 2007. In this impact study, which focuses on the calibration of the solvency requirements, CEIOPS tries to encourage even wider industry participation than reached in QIS2, especially relating to SME.

From QIS 2 to QIS 3

CEIOPS conducted its second QIS during 2006. QIS2 covered both the assessment of technical provisions, and also tested some different approaches for the calculation of a possible solvency capital requirement (SCR) and a minimum capital requirement (MCR). The resulting figures for the SCR and MCR were then compared against a preliminary assessment of the available capital for solo entities. However, the calibration of these possible capital requirements was intentionally quite tentative. In addition, there was no guidance provided on which items of capital could be included as eligible capital, or on how the figures might be combined for entities that are part of a larger group of undertakings.

The results of QIS2 formed the basis for a revised advice to the EC on Pillar I issues⁴² and together with some further development work by CEIOPS and consultation of the insurance undertakings and industry associations, these documents form the basis of the technical specifications for the next round of QIS.

In addition to further improving the design and calibration of the standard formula, QIS3 includes the assessment of the eligible elements of capital, based on some recent thinking within the EU. QIS3 also includes specifications for insurance groups, so that QIS3 can be applied both to solo undertakings and to groups of undertakings.

In setting up the organization and steering the preparatory work for delivering advice, CEIOPS considered the need to ensure an organic and comprehensive coverage of the overall solvency regime. It had to allow for the flexibility and effectiveness of its contributions along the development of the whole

³⁷ For a detailed listing of the Consultation Papers, see table in chapter 4.1.0.

³⁸ See http://ec.europa.eu/internal_market/insurance/docs/markt-2506-04/amended-framework_en.pdf.

³⁹ See http://ec.europa.eu/internal_market/insurance/docs/markt-2519-05/markt-2519-05-rev1_en.pdf.

⁴⁰ See website under Publications – Submissions to the European Commission.

⁴¹ See website under Consultations – QIS.

⁴² Advice to the European Commission in the Framework of the Solvency II project on Pillar I issues – further advice (CEIOPS-DOC-08/07), March 2007. See website under Publications – Submissions to the EC.



project, in relation to its different steps. To this end, the Working Groups in charge of preparing CEIOPS' deliberations have been tailored along the fundamental lines of the new prudential model and not on the specific calls for advice, nor on the formal way through which the future regime will be translated into formal requirements under the Lamfalussy model. Up to now, CEIOPS' efforts were mostly directed at providing advice to the European Commission in the preparation of the Framework Directive. In 2007 and 2008 work will continue as determined by future calls for advice from the European Commission on implementing measures and any Level 3 measures. In view of this future and the expected shift of work concentration, CEIOPS will reconsider its organisational structure for the project.

The European Commission's latest 'Solvency II Roadmap'⁴³ foresees the adoption of a proposal for a Directive by the European Commission in July 2007. CEIOPS has made huge efforts to meet the Roadmap's schedule, in order to provide all necessary advice in time to be considered in this proposal. Thanks are owed to national experts as well as to stakeholders who have contributed to this challenging work.

6.1.1.2. Pillar I

Introduction

The Pillar I Expert Group provides technical support for developing Pillar I standards for life and non-life insurance business. The Group has constructively developed a network of relationships with a number of key stakeholder groups and pro-actively maintained the existing good working relationship with others. Through guest presentations and targeted 'pre-consultative' questions, the Group has been able to consider a broader range of expertise and opinion in developing its recommendations.

Year's Work

Regarding the 'Third Wave' of calls for advice, the answers to which were submitted to the European Commission in May 2006⁴⁴, the Group provided technical support on the definition of capital, procyclicality and potential adaptations for small undertakings.

The Group has made a substantial contribution to CEIOPS' advice throughout the year, beginning with the preparation of the technical specifications for the second quantitative impact study (QIS2). This QIS2 covered the assessment of the technical provisions, and also tested some different approaches for the calculation of a possible solvency capital requirement (SCR) and a minimum capital requirement (MCR).

Following analysis of the QIS2 results and further technical discussions, the Group produced a Consultation Paper (followed by a supplement)⁴⁵ in late autumn 2006. This recommended further advice on the structural design of

Pillar I requirements (technical provisions, SCR, MCR, internal models, special treatments and safety measures), as well as setting out the steps CEIOPS will take to calibrate the system to meet the overall soundness objectives. The paper came at a critical point in the project, as the European Commission began to shape its first proposal for the Solvency II Directive, together with its formal 'impact assessment.'

At the beginning of 2007 CEIOPS worked on refining the operational standards for Pillar I. Detailed technical specifications for the third quantitative impact study (QIS3), which was launched in April 2007, were developed together with CEIOPS' Financial Stability Committee.

The goals of QIS3

First, we hope that this exercise will give further information about the practicability and suitability of the calculations involved.

Secondly, we are looking for quantitative information about the possible impact on the balance sheets, and the amount of capital that might be needed, if the approach and the calibration set out in the QIS3 specifications were to be adopted as the Solvency II standard.

Thirdly, we are looking for information about the suitability of the suggested calibrations for the calculation of the SCR and MCR.

Finally, we are looking for information about the effect of applying the QIS3 specifications to insurance groups.

CEIOPS strives to achieve a high participation rate to QIS3 as it is a crucial exercise in the design of the new solvency framework. At the same time, participating in the QIS3 exercise allows the undertakings to acquaint themselves with the new concepts and to express their views on the work that is being undertaken.

Solvency II needs to 'work' for all insurers - not simply the largest or most sophisticated players. However, CEIOPS recognises that moving to a system which is more responsive to the risks faced by insurers will necessitate a certain degree of complexity. To reduce the burden on firms, ensure comparability and increase the level of accuracy of results, QIS 3 slightly deviates from past quantitative studies. It includes a well-founded calibration for those parts of the standard approach where the calibration is not derived from company data. To minimise potential differences in interpretation and application of the specification, a clear rationale for the methodology, together with detailed guidance, will be given to undertakings. Finally, suitable approximations are offered to smaller undertakings, particularly for the assessment of provisions, for the compilation of any historical data required and for the more complex technical areas of the SCR specification.



Paul Sharma
(Chair of Solvency II - Pillar I
Expert Group, FSA, United Kingdom)

⁴³ Note to the Members of the European Insurance and Occupational Pensions Committee, Solvency II Roadmap – towards a Framework Directive, Updated version (MARKT/2502/05-rev. 2), July 2005.

⁴⁴ Answers to the European Commission on the third wave of Calls for Advice in the framework of the Solvency II project (CEIOPS-DOC-03/06), May 2006, see website under Publications – Submissions to the EC.

⁴⁵ See website under Consultations - Consultation Papers - CP 20.

Furthermore, the Expert Group developed a questionnaire on the implementation of the current Insurance Directives regarding the eligible elements to meet the solvency margin. The questionnaire is composed of a part addressed to stakeholders and a part addressed to supervisory authorities. The public part analyses the industry's practices and ideas regarding innovative instruments and supplementary members' calls. The part addressed to supervisory authorities covers the implementation of the current rules on eligible elements across Member States. The questionnaire covered: original own funds, additional own funds, deductions, innovative instruments, additional information on limits and tier 3 (members' calls). Publication of a report is expected by mid-2007.

Finally, CEIOPS, represented by its Pillar I Expert Group, and CEBS, under the aegis of the Interim Working Committee on Financial Conglomerates (IWCF), have undertaken together in a Joint Task Force on Capital a comparison of the capital instruments that are eligible within European banking, insurance and securities regulation for prudential purposes. The report was published in January 2007⁴⁶.

Next Steps

Following analysis of the QIS3 results and further technical discussion in the Expert Group, CEIOPS aims to produce a consultation paper on capital requirements in autumn 2007.

In 2007 the Joint Task Force on Capital is carrying out an empirical exercise, to analyse the impact that the differences in sectoral rules identified in its report have for the supervision of financial conglomerates.

6.1.1.3. Pillar II

Introduction

The Pillar II Expert Group is responsible for CEIOPS' initial work on elaborating and developing the qualitative requirements under Solvency II for undertakings and supervisory authorities. The scope of its tasks is extensive. 2006 saw a widening and deepening of the Group's output, after delivering primary advice in the previous year. The main focus has been on the refinement of basic recommendations for capital add-ons, the treatment of reinsurance, the assessment and controlling of risk and capital, and the harmonisation of supervisory processes and powers.

Year's work

After finalising CEIOPS' advice regarding the third wave of Calls for Advice, a number of further papers were developed for CEIOPS' Members' discussions and approval, with some published and others deferred for ongoing development.⁴⁷

The Group developed an approach towards achieving a Europe-wide harmonised basis for the decision on capital add-ons to own funds requirements.

It proposed the implementation of a five-step process. Clear 'yes'/'no' decisions would be made, formed by the Group on the basis of a decision tree method. Supervisors would be expected to apply the same process both at solo and group level. If the solo supervisor deemed an add-on necessary, under CEIOPS' approach it would inform the undertaking's group supervisor of the rationale behind the decision. The group supervisor would then be able to decide whether the identified deficiency required a capital increase at group level as well. The proposals included that capital add-ons would be neither routinely nor commonly applied. The Group evaluated restrictions on application to limited circumstances, and on its disclosure.

Under Solvency II, insurance undertakings will have to implement their strategies relating to the solvency capital, the material risks applicable to their area of business and the agreements on risk mitigation and risk transfer, as an integrated part of their overall business strategies. Undertakings will be required to install internal control mechanisms and processes, that provide qualitative and quantitative parameters for the identified risks and their probabilities. Relevant information on the impact of the risk on the amount and quality of the own funds should also be provided.

The Group analysed possible detailed requirements for the above. Under CEIOPS' approach to solvency capital, insurers will have to provide an analysis of how their business plan will affect compliance with the supervisory requirements over a certain time horizon. As a consequence, the Group concluded that an undertaking should notify the supervisory authority immediately if the SCR or MCR is breached, or if a breach is imminent. A second analysis would be required from the undertaking, to show the differences between the capital amount which the insurer considers necessary for its business needs, and the capital amount generated by the standard formula. The Group's view for insurers using an internal model was that they would have to perform this kind of comparison along with a recalibration that transforms the internal risk numbers into the SCR measures. Overall, these analyses are to be future-oriented. Assessment of whether an undertaking will in future be able to meet its solvency requirements should be based on stress tests, business continuity analyses and dynamic financial analyses.

The European Commission asked CEIOPS to consider the treatment of reinsurance. The Group was charged with this work. It formed the view that in principle, the same rules should apply to reinsurers and primary insurers. Those concern the fit-and-proper test of directors and managers, management control, internal controls and risk management, as well as the management of the technical provisions, investment policies and reinsurance. In the Group's view, identical standards for reinsurers and primary insurers should also apply to the validation of internal models, the application of solvency control levels and the setting of capital add-ons.

CEIOPS considers it essential that certain standards should be met for the establishment and organisation of supervisory authorities in themselves, not just by them, in the interests of harmonisation and the efficiency of



Petra Faber-Graw
(Chair of Solvency II - Pillar II
Expert Group, BaFin, Germany)

⁴⁶ See website under Publications – Submissions to the EC.

⁴⁷ See website under Publications – Submissions to the European Commission.



supervisory activities. The Group worked up principles that supervisory authorities' organisation and their properties should be subject to the decision of the national legislator, while putting them in a position to perform free from political and economic involvement. Another Group proposal was that their financing should be structured to support that freedom and ensure the availability of sufficient human and material resources. In addition, the Group developed a principle that supervisors should have appropriate internal business procedures and review measures in place. These should be clearly defined, transparent and consistent. Member States for their part would need to provide supervisors with all the powers necessary to perform their tasks. The principles formed by the Group were recognised to need CEIOPS' considerable detailed analysis and future recommendations.

The final advice for the Framework Directive on Solvency II regarding the referred issues was submitted to the European Commission following its formal approval at the Members' Meeting on 12/13 March 2007.

Next Steps

As part of its specific analysis, the Group has started work on detailing its proposed qualitative requirements. It has begun to create and assemble material from Group Members' supervisory authorities and elsewhere, to form the basis of advice on qualitative requirements as applied to each single risk category. The breakdown will involve attention both to the delineation of risks for this purpose, and their most appropriate requirements.

6.1.1.4. Pillar III

Introduction

Pillar III of the Solvency II framework covers issues of supervisory reporting and public disclosure as integral parts of the Solvency II regime. CEIOPS' work on these issues has intensified with the continued progress in determining details of Pillars I and II. Consequently, CEIOPS was in a position to elaborate on its first advice to the European Commission. In June 2006, Gabriel Bernardino (ISP, Portugal) followed Fausto Parente (ISVAP, Italy) as Chairman of the Expert Group concerned.

Year's work

CEIOPS' last year's work built on its Advice to the European Commission on Cfa 21⁴⁸, in which a general supervisory reporting approach and a general concept for public disclosure, including possible elements of market transparency and market discipline, were outlined.

These principles were elaborated as further advice to the European Commission for its Draft Framework Directive. The draft advice was released for public consultation⁴⁹ following its approval by Members in early November

2006. During the consultation period, which ended on 12 January 2007, numerous comments from stakeholders were received. The final advice, which takes into account stakeholders' contributions, was submitted to the European Commission following its formal approval at the Members' Meeting on 12/13 March 2007.

This advice was developed to establish, both for supervisory reporting and public disclosure, the main information requirements that insurance undertakings are expected to fulfil, to enable an assessment of their solvency and financial condition. These include material information on the following main items:

- ▶ Business overview and performance;
- ▶ Governance structures and mechanisms;
- ▶ Valuation basis used for solvency purposes regarding technical provisions, assets and other liabilities;
- ▶ Risk and capital management.

In order to allow a clear understanding of the meaning and purpose of each main information requirement, specific subsets of information were developed. The information required was not exhaustive. It will potentially have different levels of content and detail, depending on its use for supervisory reporting or public disclosure.

Considering that market transparency and public disclosure in the areas of risk and capital management are an important part of the Solvency II framework, CEIOPS is striving to increase current levels of transparency. Therefore, the information provided should include the insurance undertaking's eligible capital, as well as any possible differences in relation to the financial statements figures and regulatory capital, in order to allow an assessment of its solvency condition. As to the capital requirements, CEIOPS – in line with the majority of stakeholders – supported the public disclosure of the overall capital requirement, without any specific breakdown regarding its respective components. A second important aspect is the public disclosure of breaches of the solvency control levels. CEIOPS supported that breaches of the MCR should be publicly disclosed by insurance undertakings upon occurrence, within the context of the ultimate supervisory action, and breaches of the SCR should be publicly disclosed by insurance undertakings at year's end, even if resolved since, with information about the steps taken to remedy the deficiency. However, significant breaches of the SCR could be considered for public disclosure earlier than year's end, within the context of the supervision ladder of intervention, when that breach is material in size and remains for a considerable period of time with a reduced likelihood of recovery.

Within the practical implementation of public disclosure requirements regarding the capital position and any breaches, CEIOPS recommended that appropriate consideration should be given to the fact that this process should not harm the effective and efficient application of the supervisory measures.



Gabriel Bernardino

(Chair of Solvency II - Pillar III and Accounting Expert Group, ISP, Portugal)

⁴⁸ See Answers to the European Commission on the third wave of Calls for Advice in the framework of the Solvency II project, May 2006.

⁴⁹ See former Consultation Paper No. 15 Draft Advice to the European Commission on Supervisory Reporting and Public Disclosure in the Framework of the Solvency II Project, 6 November 2006, and the final advice on the website under Consultations – Consultation Papers.



Taking into account supervisory and market developments such as those related to an increased use of internal models, CEIOPS also supported that a transitional period should be given to the application of the mandatory public disclosures on capital requirements.

Next steps

CEIOPS is continuing its work on supervisory reporting and public disclosure and intends to develop further advice regarding potential Level 2 measures, together with establishing Level 3 measures. These will contribute to the process of convergence in the field of supervisory reporting and public disclosure.

Further thought will be given to the establishment of minimum contents for public disclosure as well as to the process of convergence in the field of supervisory reporting, namely through the introduction - to the extent possible - of common supervisory reporting formats.

This work-stream also has to be seen in conjunction with the joint work the 3L3 Committees are conducting within their joint Work Programme, to identify any overlaps and inconsistencies in sectoral financial reporting requirements. In this context it is worthwhile mentioning CEIOPS' observership in the ECB's Statistics Committee Task Force on Insurance Corporations and Pension Funds (STIP) to monitor consistency of approaches across sectors. In its work on Solvency II, the Pillar III Expert Group will continue to work closely with the other Solvency II Expert Groups, following each step of the concrete outcomes of their work.

6.1.1.5. Group/Cross-Sectoral Issues

Introduction

The Group/Cross-Sectoral Issues Expert Group (GCS) provides, in the context of the Solvency II project, preparatory work on specific issues raised by the supervision of insurance entities that belong to a group. These issues include, inter alia, the consequences in terms of capital requirements, validation of internal models and organization of cooperation between supervisors both within and outside the EEA.

In 2006 the GCS continued to organize contacts with outside parties, as well as its cooperation with the other CEIOPS Solvency II Expert Groups, to study issues relevant both at solo and group level.

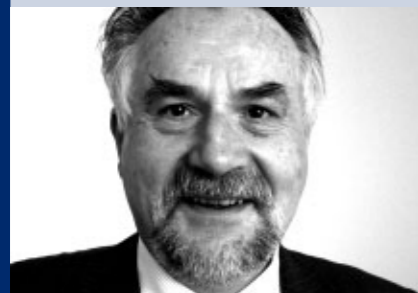
Year's Work

The activity of the GCS in 2006 was mainly devoted to the preparation of the group-related aspects of the advice given by CEIOPS to the European Commission for the setting up of the future Solvency II regime and to the preparation of the group-related parts of QIS3, which was adopted by CEIOPS in March 2007⁵⁰.

CEIOPS' advices on group-related issues have been based on the description given in the revised Consultation Framework of the European Commission of June 2006. According to that, the focus of supervision was on the capital requirement and supervisory review of individual legal entities, while issues related to individual legal entities operating in a group environment were addressed in supplementary group supervision. An innovative approach placing more emphasis on group supervision was recently tabled for discussion at Level 2 (EIOPC). In its advice, CEIOPS could not take into account the discussions evolving in the relevant Level 2 Expert Group during the later part of 2006. However, the group-related aspects of CEIOPS' advice are also relevant and applicable in an environment where the focus of supervision shifts more towards a group-related viewpoint.

As to CEIOPS' advice to the European Commission, the GCS has in particular contributed to finalizing, after public consultation, CEIOPS' answer to the third wave of Calls for Advice of May 2006. This was mainly regarding the groups' aspects of the draft answer to Call for Advice 19 on eligible elements to cover the capital requirements, and the draft answer to Call for Advice 20 on co-operation between supervisory authorities. The advice focused on eligible elements to cover the group SCR, stating that the nature of the group capital items admissible to cover the group SCR should be the same as the capital items admissible to cover the solo SCR, subject to adjustment for double or multiple use of capital elements and transferability throughout the group. In the advice detailed principles are stated regarding the treatment of minority interest and the use of the calculation methods of group capital requirements. In the advice, CEIOPS foresees further work on the possibility of the down-streaming of diversification effects to individual regulated entities. This concept was further developed during the course of 2006 in further advice⁵¹. The advice on supervisory cooperation addressed aspects of cooperation between supervisors of both individual insurance undertakings and in the context of insurance groups. There, CEIOPS stressed enhancement of the cooperation between supervisors in a group environment, by appointing a coordinator, named 'group supervisor', being in general the supervisor responsible for the supervision of the head of the group. CEIOPS included specific proposals regarding its responsibilities and powers, also with respect to the validations of internal models.

The GCS, in the first half of 2006, also contributed to the drafting of CEIOPS' Consultation Paper 14 on other group-related topics such as sub-group supervision, cooperation with third countries and issues related to the MCR and SCR in a group context. After a round of public consultation the advice was finalized in November 2006. As to sub-group supervision, CEIOPS advised diminishing its layers, considering that sub-group supervision still has an important role in complementing top-level group supervision for the better protection of policyholders, but also considering that avoiding unnecessary burden to the industry is a vital goal to be achieved in the new supervisory framework. In the advice related to third country supervision the lessening of the burden, in this case of supervisors, was essential. CEIOPS advised that the group supervisor should assess and decide on the equivalence of third country supervision in the context of an EEA group with regulated entities in a third country, or a third country



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⁵⁰ See chapter 6.1.1.1.

⁵¹ See former Consultation Paper 14, and final advice on the website under Publications – Consultations.



group with regulated entities in the EEA, using the guidance to be issued by CEIOPS to its Members. Regarding the relation between the MCR and the SCR on a group level, CEIOPS considered it only necessary to define a floor to the group SCR, which in principle should be the sum of the solo MCRs, multiplied by a factor equal to one or more⁵².

In addition, the GCS gave input on the group-related aspects of the Pillar II consultation papers on capital add-on (Consultation Paper 17) in a solo and group context, and on supervisory powers (Consultation Paper 18), which were published for consultation in November 2006 and approved as final CEIOPS' advice in March 2007. The advice specifically addressed the powers, the responsibilities and the tasks of the aforementioned group supervisor under Solvency II, specifically regarding the capital add-on on group level and capital transfer within the group to ensure compliance with the requirements set at group level.

Next Steps

After finalizing the QIS3 specifications related to groups and the work on processing the comments received in early 2007 in the public consultations of CEIOPS' draft advice to the European Commission, the GCS's activity moves to a discussion of the implication for the groups' aspects of Solvency II of the evolution of the work of the Solvency II Expert Group of the European Commission and the EIOPC.

6.1.1.6. Quantitative Impact Studies

During the last year, another major step was undertaken to test the impact of future proposals with respect to Solvency II. A second and more comprehensive round of QIS (QIS2) was organised among life and non-life insurers. Involvement of the national supervisory bodies and the industry and other stakeholders has proven vital to accomplish these achievements.

Introduction

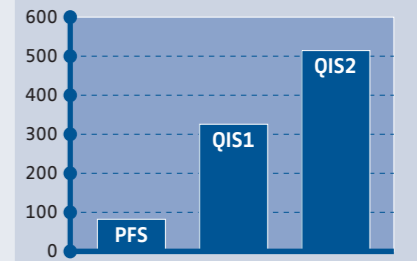
The European Commission has envisaged that a series of quantitative impact studies (QIS) be needed throughout the Solvency II project. This will also be an input for the Impact Assessment that the Commission has to provide when proposing a Framework Directive. The Impact Assessment will consider the wider macroeconomic consequences of Solvency II. QIS will test the impact of proposed principles with respect to the financial resources of insurance companies. The Financial Stability Committee has been given the responsibility to conduct QIS. To that extent a task force on QIS was created consisting of five members of the Committee. The main assignments of the task force are to create the QIS framework (spreadsheets and guidance for the national supervisors and the industry), to set up a format for country reports, to take account of questions and answers during the process, to

consolidate the country results into an EU summary report and to conduct specific calculations at a European level. The specifications to be tested in QIS are formulated by the Pillar I and the Group-Cross-Sectoral Issues Expert Groups.

Years' work

ORGANISATION OF QIS2

During 2006, the Committee conducted a more comprehensive round of QIS (QIS2), which took place from May to July 2006. QIS2 was primarily a design exercise, focussing on methodology and not on final calibration. QIS2 included solvency requirements, based on further refinements of the MCR and SCR formulas developed by the Pillar I Expert Group. Moreover, two different options were tested for technical provisions, the percentile and the cost of capital approach. Importantly participation of insurance companies on average enlarged compared to QIS1: 514 participants from 23 countries participated, with EU-wide market shares of 65% for life and 56% for non-life. This suggests that the coverage could be seen as a representative sample. Moreover, more small firms participated, but there is still a size bias. As the following Table shows, for each size category a substantial number of undertakings participated in QIS2. For both the medium and large size classes, the sample size is large enough to be considered representative for the entire market. For the small size class, the number of companies present is too small to be considered representative and should be treated as only indicative for small undertakings in the EEA. It is not possible to compare QIS2 to the first QIS in this respect, because they use different size classifications. For QIS1 undertaking sizes were based on national discretion, whereas for QIS2 CEIOPS devised a standardised size classification.⁵³



Industry participation in quantitative impact studies since the beginning



Klaas Knot
(Chair of Financial Stability Committee, DNB, The Netherlands)

QIS 2: Number of respondents				
Type of undertaking	Small	Medium	Large	Total
Life undertakings	38	73	50	161
Health undertakings	8	11	3	22
Non-life undertakings	89	101	46	237
Pure reinsurers	5	2	6	13
Respondents providing data for both life and non-life business	15	33	27	81
All respondents	155	220	132	514
<i>of which Mutual undertakings (included above)</i>	39	51	16	108

The market share covered by the impact study is substantial for life and non-life. For most countries the market share covered is over 50% for both types of undertaking. For health there were only three national supervisors that received quantitative contributions, covering between 23% and 88% of their respective markets.

⁵² Some CEIOPS Members considered a multiplier would need to be applied to the proxy MCR to set the floor of Group SCR.

⁵³ Life: an undertaking with less than €1 bn gross technical provisions is small, one with more than €10 bn is large and any undertaking with a value in between these upper and lower bounds is medium-sized.
Non-life: an undertaking with less than €100 mln gross written premiums is small, one with more than €1,000 mln is large and any value in between is considered medium-sized.

QIS2: Participation by country						
Country	Life	Non-life	Reinsu- rance	Life & non-life	Total	of which Health
Austria	6	7		10	23	5
Belgium				9	9	
Czech Republic				2	2	
Denmark	12	9			21	
Estonia	3	1			4	
Finland	6	7			13	
France	17	44		15	76	
Germany	56	95	8		159	16
Hungary	1	1		3	5	
Iceland		2			2	
Ireland	4	1			5	
Italy	6	3		4	13	
Lithuania	2	4			6	
Luxembourg		2			2	
Malta		2		1	3	
Netherlands	6	7		4	17	1
Norway	2	14			16	
Poland	9	13			22	
Portugal	10	9		4	23	
Slovenia	1		1	1	3	
Spain	4	11	1	25	41	
Sweden	6	2		1	9	
United Kingdom	16	19	3	2	40	
Total	167	253	13	81	514	22

RESULTS OF QIS2

According to the QIS2 valuation principles, the solvency ratio decreased but remained above 100% for most undertakings in a majority of countries. For most undertakings the MCR was less than 75% of the SCR. However, due to profit sharing in SCR the latter was sometimes smaller than the MCR or even negative. There appeared to be a slight preference for the cost of capital approach within the sector, for which the outcome generally showed a minor difference with 75th percentile. The impact on the solvency position differed from undertaking to undertaking, as the overall impact depended on a combination of opposing effects: technical provisions decreased, the SCR increased, and available capital increased. There was also some evidence for greater impact on small undertakings where problems generally were similar in nature although greater in magnitude.

The results following from QIS2 have been evaluated by the national supervisors and CEIOPS, as well as the industry and other stakeholders. The outcome of QIS2 provided essential input for the European Commission's work on the Framework Directive for Solvency II. The information that was received from firms during QIS2 has been relevant for the further development of Solvency II,

and for the assessment of technical provisions and the calculation of the SCR and MCR. These revised proposals were included in CEIOPS' Consultation Paper 20 (and Supplement).

QIS2 REPORT

The country results of QIS2 have been consolidated in an EU Summary Report. This report has been published on the website.⁵⁴

CALIBRATION OF RISK MODULES

The Committee has undertaken some research on the calibration of the various risk modules, i.e. market risk, credit risk and operational risk, for the SCR standard formula, which will be tested in future QIS (QIS3).

Next steps

Consultation Paper 20 forms the baseline for the third round of QIS (QIS3), which was launched on 1 April 2007 and the results of which will become available early July 2007. QIS3 will test one single proposal and will focus on both solo entities and groups of entities. The following principles will be taken into account in the process of QIS3, based on the experience with QIS2: CEIOPS will attempt to provide a clearer rationale for the methodology, together with detailed technical guidance and clearer spreadsheet. CEIOPS will put effort in increasing the level of participation by smaller firms. Besides more guidance, suitable approximations (simplifications) will need to be offered for these insurers. Finally, group requirements will be tested on a more systematic basis in QIS3. This implies that groups should have all solo entities participate and calculate solo SCRs for all of these entities, plus one group SCR.

Consultation is considered very important. For that reason also in the process towards QIS3, CEIOPS will regularly meet with stakeholders, and a two week pre-test was organised to consult with the industry and other stakeholders on the QIS3 spreadsheets and accompanying instructions. One meeting with stakeholders has taken place on 16 February 2007, another on 2 May 2007.



6.1.2. Other advice or recommendations to the European Commission

CEIOPS provides contributions to the European Commission apart from those specified in formal requests.

In February 2006 CEIOPS submitted advice to the European Commission on the treatment of 'deeply subordinated debt'.⁵⁵ This advice followed a discussion of possible changes to the prudential treatment of 'deeply subordinated debt' under the current insurance Directives, at an EIOPC meeting in June 2005, in which CEIOPS had been asked to consider this proposal from a technical point of view. CEIOPS carried out a public consultation before submitting its advice to the Commission.⁵⁶ This advice included also a survey on the current situation across jurisdictions regarding hybrid capital.

Based on its Report on the Implementation of the Insurance Mediation Directive's Key Provisions⁵⁷ which was published in March 2007, and further inquiries into the implementation of the IMD, CEIOPS plans to make recommendations to the European Commission relating to a simplification and more cost-efficient regulation of insurance intermediaries.

Furthermore, issues might arise out of CEIOPS' work on the revision of the Siena Protocol, which relates to the cooperation and exchange of information between supervisory Authorities regarding prudential supervision, and supervision of market conduct of insurance undertakings and their cross-border activities by way of freedom of establishment or freedom to provide services.⁵⁸

Last but not least, the joint structure set up by the 3L3 Committees, the IWCF, will give advice to the European Commission on capital issues affecting financial conglomerates. CEIOPS will also be involved in the review of the regulatory and supervisory framework of third countries, in order to assess their equivalence to the EU system regarding the supervision of financial conglomerates. In 2007 the US and Swiss regime will be assessed. This will result in a technical advice to the European Commission by the end of 2007.⁵⁹

6.2.0. Convergence and Coordination of Supervisory Practices

It is a cliché in EU financial services circles, that one of the greatest challenges in pan-European supervision is the achievement of convergence and coordination. A well-integrated and consistent regime is hard enough to realise in one financial services sector, sometimes even nationally. Internationally there are the known differences in history, jurisdictions, cultures, markets, practices and expectations, to reconcile. Less obvious distinctions and agendas complicate, below the surface.

To bring such a regime about across sectors, is a little like a permanent obstacle race. Pressures to win are heavy, and rightly so, from political, economic and commercial interests. The course itself is a running complexity. CEIOPS is determined as a Level 3 Committee, to make every effort towards success. This applies to its own twin sectors, and to playing its part with the other Level 3 Committees for an EU-wide compatible framework.

The year's activities in this direction regarding insurance and occupational pensions are described according to the work of CEIOPS' relevant Permanent Committees and Expert Groups. Those concerning joint work with CESR and CEBS are set out later.⁶⁰

CEIOPS plans to intensify its future resources on Level 3 work. The progression of the Solvency II project through Levels 1 and 2, combined with rapid increases in joint three Level 3 requirements, make the shift in emphasis logical. CEIOPS expects to assume this primary function in the Lamfalussy model, as the intensity of its higher Levels' commitments ease.

6.2.1. Occupational Pensions

Introduction

In order to enhance convergence and coordination of supervisory practices in the field of occupational pensions, CEIOPS established its Occupational Pensions Committee (OPC) in February 2004. The committee has been chaired by Mihály Erdős of PSZAF, Hungary, since its inception.

The objectives of the OPC are to develop a common understanding of the IORP Directive; to facilitate supervisory cooperation, coordination and exchange of information on the cross-border membership of IORPS; and to identify regulatory and supervisory issues that need to be addressed.

Year's work

In the first part of the year, the OPC concentrated its resources on the finalization of the Budapest Protocol, following a second round of public consultation.⁶¹ The Protocol, which was approved in February 2006, sets out a framework for cooperation among Competent Authorities in the implementation of the IORP Directive in respect of cross-border activities of IORPS. It also includes the possibility for non-CEIOPS Member Authorities, who are 'Competent Authorities' under the IORP Directive, to submit to the terms of the Protocol by signing a Joinder Agreement.⁶²

Since the Protocol came into force, CEIOPS' Member Authorities have been putting in place procedures provided for in the Protocol and exchanging information required under the notification process that follows the first announcement by an IORP of its intention to operate cross-border.



Mihály Erdős
(Chair of Occupational Pensions Committee, PSZAF, Hungary)

⁵⁵ Advice to the European Commission on the treatment of 'deeply subordinated debt' (CEIOPS-DOC-01/06), May 2006, see website under Publications – Submissions to the EC.

⁵⁶ See website under Consultations Consultation Papers – CP 12

⁵⁷ CEIOPS-DOC-09/07, see website under Publications – Submissions to the EC.

⁵⁸ See chapter 5.1.0.

⁵⁹ See chapter 6.3.2 (3L3 Work Programme), and website under About CEIOPS – Work in Progress.

⁶⁰ See Chapter 6.3.0.

⁶¹ The consultation period ended on 28 November 2005, and led to the publication of the Protocol in February 2006, after having taken into account the comments received from stakeholders (CEIOPS-DOC-08/06, website under Publications-Protocols).

⁶² By April 2007, two non-CEIOPS Authorities have joined the Protocol: the Luxembourg Authority Inspection Générale de la Sécurité Sociale (IGSS) and the French Authority Comité des entreprises d'assurance (CEA).



During 2006 the OPC was busy collating experiences on the legal and practical implementation of the IORP Directive. This exercise involved carrying out a number of surveys on specific subject areas, in order to obtain an overall European picture. The subjects covered included the use of custodians and depositary institutions, the practical application of the Directive's investment rules, and the existence of insolvency protection institutions. To complement this work, the OPC started to collect information on the Member States' provisions regarding the Social and Labour Laws to be applied to IORPs operating cross-border.

In addition, in order to develop a common understanding of the provisions of the Directive, and therefore help increase the convergence of supervisory practices under it, the OPC undertook, early in 2007, a study to identify and consider areas of uncertainty in the Directive's provisions. Information is being collected from national jurisdictions on the interpretation of concepts such as 'fully funded', ring-fencing or the calculation of technical provisions.

The OPC held five meetings in 2006. The meetings, alongside their busy agendas, provided a valuable opportunity for the exchange of information among delegates. This facilitated further analysis of the different national pension systems and of the variations in supervisory approaches. It is CEIOPS' strongly held view that a better understanding of the various pension systems that exist in Europe and the sharing of supervisory experience contributes significantly to the supervisory convergence process.

The OPC has been monitoring closely developments in the European cross-border occupational pensions market since its inception. As a result of this activity, in March 2007 CEIOPS published a Report on Market Developments.⁶³ This report will be regularly updated.

Next steps

Over the coming months the OPC plans to continue with its surveys on specific subject areas, in order to improve the understanding of the implementation of the IORP Directive.

It will also continue with its study of the legal uncertainties surrounding certain provisions of the IORP Directive. This work will be extended to include areas that affect the supervision of IORPS operating cross-border. A paper highlighting the most pressing issues will form a basis for discussions with the European Commission and for developing workable solutions to current difficulties.

The ultimate aim behind the surveys and the study of legal uncertainties is to deliver a comprehensive report mapping out and comparing the various ways in which the IORP Directive has been implemented across the Member States. The report will also identify issues that arise and suggest possible solutions. It will consider the advisability of issuing Level 3 measures such as guidance and standards to further the convergence of supervisory practice. It is anticipated that the report will be finalised by the end of 2007

and that it will lead to an input to the European Commission for its revision of the IORP Directive scheduled for 2008.

The exchange of information among Member Competent Authorities on relevant Social and Labour Laws will continue, as will the exchange of information on problems faced by the different Authorities in the application of the Budapest Protocol in anticipation of its expected revision in 2010.

The OPC will continue to monitor the developments in the cross-border occupational pensions market, in order that its Report on Market Developments can be kept updated.

Agendas for OPC meetings in 2007 will continue to include presentations on national pension systems and their supervisory approaches to help educate Members and build mutual understanding.

The OPC will also continue to provide input to CEIOPS' Financial Stability Committee, for the macro-analysis of risks and their impact on financial stability in the occupational pension sector. The outcome will be a stability review of the pensions market, within the general Report on Financial Stability. The Financial Stability Committee's final Report is regularly delivered to the EU Economic and Financial Committee.⁶⁴

Finally, following its open approach to stakeholders, the OPC will continue its dialogue with relevant organisations, inviting their representatives to present their perspectives on and discuss issues of common interest

6.2.2. Insurance Groups Supervision

Introduction

Considerable effort and resources are being invested by CEIOPS' Members in the supervision of insurance groups within the current legislative framework. The aim is to provide supervisors with a holistic view of insurance groups in a resource effective manner for both supervisors and industry.

This work started in the predecessor body of CEIOPS, following the signing of the Helsinki Protocol⁶⁵ in May 2000. The insurance groups with cross-border activity in different EEA Member States were mapped. Then a Co-ordination Committee of supervisors (Co-Co) was established for each of these insurance groups.

The Co-Cos are composed of the national supervisors involved in the day-to-day supervision of the groups' entities. The main goal of the Co-Cos is to facilitate a common and global assessment of the financial position and management of each individual group. Co-Cos meet in order to discuss these issues within the context of supplementary supervision of the insurance group.



Patrick Brady
(Chair of Insurance Groups
Supervision Committee, IFSRA,
Ireland)

⁶³ See website under Publications-Reports.

⁶⁴ See website under Publications - Reports (section Reports on Financial Conditions and Stability).

⁶⁵ Protocol relating to the Collaboration of the Supervisory Authorities of the Member States of the European Union with regard to the Application of the Directive 98/78/EC on the Supplementary Supervision of Insurance Undertakings in an Insurance Group (DT/NL/194/00 Final), 11 May 2000, see website under Publications - Protocols.



Since October 2005 Patrick Brady, of the Irish Financial Services Regulatory Authority, has been the Chair of the Insurance Groups Supervision Committee (IGSC), succeeding its former Chair, Ole-Jørgen Karlsen, of the Norwegian Financial Supervisory Authority.

Under the Chairmanship of Ole-Jørgen Karlsen, Guidelines for Co-Cos were agreed by CEIOPS' Members.⁶⁶ These cover the preparation of and subjects to be treated at Co-Co meetings. In addition, CEIOPS issued recommendations to the European Commission on the Possible Need for Amendments of the Insurance Group Directive.⁶⁷

In 2006, the work of the IGSC moved on from the setting up of information exchange platforms and co-operation procedures, to enhancing convergence in practical supervisory co-operation. The IGSC also concentrated on ways to further enhance the operational network of Co-Cos.

Year's work

CEIOPS identified the need to enhance convergence in the way that supervisory co-operation is practised, in order to reduce the burden both for industry and supervisors involved. From this perspective, the operational network based on the Co-Cos was further developed within the limits of the present regulatory framework.

In December 2006, CEIOPS' Members issued a Statement regarding the tasks of lead supervisors. At the same time CEIOPS confirmed the intention to appoint a lead supervisor for each cross-border insurance group. The Statement⁶⁸ sets out the tasks of the lead supervisor in the context of supplementary supervision of insurance groups as laid down in the current Insurance Groups Directive. The lead supervisor assumes the roles and responsibilities of the lead supervisor and key coordinator as set out in the Helsinki Protocol and CEIOPS' Guidelines for Co-Cos. The lead supervisor, together with the other supervisors concerned, is expected to set out an annual supervisory work plan within the Co-Co, which will include carrying out tasks as part of a risk assessment. By the beginning of 2007, more than 70% of the Co-Cos had already appointed a lead supervisor.

Another important work-stream in 2006 related to the practical implications of the co-operation with the Swiss and US supervisors to enhance collaboration and the exchange of information regarding European insurance groups with head offices or affiliates in Switzerland or the United States.⁶⁹

Since the agreement of a MoU with the Swiss Federal Office of Private Insurance (FOPI) at the beginning of the year, its representatives were invited to join the meetings of the IGSC as observers. They participated in two meetings of the IGSC during 2006. In relevant cases, FOPI has also been appointed as lead supervisor of a Co-Co.

In relation to the US a Model MoU was agreed between CEIOPS and the NAIC to facilitate the bilateral exchange of information between EU supervisors and US state supervisors that had entered into such an understanding. As a second step the supervisors of four specific cross-border and cross-Atlantic groups, two based in the US and two based in the EU, were invited to conclude a MoU based on the Model agreement, and commence the exchange of information in respect of those groups.

Next steps

CEIOPS will follow up the intention of strengthening co-operation between insurance supervisors based on the results of a survey on the functioning of the Co-Cos in early 2007. Results of this survey are intended to be published in mid-2007.

Beyond CEIOPS' intention to reduce supervisory burdens and achieve further convergence between its Members, the IGSC expects to address in 2007 most of the other areas covered in its 2005 report on the Insurance Groups Directive, the Co-Co Guidelines and the statement issued in December 2006. The modalities to delegate tasks within Co-Cos for the supervision of groups will be further explored and a Risk Assessment System for groups to be followed by the Co-Cos will be developed. The IGSC will also look into the possibilities of aligning the reporting of intra-group transactions.

Transparency is important in enhancing the convergence of the methods of group supervision. In the first half of 2007, CEIOPS expects to publish the results of a mapping exercise on the ways the various options in the Insurance Groups Directive have been exercised.

Another important work-stream will remain the practical implications of co-operation with the Swiss and US supervisors relating to the supervision of groups.

Finally, the IGSC has been invited to develop some specific insurance provisions to be added to the existing MoU on financial crisis management in the banking area⁷⁰, thereby facilitating insurance supervisors to join these arrangements.

⁶⁶ Guidelines for Coordination Committees in the Context of Supplementary Supervision as Defined by the Insurance Groups Directive (98/78/EC), CEIOPS-DOC-02/05, February 2005, see Website under Publications - Standards, Guidelines and Recommendations.

⁶⁷ Recommendation on possible need for Amendments to the Insurance Groups Directive, CEIOPS-DOC-04/05, October 2005, see website under Publications - Submissions to the European Commission.

⁶⁸ Statement on the role of the lead supervisor in the Context of Supplementary Supervision as defined by the Insurance Groups Directive (98/78/EC), CEIOPS-DOC-07/06, December 2006, see website under Publications - Standards, Guidelines and Recommendations.

⁶⁹ For more details see chapter 6.4.0.

⁷⁰ The MoU on Financial Crisis Management was signed in June 2005 by EU Finance Ministries, Banking Supervisory Authorities and Central Banks.



Victor Rod
(Chair of Insurance Mediation
Expert Group, CaA, Luxembourg)

6.2.3. Insurance Mediation

Introduction

In 2002 the European Parliament and the Council of the European Union adopted the Insurance Mediation Directive ("IMD")⁷¹. The three main objectives of the IMD were clear. First, the introduction of a single passport, meaning that an insurance intermediary registered in the home Member State can carry out business activities in any EU State by way of freedom of establishment or freedom to provide services. Secondly, the protection of the consumer at European level, by establishing professional requirements for insurance intermediaries, by obliging them to provide information before the conclusion of contracts, and by setting up complaints procedures. And thirdly, the establishment of close cooperation between the competent authorities of the home and host Member States.

Year's work

In April 2006 the Insurance Mediation Expert Group (IMEG) finalised the Luxembourg Protocol⁷², which develops the procedure for exchanging information and cooperating in the supervision of cross-border activities of insurance intermediaries and facilitating their single registration in the EU. The Luxembourg Protocol also promotes a consistent implementation of the registration and notification procedures, by foreseeing special templates for those procedures. It covers consumer protection, in particular with the publication of a list mentioning the bodies/institutions competent for receiving complaints and the procedures for settling complaints out-of-court. The Protocol was concluded and published in April 2006.

The Netherlands Authority for the Financial Markets (Autoriteit Financiële Markten – AFM) – being a competent Authority under the Directive, but not a CEIOPS Member Authority – joined the Luxembourg Protocol in July 2006; the respective Authorities of Austria and France were invited to do so.

Following the conclusion of this significant project, the IMEG received a new mandate, endorsed by CEIOPS' Members Meeting in June 2006. The tasks of the Expert Group are now to deepen the common understanding of the IMD's provisions amongst the competent authorities, to facilitate further convergence in the effective implementation of the Directive, by sharing experience in its application and by identifying and disseminating best practice. Where appropriate, the IMEG should prepare advice and recommendations to the European Commission on supervisory issues arising from the implementation of the Directive, or relating to the improvement of its provisions, and continue to facilitate the co-operation, co-ordination and exchange of information between competent authorities on the supervision of insurance intermediaries.

In setting its priorities for the Work Plan 2006/2007 according to its new assigned tasks, the IMEG agreed to provide a status report on the implementation of the key provisions of the IMD, based on a questionnaire to IMEG members. The report's first aim is to indicate how the different key provisions of the IMD were implemented in the different Member States and, in the light of this, to identify areas where further efforts are needed. In addition, the report aims at facilitating further convergence in implementing the Directive by sharing experience in applying it, and at identifying best practice or proposals for amending or clarifying the Directive and/or the Protocol. The final report was approved by CEIOPS and published in March 2007.⁷³

Besides this substantial work, the IMEG, at the European Commission's request to CEIOPS, was mandated to work on a proposal for defining cross-border services under the IMD. This request was made following an EIOPC meeting in November 2006, in which the European Commission had presented a proposal on such a definition, which had led to interesting and controversial discussion. A CEIOPS proposal on possible definitions will be sent to the European Commission later this year, for consideration and further analysis by the EIOPC.

Finally, IMEG members are taking advantage of their regular meetings to exchange views on any issues arising from the practical implementation of the IMD, or from experience of supervising intermediaries under the Directive's provisions, on which advice and recommendations to the Commission might be considered.

Next steps

The note to the European Commission presenting different proposals for defining cross-border services under the IMD, giving their pros and cons, is expected to be finalised by mid-2007.

Following the mapping exercise on the implementation of the IMD's key issues and the publication of the resulting report, and based on further discussions on issues arising from the practical implementation of the Directive, CEIOPS intends to make suggestions for amending and/or clarifying the IMD, with a view to improving and facilitating the regulation of cross-border services and enhancing consistent supervision of insurance intermediaries. This might also lead to a revision of the Luxembourg Protocol, if the supervisory practice shows any need for amendment or further convergence.

⁷¹ Directive 2002/92/EC of the European Parliament and the Council of 9 December 2002 on Insurance Mediation, OJ L9 of 15.01.2003.

⁷² see website under Publications – Protocols.

⁷³ CEIOPS' Report on the Implementation of the Insurance Mediation Directive's Key Provisions (CEIOPS-DOC-09/07), March 2007, see website under Publications – Submissions to the EC



6.2.4. Accounting

Introduction

CEIOPS, through its Pillar III and Accounting Expert Group chaired by Gabriel Bernardino, Portugal, also follows the developments of accounting issues with relevance to EU supervisors.

In particular, the Group follows the work of the International Accounting Standards Board and carries out the preparatory work for CEIOPS' contribution both to the International Financial Reporting Standards-making process and to the related EU endorsement process. To this end, CEIOPS is represented in the Accounting Regulatory Committee (ARC) and in the Insurance Working Group of the European Financial Reporting Advisory Group (EFRAG). It also deals with interrelationships between financial statements and supervisory reporting and acts as an information-sharing platform in the field of accounting. CEIOPS also participates, where relevant, in the Roundtable on consistent IFRS application, which was established at the beginning of 2006. Its tasks are to support the consistent application of IFRS, by identifying issues with a risk of divergent application, and to recommend which of those should be taken up by IFRIC. It does not provide any interpretations or guidance on a consistent application itself, but supports IFRIC in identifying and analysing issues that need a common approach.

Year's work

In its work on Solvency II, CEIOPS supports the effort to achieve a single set of accounts that could be used for both general purpose financial reporting and regulatory reporting, with as few adjustments as possible. Even though IAS/IFRS are not aimed at supervisory purposes, CEIOPS believes that the policy and methodologies used for drawing up public financial statements should, as far as possible, be compatible with prudential purposes as well, in order to reconcile easily public financial statements with the reporting system used in applying the supervisory regime.

In June 2006, CEIOPS took part in an educational session of the IASB together with representatives of the IAIS Insurance Contracts Subcommittee and the International Actuarial Association, to update the Board on the work on Solvency II and other insurance related projects with relevance for the IASB Phase II of the insurance contracts project. CEIOPS believes that an open and constructive dialogue with the IASB is important in order to contribute to the ultimate goal of appropriate consistency between prudential and general purpose financial reporting. In this context, CEIOPS wrote a letter to the IASB to express views regarding the principles that would support the valuation of insurance liabilities under Phase II. CEIOPS also participated as an observer in the EFRAG Insurance Accounting Working Group (IAWG) where it contributed to the discussion regarding the future IASB Phase II project.

Next steps

A Discussion Paper of the IASB on insurance contracts, Phase II, is expected to be issued for comments in May 2007. CEIOPS will analyse the paper and give comments to the IASB to foster further consistency.

6.2.5. Financial Stability

In the past year the FSC, chaired by Klaas Knot (DNB, The Netherlands) has further refined its risk-based approach for monitoring financial stability in the European (re)insurance and occupational pension fund sector. The monitoring benefited from the newly developed statistical reporting framework for the pension fund and fast-track reporting framework for the insurance sector. In addition, a first report on the financial condition of financial conglomerates was produced.

Introduction

A long-term objective of the Financial Stability Committee is to establish a macro-prudential surveillance framework for analysing the developments in the insurance and occupational pension fund sectors and monitoring the interplay with financial stability. For this purpose the Committee has prepared a common reporting system for the (re)insurance sector as well as, in 2006, the pension fund sector, and has inter alia addressed the challenge posed by the fact that reporting formats and deadlines have not been harmonized in the EU. Activities resulting from the objective cover the preparation of an annual report and a six-monthly update of developments in the European (re)insurance and occupational pension fund sectors, illustrated by detailed statistical information and highlighting trends that emerge. Also a first report on the financial condition of financial conglomerates was produced. The reports are presented for discussion on the macro-financial conditions and overall stability of the EU financial system in various international committees, e.g. the Financial Stability Table organised by the Economic and Financial Committee (EFC-FST) and annually at the Banking Supervision Committee of the European Central Bank.

Years' work

FINANCIAL STABILITY REPORTS

The 2006 spring report, being primarily based on market information, covered for the first time an extensive annex on the European occupational pension fund sector based on the newly developed reporting framework for this area. The report also covered a special box on the actual developments in the reinsurance market. The spring report benefited from the newly developed fast-track reporting framework that enables the reporting of key figures from a number of major European insurance groups or companies (covering at least 50 percent of the market, and preferably 70 percent or

higher) for 2004 and 2005. It enabled the Committee to conduct a quick scan of the developments on the insurance market after the years' end and to facilitate a first exchange of views on topical market developments in the insurance sector. The 2006 autumn report, primarily based on supervisory information for 2003 – 2005 summarized in a statistical annex, included two special boxes: the increasing appetite for long-term and inflation-linked bonds, and Solvency II and portfolio reallocations by EU insurers, assessing the potential impact of the new solvency framework on the investment by insurance firms.

The stability analysis strongly benefited from the risk analysis that was further developed over the last year. Member countries are requested to provide an evaluation of up to five of the most important risks and challenges facing (re)insurers and pension funds in their markets, accompanied by a qualitative assessment of the risks, any recent developments and mitigation action taken to address the issue. The overview presents an interesting and actual summary of the current risks and challenges as perceived by the national supervisor, and indicates the current focus of policy and actions of supervisors and insurance undertakings. The newly developed reporting frameworks imply that the financial stability reports now fully cover the three sectors (insurance, reinsurance and pension funds).

Both semi-annual reports have been published on CEIOPS' web-site.⁷⁴

FINANCIAL CONGLOMERATES

During the last year, the Interim Working Committee on Financial Conglomerates (IWCF) had invited the Financial Stability Committee to prepare a short report on the financial condition of financial conglomerates for the benefit of the discussion at the EFC-FST. The Committee prepared a first report in co-operation with the BSC-WGMA (Banking Supervision Committee-Working Group on Macroprudential Analysis), which was presented at the EFC-FST in September 2006. The report on the "Structure of European Financial Conglomerates and potential threats to financial stability" was based on publicly available information, supplemented with the results from a qualitative questionnaire among supervisors. The report covered the landscape of financial conglomerates within the EU/EEA, the reasons of conglomeration and an assessment of the risks and challenges financial conglomerates are faced with.

IMPACT ASSESSMENT GUIDELINES

In liaison with CEIOPS (FSC) and CEBS, CESR Econet has prepared a common 3L3 methodology for impact assessment (IA). IA can help identify the effects of supervision or regulation on markets and consumers. The methodology is suitable for all financial supervisory and regulatory policies and practices. The methodology is essentially designed to be used as a practical handbook, to guide the Level 3 Committees' expert/working groups in using IA as part of their policy analysis and recommendations. It could assist work

on L2 or L3 issues, from the initial mandate stage, through to public consultation, feedback, and ex-post review. The methodology will be finalised after having been tested by three pilot studies during 2007.

Next steps

From the IWCF, it was desired to prepare a methodological note assessing the technical requirements and resources for carrying out the joint work on financial conglomerates for the regular discussions at the EFC's annual FST, drawing on expertise from the banking and insurance side. To this end, a joint task force of CEIOPS' Financial Stability Committee and BSC-WGMA was created. This note has been approved during spring 2007, after which another regular report on the financial condition of financial conglomerates will follow.

In 2007, the Financial Stability Committee will also start with the collection of data on insurance groups.

6.2.6. Task Force on Convergence and Impact Assessment

Introduction

CEIOPS, carrying out its institutional task to foster supervisory convergence, set up its Task Force on CONvergence and iMPact aSSessment (alias COMPASS) in February 2006. CEIOPS' work in the field of convergence should also be seen in conjunction with the analysis and recommendations being developed by the EU Economic and Financial Committee (EFC) and Financial Services Committee (FSC) on financial supervision, with the purpose of identifying guidance to enhance supervisory convergence in the financial sectors.

The aim of the Task Force is to support the creation of a European culture of supervision, by facilitating the exchange of staff between supervisory authorities and by analyzing how to organize EU wide training schemes. COMPASS carried out a first analysis and presented proposals in this area to CEIOPS' Members in 2006.

In addition, the European Commission asked CEIOPS to deliver input for its impact assessment of the Solvency II project on supervisory authorities. COMPASS was mandated to prepare and carry out this assessment.

Year's work

In the area of training and staff exchange COMPASS decided to map the insurance and pension funds supervisory authorities' needs and potential by carrying out a survey. This survey was answered by 25 of the supervisory authorities competent in the field of insurance and occupational pensions answered. The survey revealed a number of possible short and long-term



Michel Flamée

(Chair of Convergence Committee, CBFA, Belgium)

⁷⁴ See Publications – Reports.



actions, which were adopted by CEIOPS at the end of 2006. In the short term several seminars will be organized. A first seminar on Solvency II was organized in October 2006. Around 60 supervisors attended. A second will be held in June 2007.

Another means envisaged in the short term is to use CEIOPS' website intensively and pro-actively, by providing information on courses available in individual supervisory authorities and other bodies, and developing a directory with contact points within each supervisory authority for training and staff exchange. Supervisory authorities were also recommended to start with the easy-to-conduct staff exchanges as short-term secondments.

For the longer term, COMPASS proposed to develop an overall training programme for EU insurance and pension funds supervisors with the support of CEIOPS' Members. Another means identified was the setting up of a descriptive manual on how to resolve tax, social security and other issues related to secondment and to establish a co-ordination point of CEIOPS' Members' activities for training and staff exchange.

In relation to the second aspect, assessing the impact of Solvency II on supervisors, a questionnaire was designed to be answered by CEIOPS' Members to obtain an overview on how the new supervisory framework will affect supervision and how supervisory authorities intend to organise themselves facing the new challenges posed by Solvency II. CEIOPS' Members were invited to answer questions on their general supervisory methodology, including their supervisory tools, on the institutional organization of the supervisory authority and on human resources, both in terms of staff numbers and skills. The questionnaire was answered by 26 of CEIOPS' member authorities competent for the prudential supervision of insurance undertakings.⁷⁵

Many supervisory authorities indicated in their answers that they had already started modernizing their supervisory tools and procedures following the implementation of, for example, recent Directives, or an assessment of the insurance supervisory system by the International Monetary Fund. Tools will be developed further, as soon as more details of Solvency II become known. Supervisory authorities expect the largest impact on their supervisory practices to be caused by internal models and their validation, the introduction of the standard formula and the calculation of technical provisions. Also the impact on reporting systems is specifically mentioned, and more than half of the supervisory authorities point out the need for deeper and increased information exchange under Solvency II. All supervisors mentioned the training of staff as a very effective way to prepare their organisation for the Solvency II era.

Next steps

In 2007, the previous year's work on training and exchange of staff in the insurance and occupational pension sectors needs to be progressed by draft-

ing an action plan containing the actual implementation of specific actions adopted by CEIOPS in 2006. This will be done in close co-operation with the CEIOPS Secretariat. It was started with the dissemination, through CEIOPS' website, of the documentation and information that has been gathered so far in the above mentioned survey.

CEIOPS has issued a sectoral Training Programme for 2007, with four training sessions for supervisors: two on Solvency II (one for beginners and one for advanced), one on occupational pension issues and one on insurance groups. All Seminars included in the CEIOPS Training Programme, being addressed to staff members of the Supervisory Authorities, are characterized by a specific focus on practical aspects of supervision, besides the explanation of the specific sectoral background.

During 2007 the training issue will be analyzed also in the three Level 3 context, in the light of the possible creation of a common training platform, in which sectoral and cross sectoral issues could be synergic and coordinated.⁷⁶

At the beginning of 2007 the former COMPASS was transformed into a permanent CEIOPS Committee. Its scope of responsibilities has been extended to other tools relevant to fostering convergence of day-to-day supervisory practices, such as peer reviews and mediation mechanisms, and the participation of CEIOPS' membership in the group has been widened.

The currently titled Convergence Committee (ConCo) will continue work in close co-ordination with any initiative taken at cross-sector level by the three Level 3 Committees. In this respect the feasibility of setting up a joint training initiative for cross-sectoral topics will be investigated together. In particular, the ConCo has been mandated to explore preconditions for the establishment of a mediation mechanism for insurance and pension funds supervision, and to present a report to CEIOPS' Members' Meeting by the end of 2007.

⁷⁵ See website under Publications - Submissions to the EC.

⁷⁶ See chapter 6.3.2 (3L3 Work Programme).



6.3.0. Cross sector cooperation on convergence

6.3.1. Supervisory convergence across sectors

2006 was the first year that the three Level 3 Committees had a joint Work Programme, which was published in February 2006 and built on the Joint Protocol signed by the three Committees on 24 November 2005.⁷⁷

The objectives of the cooperation between the three Committees are set out in the Joint Protocol and include (i) sharing information in order to ensure compatible sector approaches are developed; (ii) exchanging experiences which can facilitate supervisors' ability to cooperate; (iii) producing joint work or reports to relevant EU Institutions and Committees; (iv) reducing supervisory burdens and streamlining processes; and (v) ensuring the basic functioning of the three Committees develops along parallel lines.

In light of the need for convergence to take place across sectors wherever possible and appropriate, and given the increasing importance of market integration and cross-sector business activities within the EU, the objective of the Work Programme is to make supervisory cooperation transparent across financial sectors and to enhance the consistency between the sectors so that work done in one financial sector is coherent with the work developed in the others.

The Committees have established liaison contacts for the daily contacts that take place between the Committees, as well as specific contact persons for each of the different work-streams set out in the 3L3 Work Programme.

The Secretariats and Chairs of the Committees meet on a regular basis. During the course of 2006 there were three 3L3 Secretariats and three 3L3 Chairs meetings.

The work done under the 3L3 Work Programme 2006 can be divided into four sections as A. joint work, B. consistency projects, C. reports to EU institutions and D. information exchange:

A. Joint Work

1. FINANCIAL CONGLOMERATES

The work on financial conglomerates is led by CEBS and CEIOPS, with CESR participating as an observer. Preparations were started by the Committees in late 2005 to form an Interim Working Committee on Financial Conglomerates (IWCF), which came into being in early 2006. It is chaired by Arnold Schilder (CEBS Member) and vice-chaired by Michel Flamée (CEIOPS Member). The decision to set up this Committee involved the EU supervisors in banking and insurance in the three Level 3 Committees, the European Commission and the finance ministries in the European Financial Conglomerates Committee (EFCC). The EFCC needs expert input on financial conglomerates issues to feed its

discussions for example when reviewing the Financial Conglomerates Directive (FCD). The European Commission confirmed in a letter to the IWCF Chair in November 2006 its expectations of the IWCF to address the unique challenges posed by conglomerates.

The Committee's work focuses on the consistent implementation of the FCD, looking at the convergence of national supervisory practices on issues such as the assessment of capital requirements, and tackling issues related to the identification, cooperation and coordination requirements.

The IWCF met on three occasions in 2006, with a first meeting in May 2006. Most of the Committee's work in 2006 has led to exchanging information arising from the way the FCD has been implemented in the different Member States. In addition the Committee has been working on two draft Calls for Advice from the European Commission and the EFCC. These cover an investigation into the eligibility of capital in the different sectors, and a joint exercise on the arrangements for supervision in the US and Switzerland.

The work of the Committee resulted in January 2007 in the publication of IWCF's report on eligibility of capital instruments. The report analyses the main similarities and differences of the characteristics of regulatory capital for a bank, an investment firm and an insurance entity. The IWCF found that most eligible capital instruments - although named differently - are in fact common in the banking and insurance sectors and share the same core characteristics. However there are important differences as well, which can be explained by the differences in the nature of business of each sector, or by differences in the calculation of eligible capital elements and the way they are taken into account at group level.

The IWCF has a full Work Programme for 2007. In 2007 it will analyse the impact and consequences that any differences in the sector rules on eligible capital elements might have for the supervision of financial conglomerates. In 2008 it plans to deliver answers in the form of a roadmap on that issue. By end 2007 the Committee will also provide the European Commission with some technical analysis on the arrangements for consolidated supervision of financial conglomerates in the US and in Switzerland. Thirdly, the Committee will work on the identification of conglomerates and the use of the waiver provided by Article 3.3 of the FCD. Fourthly, the Committee will work on co-operation arrangements between authorities involved in the supervision of each financial conglomerate. Finally, the IWCF will start to work in detail on the key risks for conglomerates, such as concentration risk and intra-group transactions. Throughout, it will continue its dialogues already opened with the industry, such as presentations and case studies.

2. JOINT DEFINITIONS OF STANDARDS, GUIDELINES AND RECOMMENDATIONS

The three Committees aimed at aligning the common application of the terms used to describe Level 3 measures, namely "standards, guidelines and recommendations" in each of the Committees. During the course of this work, it became apparent that due to the legal limitations inherent in the use

⁷⁷ See website under Publications – Protocols.



of Level 3 measures and the varying historical traditions of how these terms have been applied in each of the respective Committees, the terms are actually interchangeable in and across the sectors. As such, the Committees have agreed that an attempt to harmonise the use of the terms would not have added value, though a description of their use and expected effect would. The results of this work are described in chapter 6.3.3.

B. Consistency projects to reduce supervisory burdens and streamlining processes

1. OUTSOURCING

The joint work that the Committees undertook to ensure that to the greatest extent possible there would be consistency and alignment between the outsourcing rules set out in the MiFID Level 2 measures, and the CEBS Level 3 guidelines on outsourcing, has been completed following the adoption of the MiFID regulation in August and CEBS publication of its guidelines in December, including a table of the mapping of the compatibility of the sector work.

2. SUPERVISORY COOPERATION

The Secretariats of the three Committees have been working on a comprehensive report comparing the regulatory approaches and cooperative arrangements in place between the various supervisors. This will help share information on methods and practices across the sectors. The report is due to be finalised during the first half of 2007.

3. REPORTING REQUIREMENTS

The three Committees issued a questionnaire to a number of conglomerates in the EU with the objective of identifying possible inconsistencies between sectors in the application of reporting requirements in the EU. The responses to the questionnaire are being analysed and the results will be presented in the first half of 2007. As a first impression, it is noted by the respondents that overlap on a cross sector basis is not the main issue when looking at reporting requirements.

4. INTERNAL GOVERNANCE

During the course of 2006, the 3L3 Committees have been examining the internal governance rules that exist within the three sectors. The analysis is being debated by the Members of the three Committees, both regarding the similarities and the differences in sector requirements and guidelines. It is anticipated that during the second half of 2007, the three Committees will decide what further work in this area should be done.

5. SUBSTITUTE PRODUCTS

The Committees have increased their cooperation on the issue of substitute products, i.e. products which have essentially the same characteristics for clients, but

are issued by institutions regulated in different sectors. There can be 'conduct of business' concerns as well as different burdens if there is no level playing field regarding the requirements to provide e.g. information to clients. This work will continue into 2007, based on a cross-sector survey amongst supervisors on the approach to substitute products at a domestic level, and on the issues supervisors should look into at an EU level.

C. Reports to the European Institutions

FINANCIAL MARKET TRENDS AND CROSS SECTOR RISKS

As set out in other sections of this report the three Committees have contributed to the work of the Economic and Financial Committee's Financial Stability Table (EFC/FST) through the meetings this Committee held in April and September.

For the April 2006 EFC/FST meeting, the three Committees prepared a report on cross-sector aspects regarding the functioning of bond markets in the European Market. The report, which was very well received, dealt with the bond markets' primary and secondary markets and raised a number of points highlighted by market participants who had participated in the wholesale day arranged by CESR in February 2006.

For the September 2006 Financial Stability Table the three Committees provided the FST with an annual cross-sector report on risks. The first part of the report dealt with conglomerates and the second part with possible regulatory arbitrage between the insurance and banking sectors deriving from the application of IFRS. For the same meeting, the Committees also provided a survey on EU approaches to supervision of offshore financial centres.

OTHER ISSUES

In addition to the above, the Committees also commented jointly on proposals made by EU Institutions where felt necessary and appropriate. The three Committees sent a joint technical letter to the European Commission in September 2006 regarding the proposal to amend the procedural rules and evaluation criteria for the prudential assessment of acquisitions and increase of shareholdings in the financial sector. Following the letter, changes to the directives were made.

During the course of 2006, the Commission gave the three Level 3 Committees a mandate to work on issues relating to the 3rd Anti-Money Laundering Directive (Directive 2005/60/EC). A cross-sector Task Force on Anti-Money Laundering issues has been set up by the three Committees, under the Chairmanship of the CEBS Secretary General. A cross-sector mandate was agreed by all Committees in the autumn. The Committees will conduct a stocktaking of the responsibilities of EEA financial supervisors, survey practical issues facing supervisors, and provide expert input into the contributions that the EU Committee of the Preventions of Money Laundering and Terrorist Financing (CPMLTF) will request from the three Committees.



D. Information exchange

In addition to the items covered under sections A, B and C of the 3L3 Work Programme the Committees have exchanged information on all issues set out under this section of the Work Programme, which is resulting in benefits such as identical or similar developments in areas such as peer review, impact assessment and mediation, as well as in the abovementioned work on substitute products and on the cross sector changes to directives on acquisitions.

Next steps

The analytical reports on Supervisory Cooperation, Reporting Requirements and Internal Governance will be finalised during the first half of 2007, following which a decision regarding how to proceed in relation to these areas will be made. In 2007 the Committees will continue and strengthen their common work according to the new 3L3 Work Programme 2007.⁷⁸ The work will be very heavily focused on the Lamfalussy review that takes place in 2007, which will require considerable common work in relation to the reports that the three Level 3 Committees will produce, and the May 2006 ECOFIN conclusions.

The three Level 3 Committees will also endeavour to define a more strategic view of their common work and will during the course of the spring hold a meeting of a joint 3L3 strategic task force with a view to establishing a common longer term perspective on 3L3 work.

6.3.2. 3L3 Work Programme 2007

This 3L3 work programme for 2007 is developed in accordance with the Joint Protocol of 24 November 2005. The items included have been selected on the basis of a "significance test" based on three criteria: CESR, CEBS and CEIOPS agreed to focus their joint work only on those topics for which a) there is a high risk of disruptive regulatory arbitrage, b) cross-sector cooperation can deliver obvious gains in the effective conduct of supervisory activities, and c) co-operation between the three Committees could bring about a real efficiency gain. In the work programme some issues are referred to as "priority", meaning that they will be treated as especially important and will be done in 2007. The Committees may find other areas of common concern during the course of the year, depending (inter alia) on changes in the markets and regulatory initiatives and the results of analytical reports which are currently being prepared.

A. Joint Work

This section of the work programme sets out work which is to be carried out jointly by the three Committees, and which should result in joint output.

A.1. FINANCIAL CONGLOMERATES (PRIORITY ISSUE)

The joint Interim Working Committee on Financial Conglomerates (IWCFC) will focus on the identification and mapping of conglomerates and on the framework and process for supervisory cooperation.

Technical input to the Commission will be provided in the area of capital requirements for financial conglomerates, focusing on (a) a comparison of sectoral rules for eligibility of capital instruments, (b) an analysis of the consequences of the sectoral rules for the supervision of financial conglomerates, (c) recommendations relevant to the supervision of financial conglomerates.

In close connection with related work for banking, the IWCFC will also provide technical analysis of the equivalence of Third Countries supervision, focused in particular on Switzerland and the United States.

A.2. INTEGRITY

The Committees will work jointly to ensure consistency of approaches in the prevention of money laundering and Terrorist financing (AML/CFT) and in the approach to Off-Shore Centres and non-cooperative jurisdictions (OFCs).

- ▶ AML/CFT: the Committees will support convergence of supervisory practices in the implementation of Directive 2005/60/EC (so-called Third Anti-Money Laundering Directive). In particular, they will conduct a mapping of responsibilities, resources and instruments of national authorities – by mid-2007 – and a survey of practical issues emerging in the implementation of the Directive – by late 2007.
- ▶ The Committees will jointly work to fulfil the tasks included in the terms of reference of the Financial Stability Table of the EFC. In the course of 2007 they will develop sector specific databases facilitating the exchange of supervisory information concerning OFCs. The Committees will also start exploring possible approaches for the supervision of financial business in such jurisdictions, focusing in particular on internal governance issues. This work, to be conducted in close connection with global fora such as the Financial Stability Forum, will extend into 2008.

A.3. JOINT OVERVIEW OF 'FIT AND PROPER' CRITERIA ON MANAGERS

The Committees will review the "fit and proper" criteria for managers across the sectors with a view to have a clear benchmark for convergence of supervisory practices when new legislation in the area of cross-border mergers is in place. This is a priority project, but the precise timing will be defined with reference to the finalisation of the review of relevant Community legislation.

⁷⁸ See the following chapter (3L3 Work Programme).



B. Consistency projects to reduce supervisory burdens and streamline processes

This section of the work programme sets out mapping and comparison of sector work projects that aim at streamlining processes and developing consistent approaches across sectors. This might lead to future joint initiatives. Under this heading have been introduced a number of new tasks that can be derived from the implementation of the so called Francq report, endorsed by ECOFIN in its conclusions of 5 May 2006.

B.1. 3L3 CONSISTENCY ON FRANCO REPORT ISSUES (PRIORITY ISSUES)

The 3L3 Committees will actively cooperate to ensure consistency of approaches in the implementation of the ECOFIN recommendations on financial supervision (so-called Francq recommendations). In particular, close connections will be established between sector work on:

- ▶ Efforts to enhance a common supervisory culture (training, staff exchanges, etc.)
- ▶ Peer review and mediation
- ▶ Better regulation, with a particular focus on impact assessments
- ▶ Delegation of tasks

B.2. OWN FUNDS (PRIORITY ISSUE)

Following the comparison of capital elements eligible for (and deductible from) own funds of banks, investment firms and insurance companies, the 3L3 will analyse in 2007 the impact of the differences and consider how relevant issues can be addressed.

B.3. FINALISATION AND FOLLOW-UP TO OTHER ANALYTICAL WORK FROM 2006 (PRIORITY ISSUE)

In the first quarter of 2007 the Committees will complete analytical reports on:

- ▶ Internal governance
- ▶ Reporting requirements
- ▶ Supervisory cooperation
- ▶ Substitute products and related level playing field issues

The reports should serve as the basis for a first analysis by the three Committees, assessing whether there are different approaches, highlighting where each Committee might benefit from experience gained in other sectors, and checking whether further detailed analysis and/or cross-sector harmonisation are deemed useful.

In particular – following the initial work - the issue of the selling and marketing of substitute products (financial instruments, bank saving products, and insurance saving products) may require to joint work in a manner to be defined under heading A during the course of 2007.

For more detailed information, reference is made to the 3L3 Work Programme 2006.

B.4. COMMODITIES FIRMS' SUPERVISION - POSSIBLE 3L3 ITEM

The CEBS' review of prudential supervisory practices and prudential risks that arise from conduct of commodities business advice on commodities firms, will be finalized in 2007. As a contribution from CESR is expected within the framework of the call for evidence on commodities firms recently issued by the Commission, CEBS and CESR will cooperate closely to ensure consistency of approaches in this area. CEIOPS will continue to liaise with CEBS and CESR in view of its work on Solvency II.

C. Reports to European Institutions

C.1. FINANCIAL MARKET TRENDS, CROSS SECTOR RISKS/CONVERGENCE (PRIORITY SUBJECT)

On cross sector risks and on cross sector convergence, the Committees will continue to report jointly to European institutions and/or EU committees, such as the ECON Committee of the European Parliament, the Financial Stability Table of the EFC or the Financial Services Committee (FSC).

C.2. 3L3 JOINT ANNUAL REPORT/MEDIUM TERM AGENDA

A joint 3L3 report for 2007 will be prepared for the FSC, including a backward looking section on the results already achieved under the Joint Protocol and the 3L3 Work Programme 2006, and a forward looking section to identify a 2/3 years' work agenda and priorities.

D. Information points for the exchange of experiences

On the following issues the Committees will exchange information on their respective work in progress, with the aim of identifying the need for any further specific action. Need for such information may be on a continuous basis or on an ad-hoc basis.

1. Solvency II/Basel II
2. Enforcement of IFRS
3. Audit Committee representation
4. Deposit insurance/Investor compensation/Insurance guarantee
5. Mutual funds/Hedge funds
6. External Credit Assessment Institutions/Credit Rating Agencies
7. Clearing and settlement
8. IT data sharing arrangements, including sharing of set-up and maintenance costs
9. Crisis Management



6.3.3. Use of 3L3 Definitions - 'Standards', 'Guidelines', 'Recommendations'

CEBS, CEIOPS and CESR (the 3L3 Committees) issue Standards, Guidelines and Recommendations for their financial services sectors.

In doing so they fulfil a core function set for them. The Lamfalussy report⁷⁹, now covering the securities, banking, insurance and occupational pensions financial sectors, provides their key objective as "to greatly improve the common and uniform implementation of Community rules" and that therefore, they should:

- ▶ "produce consistent guidelines for the administrative regulations to be adopted at the national level;
- ▶ issue joint interpretative recommendations and set common standards regarding matters not covered by EU legislation – where necessary, these could be adopted into Community Law through a Level 2 procedure;
- ▶ compare and review regulatory practices to ensure effective enforcement throughout the Union and define best practice;
- ▶ periodically conduct peer reviews of administrative regulation and regulatory practices in member states, reporting their results to the Commission and to the ESC."

It is clarified that "the outcome of this work would be non-binding although clearly it would carry considerable authority." This applies to each of the three titles, so that the use of any of them would have that effect.

The 3L3 Committees have their own individual constitutional Charters. Their financial sectors have sector-specific law, regulation, rules and practice. There is some crossover, yet there are consequential differences between the sectors as to purposes and meanings.

To clarify, and help distinguish where there is EU supervisory cross-sector convergence, the 3L3 Committees have jointly reached an understanding regarding the future use of the titles 'Standards', 'Guidelines' and 'Recommendations', for their publications:

- ▶ The titles will continue to be used for those Level 3 publications which aim to achieve the common and uniform implementation of Community rules.
- ▶ The 3L3 Committees' choice between the three titles may be sector-specific.
- ▶ The 3L3 Committees may therefore use the titles either independently of each other, without subjecting them to 3L3 parallel use, or jointly with each other, for example to reflect some 3L3 parallel use.
- ▶ The titles will be used for publications linked to future peer pressure, where possible and useful, supported by a Level 3 Committee mechanism, for example Peer Review or Mediation.
- ▶ If a 3L3 Committee does not need a particular title, it need not use that title at all.

Publications which do not have the aims stated above, should be given different titles from these, such as Reports, Q&A's, Agreements executed by all Members, Speeches, or Press Statements.

6.4.0. The International Environment - Cooperation with Third Countries

CEIOPS' engagement in the international field continues as in the past, with some of its activities having developed from a general level to a practical, co-operational level, and some activities intensified.

As to the international organisations active in the fields of insurance and occupational pensions, the situation is practically unchanged. CEIOPS follows and provides its input to their activities indirectly, through its Members. All CEIOPS insurance supervisory authorities are Members of the International Association of Insurance Supervisors (IAIS).⁸⁰ Many of CEIOPS' Members are also members of the International Organization of Pension Supervisors (IOPS).⁸¹ In relation to these organisations, CEIOPS primarily serves as a platform for exchanging information and coordinating positions between its Members. In addition, informal contacts with the Secretariats of the IAIS and IOPS are maintained, to keep each other informed about the respective work programmes and discuss issues of common interest.

In the field of accounting, CEIOPS is in close contact with the relevant international bodies, as its work, especially related to the Solvency II framework, is bound up with the development of the international accounting rules. In this regard, the relationship with the IASB has been, and will be further, intensified.⁸²

Besides these activities, CEIOPS has been in close contact with individual supervisory authorities, in particular with the insurance supervisory authorities of Switzerland and the United States. In 2006, contacts have been newly established with the supervisory Authority of China.

6.4.1. Cooperation with Swiss Supervisory Authority

A number of insurance groups supervised by EU/EEA authorities have their holding company or a group subsidiary company in Switzerland. In these cases an exchange of information with the Swiss Insurance Supervisory Authority (FOPI) is essential for an effective implementation of the EU-Insurance Groups Directive. In February 2006 CEIOPS and FOPI concluded a Memorandum of Understanding (MoU) with the aim of formalizing EU-Swiss cooperation. This common initiative led to a "collective bilateral" agreement⁸³, with FOPI on one side, and the relevant CEIOPS Member Authorities on the other. The signing process was completed in May 2007, including for the Bulgarian and Romanian competent authorities.⁸⁴

The purpose of the MoU is to establish a formal basis for co-operation, including the exchange of information and assistance. The most important aspect deriving from the MoU is the participation of FOPI in the meetings of all Co-Cos⁸⁵ in which a Swiss insurance undertaking is involved.

⁷⁹ Final Report of the Committee of Wise Men on the Regulation of European Securities Markets (Brussels, 15 February 2001), http://europa.eu.int/comm/internal_market/securities/docs/lamfalussy/wisemen/final-report-wise-men_en.pdf, p. 37f

⁸⁰ The IAIS was established in 1994. It represents insurance regulators and supervisors of some 180 jurisdictions. Michel Flamée (CBFA, Belgium) was elected Chair of the IAIS Executive Committee in February 2007, after having served as its Vice-Chair since October 2004. One third of the members of the Executive Committee and an important number of chairs of its Working Groups are chaired by CEIOPS Members; see www.iaisweb.org

⁸¹ The IOPS was founded in July 2004. Currently 16 of CEIOPS' Members and Observers are also governing members of the IOPS. The organization is chaired by John Ashcroft (UK-The Pensions Regulator); further information see www.iopsweb.org

⁸² For more details, see chapter 6.2.4.

⁸³ The text of the MoU can be found on the website under Publications - Protocols.

⁸⁴ The MoU is relevant only for insurance supervisory authorities, not for pension supervisors, and especially for those authorities participating in group supervision. A list of all signatories can be found on the website under Publications-Protocols.

⁸⁵ See details in chapter 6.2.2.



Alessandro Iuppa, speaking as NAIC President at CEIOPS' second Annual Conference in November 2006

FOPI representatives have in the past year been invited to attend the Co-Cos of several European insurance groups to which the IGD applies and have been appointed as a lead supervisor for three insurance groups active in the EU and Switzerland. In addition, FOPI is participating in meetings of the Insurance Groups Supervision Committee (IGSC), the "umbrella Committee" of the individual Co-Cos, whenever the agenda makes their participation necessary.

6.4.2. Cooperation with US Supervisory Authorities

The EU-US Dialogue comprises insurance supervisory authorities who are members of CEIOPS or the National Association of Insurance Commissioners (NAIC), as well as the European Commission. In this framework two meetings have taken place in 2006, one in Orlando, Florida, in the beginning of March and one in London in late September. The Dialogue is aimed at improving the knowledge of the respective legal frameworks and practices, and identifying ways for enhancing cooperation and the exchange of supervisory information.

With the approval of a Model MoU by the respective Committees in February and the beginning of March 2006, an important formal step towards cooperation regarding the supervision of transatlantic insurance groups was taken. The MoU is intended to serve as a model for the conclusion of bilateral MoUs between individual EU and US Insurance Supervisors. The rest of the year saw a continuation of this process, in order to make the MoU operational between the relevant EU and US Authorities. A small task force of CEIOPS' Insurance Groups Supervision Committee started with a mapping of the relevant cross-Atlantic groups, and the European lead supervisor and relevant US state supervisors of two EU-based groups and two US-based groups started negotiations for building a MoU which will serve as a practical example for the other cross-Atlantic groups.

In addition, progress on another important issue could be made after intensive negotiations during the previous years. The NAIC finally agreed to look into the issue of collaterals applied to reinsurers that are not either licensed or accredited in the ceding insurer's state of domicile, or given regulatory equivalence by being licensed in a state with substantially similar credit for reinsurance laws and regulations. This included agreeing to explore other ways to safeguard the interests of US policyholders. After the approval of a White Paper on collateral requirements at the NAIC Spring meeting the NAIC Reinsurance Task Force was mandated to find possible solutions by the end of 2006. In its December meeting, it came forward with the proposal to establish an organization called the Reinsurance Evaluation Office (REO) to rate the financial strength of reinsurers doing business in the U.S, irrespective of the reinsurer's country of domicile, thus distinguishing financially strong from weak reinsurers. Under the proposal, the amount of any collateral to be posted by a reinsurer would depend on the rating assigned by the REO. A small CEIOPS Task Force, including a number of interested CEIOPS experts and representatives from the European Commission, was set up to follow and support the US

Task Force's work. At first, progress in this issue seemed quite satisfactory, as the proposal should have moved up through the normal NAIC process to a more senior committee to approve. However, it was re-referred to the Reinsurance Task Force for further consideration, with a report to the senior committee currently expected for its September 2007 meeting.

The next meeting in the framework of the EU-US Dialogue is scheduled for June 2007.

6.4.3. Cooperation with Chinese Supervisory Authorities

The European Commission has recently launched an EU-China Roundtable on Financial Services and Regulation, with a first meeting held in Shanghai at the end of 2005, as part of its work plan⁸⁶. At the same time CEIOPS, together with the European Commission, started contacts with the China Insurance Regulatory Commission (CIRC). A first meeting of CEIOPS Members and the Commission with Chinese supervisors ("First Sino-European Dialogue on Insurance Supervision") took place on 21 October 2006, back-to-back with the IAIS meetings in Beijing. The purpose of this meeting was to improve reciprocal knowledge of the legislative, institutional and supervisory situation in both economic areas, and to identify fields to be analysed further in future meetings. As one area of further common interest, occupational pensions were identified. A follow-up is planned for 2007 on a general supervisory level as well as relating specifically to the pensions area. As a first step, Chinese supervisors were invited to participate in a CEIOPS Seminar on IORPs end April 2007, followed by a meeting of Chinese and European pension supervisors.

⁸⁶ The widening of dialogues and cooperation on financial issues with China among other third countries is one of the priorities mentioned in the Commission's White Paper on Financial Services Policy 2005-2010, p. 16.



CEIOPS WORK PROGRAMME 2007

Since the establishment of CEIOPS, its work programmes have been driven mainly by the tasks generated through the development of the Solvency II project. CEIOPS' Work Programme for 2007 will continue to be characterized by those tasks. However, in line with the development of the project, CEIOPS' activities in this field will progressively re-focus, passing from advice on the creation of Level 1 European (EU) legislation (Framework Directive) to preparing advice on future implementing measures, and issuing Level 3 standards.

In addition, CEIOPS will devote significant effort to a number of initiatives and work-streams at the supervisory level, related to implementation of the current and future EU legislation in the insurance and pension fund sectors. These are aimed at facilitating and improving supervisory action and co-operation towards the convergence of supervisory practices.

Using an approach focussed on the institutional tasks of CEIOPS, the planned work is presented below by distinguishing activities that relate to:

- 1 advising on EU legislation;
- 2 enhancing supervisory convergence and co-operation;
- 3 contributing to the work of other bodies and other work-streams.

These main categories of work-streams are interlinked. Work-streams could be in more than one section at the same time, or could be moved from one category to another over time, depending on progress made and resulting demands.

Although CEIOPS' priority work-streams for 2007 will remain to be focused on insurance and pension funds topics, close co-operation with the work of the other "Level 3 Committees", the Committee of European Banking Supervisors (CEBS) and the Committee of European Securities Regulators (CESR), will also feature in addressing a number of issues of common interest. The co-operation is based on the Memorandum of Understanding (MoU) between the three Level 3 (3L3) Committees dated 24 November 2005. In 2007 several further co-ordination arrangements, varying between producing joint work, finding a consistent approach for sectoral work, joint reporting and/or exchange of information and experiences, will be put in place. They are explained in detail in the Joint 3L3 Work Programme 2007. Some highlights which are particularly relevant for CEIOPS will be emphasized in CEIOPS' Work Programme 2007 as well.

Aside from following the work-streams related to its tasks and plans, after having been in operation for three years CEIOPS will continue to put effort into

improving its operational structure. In the light of the development of the Solvency II project and the shift in priorities, the structure of CEIOPS' operational organisation will be reviewed in 2007.

1. Advising on EU legislation

1.1. Solvency II

The development of the Solvency II project will continue to represent the major area of CEIOPS' advising activities on EU legislation and comprise most of CEIOPS' Work Programme 2007. In 2006 CEIOPS delivered its advice to the EU Commission on the areas included in the third wave of Calls for Advice, followed by further additional specifications on earlier advices. Also the second Quantitative Impact Study (QIS2), which included capital requirements in addition to technical provisions, was prepared and executed, providing the basis for more specific advice on Pillar I issues.

In 2007 CEIOPS will finalize its additional advice on some aspects included in the three waves of Calls for Advice, in order to provide the EU Commission with the technical elements needed to finalize its Framework Directive proposal.

In addition, CEIOPS is fully prepared to continue to work on the overall project, dealing with all its different phases. CEIOPS will work to prepare advice on potential implementation measures, to be issued once the Framework Directive is put in place. Those activities will naturally also be aimed at paving the way for future Level 3 standards. Therefore, in 2007 CEIOPS will work on aspects that could be included both in advice on Level 2 implementing measures or in future Level 3 standards, as appropriate.

With regard to its additional advice, the following are the main lines of the road map.

After the consultations started in November 2006, in March 2007 CEIOPS plans to issue its advice on a number of aspects related to all the Pillars of the Solvency II regime. On Pillar I those aspects will include technical provisions, MCR formula, SCR standard formula, SCR internal models, safety measures and eligible elements of capital (Consultation Papers (CP) 19 and 20). In the area of Pillar II, final advice will be issued on additional capital requirements (capital add-on), the harmonization of supervisory powers and Pillar II aspects relevant to reinsurers (CP 16, 17, 18). The advice will also cover group aspects where relevant. Regarding Pillar III, CEIOPS' advice on the principles of supervisory reporting and public disclosure under Solvency II will be finalized (CP 15). In 2007 CEIOPS will develop further advice towards Level 2 measures and Level 3 standards that can contribute to the process of convergence in the field of public disclosure under Solvency II. CEIOPS will also work in detail on convergence principles for supervisory reporting, regarding minimum common supervisory reporting contents and formats.

In order to prepare the ground for further work on eligible elements of capital in 2007, in November 2006 CEIOPS issued a questionnaire on the implemen-



tation of the current Insurance Directives with regard to elements of capital eligible to meet the solvency margin. The questionnaire addressed to CEIOPS' Members, also included an on-line part to collect industry's views and experience. Based on the answers to this questionnaire, CEIOPS will issue a report in March 2007.

To progress defining its advice on Pillar I issues, in particular on the SCR and MCR formula, CEIOPS intends to organize a third round of Quantitative Impact Study (QIS3) immediately after delivering its advice in March 2007 on Pillar I issues. It is expected to be executed from April to June 2007. Based on the latest CEIOPS advice, QIS3 will cover the testing of a set design of capital requirements and will be focused on the calibration of their parameters and assumptions. As a consequence, it is not expected to test different calculation options, as in QIS2. Also group aspects will be taken into account. Preparing QIS3, CEIOPS will specify which information on group-related issues such as to the choice of the calculation method for the SCR calculated at group level, and the calculation of the diversification effects, should be asked to the participants. As usual, CEIOPS will deliver a public report on the QIS3 findings.

Following this exercise and taking account of its results, a further consultation paper on capital requirements, including a draft advice on both design and parameters of the SCR and MCR standard formula, will be issued in October 2007. Final advice is expected in Spring 2008.

Based on the 3L3 co-operation arrangements, CEIOPS will continue to carry out the work on Solvency II project in close co-ordination with the other Level 3 Committees, in particular with CEBS, to ensure cross-sectoral consistency. In the field of eligible elements of capital, in particular, a dedicated working structure has been established to investigate the consequences of any sectoral differences in eligible capital rules for financial conglomerates.

1.2. Other advice to the EU Commission

In the field of insurance intermediaries, in 2007 CEIOPS is expected to start preparing a report on supervisory issues arising from the implementation of the Insurance Mediation Directive (IMD). Depending on its findings, the report could lead to recommendations to the EU Commission for reviewing the EU legislation.

Recommendations to the EU Commission could also emerge from CEIOPS' work on the implementation of the Directive on the activities and supervision of Institutions for Occupational Retirement Provision (IORPs) (see chapter 2.3).

Furthermore, CEIOPS will give advice to the EU Commission jointly with the other Level 3 Committees, on capital issues affecting financial conglomerates. CEIOPS will also be involved in the review of the regulatory and supervisory framework of third countries, in order to assess their equivalence to the EU system regarding the supervision of financial conglomerates. In 2007 the US and Swiss regime will be assessed. This will result in a final advice to the EU Commission by the end of 2007 (see 3L3 Work Programme).

2. Enhancing supervisory convergence and co-operation

In the area of the "Level 3" activities CEIOPS will continue its work on the implementation of the IORP Directive, the Insurance Groups Directive (IGD) and the IMD. Together with CEBS, CEIOPS will continue to work on facilitating a consistent implementation of the Financial Conglomerates Directive (FCD). Also, consistency work is expected to start on the supervision of reinsurance undertakings.

In addition, a number of horizontal activities will be included in CEIOPS Work Programme 2007 towards the development of an EU supervisory culture, other tools for convergence, and issues that will affect consumer protection.

2.1. Solvency II

As a natural follow up of the work done in advice to the EU Commission, CEIOPS will start working on specific aspects which, in the context of Solvency II, are expected to be addressed by supervisory measures.

For example, CEIOPS, in co-operation with the Groupe Consultatif Actuariel Européen, will work towards defining harmonized criteria for the calculation of the best estimate of technical liabilities, and guidance on other methodological questions concerning its calculation.

CEIOPS will also continue to refine its published advice on supervisory issues, where it has already indicated that it would develop further detail. Therefore, its recommended approach to the Supervisory Review Process will be specified in particular aspects and its advice on the supervisory ladder in accordance with its further work on eligible elements will be updated. CEIOPS will evolve a description of any further supervisory expectations regarding the Internal Risk and Capital Assessment which firms are to carry out on themselves, and regarding the content of firms' submissions of its results to supervisory authorities. The proposals will be extended to the supervisory process for reviewing the Assessment. The work will in due course include consequences for any supervisory action following that Review. An example would be to provide more precision on the supervisory setting and calculation of a capital add-on. To further that work, CEIOPS will prepare qualitative requirements for each single risk category. Also the process for validation of internal models will be a crucial area to be worked on.

CEIOPS will base these work-streams throughout, as far as is practicable ahead of the Framework Directive, on a view of which of them should lead to future Level 3 standards.

2.2. Group Supervision

In the field of the supplementary supervision of insurance groups, CEIOPS is focusing, under the current regulatory framework, on the convergence of supervisory practice and co-operation, in order to eliminate unnecessary supervisory

burdens on insurance groups. This in particular will be pursued by clarifying, strengthening and streamlining the role of the lead supervisor.

In 2006 CEIOPS clarified in a Statement the role and tasks of the lead supervisor for each insurance group. For every insurance group, Co-ordination Committees (Co-Co) are expected to appoint a lead supervisor in the beginning of 2007 at the latest and to develop a supervisory work program on the basis of a joint risk assessment for 2007. In 2007, CEIOPS will further develop the possibilities and methods for the delegation of tasks and for joint on-site inspections, as well as the establishment of a Risk Assessment System for supplementary group supervision. The outcome of a survey on the functioning of all Co-Cos, expected to be available at the beginning of 2007, will be used as a basis for this practical work.

In the second half of 2007, CEIOPS will develop, as CEBS already has, practical guidelines on accommodating the exchange of information between supervisors on group supervision, by describing the kind of information (essential, important, etc) to be communicated by and to which supervisor, in different situations.

Other work-streams in the context of insurance group supervision are summarized below.

- ▶ In 2005 CEIOPS published the report 'Recommendations on possible amendments of the IGD', which includes a number of suggestions for Level 3 standards. Some suggestions relate to the role of the lead supervisor and are already part of CEIOPS' Work Programme 2007. In the first quarter of 2007 CEIOPS will assess how to follow up its other suggestions, for example in the area of aligning the reporting requirements of solvency calculations and intra group transactions across EU Member States.
- ▶ CEIOPS will also collect and disclose on its website, information on how Member States have exercised the various options provided for in the IGD with respect to the supplementary supervision of insurance groups.
- ▶ CEIOPS will prepare, together with CESR, a proposal for the inclusion of specific provisions to the MoU on Financial Crisis Management concluded under the umbrella of the EU Economic and Financial Committee (EFC), to allow for the insurance supervisors and securities supervisors to join the MoU. This proposal should be ready by the end of 2007.

The work on group supervision will be addressed also in a cross-sectoral perspective by means of a 3L3 joint working structure. This will allow the drawing of lessons from each other's sectors and facilitate cross-sectoral supervisory convergence.

A further important area of work on group supervision is the implementation of the FCD. (see 3L3 Work Programme) To this purpose, in 2006 the 3L3 Committees arranged, with the agreement of the EU political bodies, a dedicated working structure, the Interim Working Committee for Financial Conglomerates (IWCFC), and immediately started to work. In 2007 the IWCFC intends to continue its efforts to facilitate a consistent implementation of the FCD by analyzing

implementation issues such as those related to capital, risk concentration and intra-group transactions. The IWCFC will also prepare guidance on co-operation arrangements between the authorities involved in the supervision of each financial conglomerate.

2.3. Occupational Pensions

CEIOPS will continue its work on monitoring the implementation of the IORP Directive, with the aim of delivering a report on first experiences with the implementation of the IORP Directive. In this framework, a number of surveys have been initialized in 2006 which will lead to reports in the first quarter of 2007. These include surveys on

- ▶ the use of custodians/depositaries,
- ▶ the investment regulations applying to pension funds,
- ▶ funding requirements for defined benefit schemes, and
- ▶ Insolvency Protection Institutions in the case of insolvency of an employer.

Further surveys are planned to be initiated, leading to reports during 2007, in the areas of

- ▶ "full funding" and technical provisions,
- ▶ the definition of "ring-fencing", as used in different contexts in the IORP Directive,
- ▶ the definition and use of subordinated loans,
- ▶ information to be provided to members/beneficiaries,
- ▶ Information to be provided to the competent authorities, as well as
- ▶ the definition of 'cross-border activity'.

The surveys intend to analyze, as a first step, the legal (including social and labour law) and supervisory situation in each Member State, in order to collect knowledge of the different systems and practices encountered. The aim is to reach an understanding of the background and reasons for any different practices and a common understanding of the provisions of the IORP Directive.

Based on this exercise, CEIOPS will analyse any obstacles for cross-border activities and the need for further convergence. This work could lead to the development of appropriate Level 3 standards, or to giving input to the EU Commission in view of its review of the IORP Directive (see chapter 1.2).

In February 2006 the Budapest Protocol was agreed among Members to facilitate co-operation and the exchange of information between supervisors regarding the cross-border activities of pension funds. Collecting information on experience drawn from the first real cases of cross-border pension activities in Europe and the functioning of the Budapest Protocol, will provide the basis for a review of the Protocol in 2008, accommodating any need for improvement.

In 2007, CEIOPS will consider contributing to the discussions at Level 2 on the link between IORPs and Solvency II, which are envisaged for 2008.



2.4. Insurance Intermediaries

In 2006 CEIOPS concluded the Luxembourg Protocol, based on the IMD, stating a procedure for the exchange of information and co-operation in the supervision of cross-border activities of the insurance intermediaries and facilitating their single registration in the EU. The Luxembourg Protocol also covers the registration and notification procedures, e.g. presentation of templates, and more general matters regarding out-of-court settlement of complaints, by annexes referring to the competent authority or institution.

In 2007 CEIOPS will continue its analysis of the issues arising from the implementation of the IMD and the Luxembourg Protocol in several ways.

By mid-2007 CEIOPS expects to publish a report on the implementation of its key provisions, including references to the national implementation laws and the available English translations, specific information on the registration and notification procedures, clarifications on the different national categories of intermediaries and the professional requirements adopted, as well as consumer protection issues. Based on the findings of this work, CEIOPS intends to develop best practices and/or recommendations to the EU Commission in view of any possible review of the IMD and/or the Luxembourg Protocol (see also chapter 1.2).

As part of its effort to facilitate the transposition of the IMD and enhance the co-operation between Member States, CEIOPS will work on a definition of cross-border provision of services under the Directive, based on the proposal of the EU Commission. CEIOPS will also pursue its efforts to invite other authorities competent under the Directive, and non-CEIOPS' Members, to join the Luxembourg Protocol.

CEIOPS will further prepare guidelines, in particular regarding the principle of mutual recognition, as included in the first Directive on Insurance Intermediaries, and a survey on the national definitions of "general good" related to insurance intermediaries.

2.5. Supervisory Culture

Common EU training programmes, supervisory staff exchanges and longer term secondments play an important role in the development of a common supervisory culture, leading to convergence of understanding and supervisory approaches. In 2006 CEIOPS set up the Convergence and Impact Assessment Task Force (alias "Compass"), with the mandate to develop proposals for actions which CEIOPS could undertake in that context.

In 2006 the current situation and the possibilities for CEIOPS developing a common supervisory culture were analyzed by a survey of CEIOPS' Members. On that basis CEIOPS, having started with a seminar on Solvency II in October 2006, decided to continue in 2007 to organize training seminars for supervisors on Solvency II, and in addition on pension funds and group issues. Furthermore, in 2007, CEIOPS will start to provide for information exchange by its Members

through its website, on training and staff exchange possibilities in and between supervisory authorities. Information on courses accessible by supervisors from other authorities will be advertised on CEIOPS' website and a directory with contact points for each authority on training and secondments will be made available.

In 2006, Compass also worked on the analysis of the impact of the forthcoming Solvency II prudential regime on supervisory authorities. This exercise has provided suggestions on areas in which to concentrate CEIOPS' training activities in the field of Solvency II.

2.6. Other tools for convergence

Other tools for enhancing convergence will be explored and possibly put in place, following the considerations and plans contained in the consultation paper (CP 10) on CEIOPS Medium term work programme.

In particular in 2007, CEIOPS will investigate preconditions for the use of a non-binding mediation mechanism between supervisors. As stated in the EU Financial Services Committee Report on Financial Supervision, mediation is intended to be a tool that, based on a peer approach between supervisors, may help solve day-to-day supervisory disputes regarding co-operation issues or conflicting requirements for supervised entities. Regarding the insurance sector, the expectation is that those tools will be applicable under Solvency II, but CEIOPS could also look into the possibility for using these tools in specific fields before Solvency II comes into force. This work will be developed in close co-ordination with the parallel activities of CESR and CEBS.

Also the establishment of peer reviews will be investigated, in line with the advice already given to the EU Commission in the context of the Solvency II project.

Beyond that, web-based procedures, put in place in 2006, will be developed further in 2007, such as the 'forum' tool, a discussion board for CEIOPS' Members and Observers to submit postings for all to read and reply on. The forum aims to facilitate the exchange of information by initiating limited surveys on specific issues raised in their domestic supervisory practice, and which call for a regulatory or supervisory convergence of approaches across the EU.

2.7. Consumer Protection

Up to now, CEIOPS' efforts have been mainly addressed at prudential aspects. Although consumers are expected to benefit from activities in this field, CEIOPS will seek to develop specific work-streams to enhance consumer protection, where possible.

In this context, in 2007 CEIOPS will review the rules and procedures to be followed by supervisors in cross-border activities, as set out in the Siena Protocol. The Siena Protocol, concluded in 1997, relates to the collaboration of the



supervisory authorities in the application of the Directives on life and non-life insurance. After having been in use for nine years, CEIOPS considers it necessary to review the current text for any amendments from changes in law, structure and practice of the supervisory environment. In this review, special attention will be focused on the co-operation of supervisory authorities over non-financial issues and in particular on issues directly influencing policyholder protection, such as the treatment of cross-border complaints.

Jointly with the other Committees, CEIOPS will finalize a report on cross-sectoral regulatory and supervisory treatment of long-term savings products. Some of those products, even though equal from a substantial point of view, are marketed in the different sectors under different regulation, and consequently different supervision, regimes. This exercise aims at assessing any cross-sectoral inconsistency or room for regulatory arbitrage which could affect investor protection. The report is expected to be finalized in the beginning of 2007 (see 3L3 Work Programme).

2.8. Reinsurance

It is anticipated that the implementation of the Directive on Supervision of Reinsurance, published on 16 November 2005 (Directive 2005/68/EC), will create a further work-stream for CEIOPS in developing a common understanding of the Directive between Member States and the future organisation between "competent authorities" in this area.

3. Contributing to the work of other bodies and other work-streams

3.1. Accounting

CEIOPS will be active in the field of accounting, on the application of the new accounting framework based on the International Financial Reporting Standards (IFRS).

CEIOPS will provide comments and present its views to the European Financial Reporting Advisory Group in the context of the application of IFRS in the EU. Furthermore CEIOPS will continue to follow proactively the work of the International Accounting Standards Board regarding Phase II of the insurance contracts project, and give further input to its development. This, in particular, is aimed at ensuring compatibility between the accounting framework and the valuation rules included in the forthcoming Solvency II prudential regime.

3.2. Financial Stability

In the field of Financial Stability Review and following the mandate of the EFC-Financial Stability Table, in 2007 CEIOPS will continue to report on the situation of insurance markets and of the occupational pension funds sector and on its effects on the stability of the financial sector. The annual report, usually issued in October, will be preceded in the spring by a provisional report underlining the main market trends.

Together with the banking supervisors, CEIOPS will also work on financial stability assessment concerning financial conglomerates. The first report delivered to the EFC-Financial Stability table in 2006 summarized a mainly qualitative analysis. From 2007 onwards the report will be based on a broader set of quantitative information.

3.3. International relations

CEIOPS will remain engaged in negotiating with relevant third countries' supervisors (e.g. Swiss, US), on behalf of its Members, co-ordination agreements dealing with the supervision of groups.

In a broader sense, CEIOPS will continue the dialogue with the US supervisors about aspects of (re)insurance regulation and supervision.

A dialogue with Chinese supervisors has started in 2006 and will be intensified in 2007. In the dialogue special attention will be given to the occupational pension funds sector.

CEIOPS will, through its Members, in order to ensure consistency between the Solvency II project and internal standards, follow and actively contribute to the developments in the prudential standard-setting activities of the International Association of Insurance Supervisors (IAIS) and the International Organisation of Pension Supervisors (IOPS).

3.4. Other reports to EU Institutions

CEIOPS is expected to report regularly, and also in 2007, to the EU Financial Services Committee (FSC) on the way CEIOPS works for converging supervisory practices and, in particular, for following up the recommendations of the Report on Financial Supervision issued by the FSC and endorsed by the ECOFIN. In its issued progress reports, CEIOPS not only reports on the principal activities related to fostering an EU supervisory culture and convergence in supervising insurance groups, occupational pension funds, insurance mediators and in supervisory reporting, but also on the limits and the possibilities within CEIOPS' ability to overcome those.



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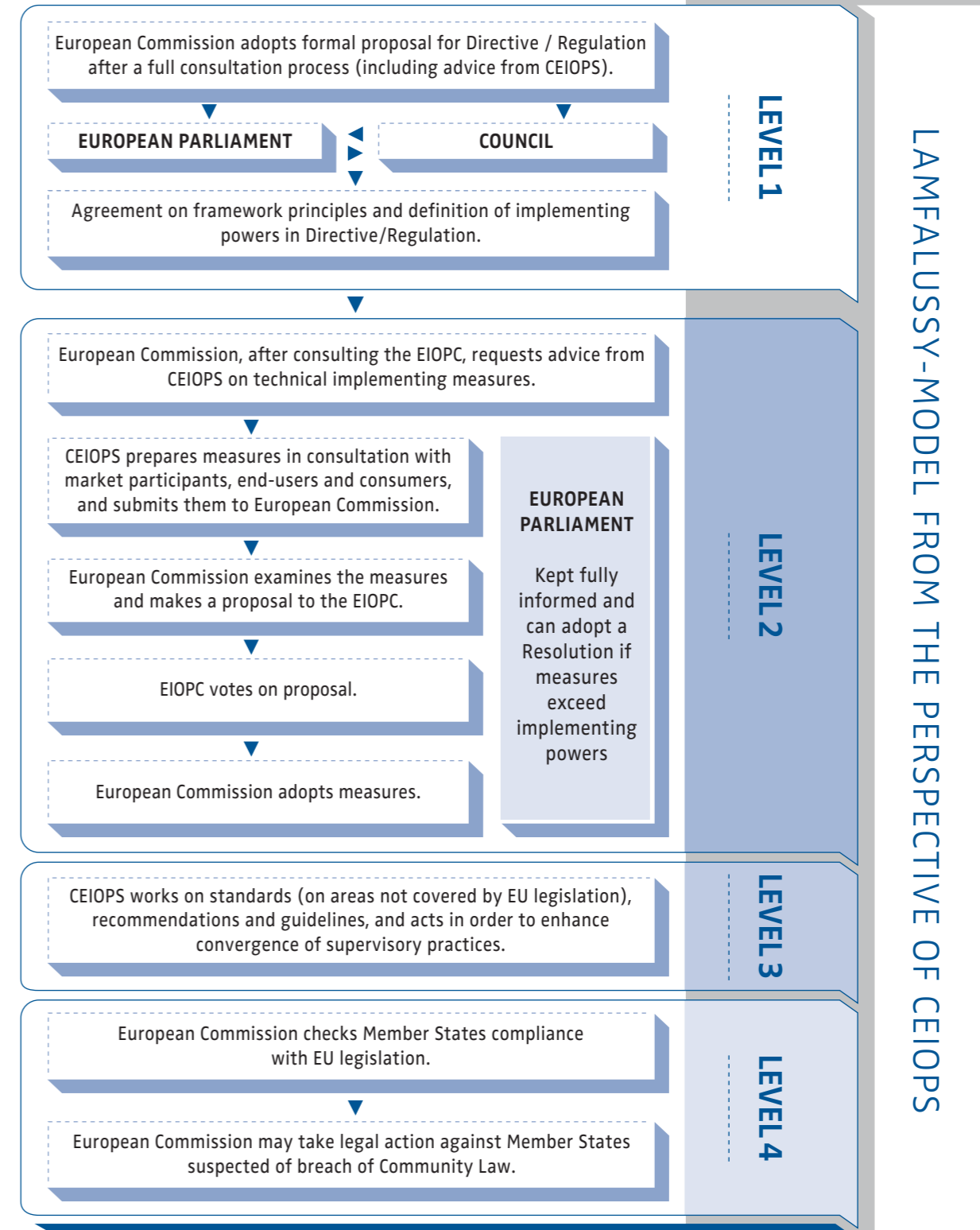
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Financial Statements as of and for the Year ended December 31, 2006

(amounts in Euro)

	Actual 2005	Actual 2006	Budget 2006	available 2006		31.12.2005	31.12.2006
Income and Expense Account					Analysis of Assets and Liabilities		
Revenues					Cash and Bank Account	1.163.939,08	1.422.373,39
Membership fees		1.625.000,00	1.625.000,00		Membership fee receivables	90.151,06	62.779,46
Rebate to members		-275.981,86	0,00		Other receivables	0,00	166.378,27
Membership fees, net	1.663.372,82	1.349.018,14	1.625.000,00		Total assets	1.254.090,14	1.651.531,12
Interest income	10.798,48	19.237,28	0,00		Less: Liabilities and Accrued Expense		
Income from release of prior year accruals	0,00	4.640,00	0,00		Accrued expense	99.433,62	229.797,09
Total revenues	1.674.171,30	1.372.895,42	1.625.000,00		Prepaid membership fee for 2007	0,00	329.394,54
Current expense					Other liabilities	15.624,37	14.499,29
Salaries and wages	463.418,35	631.392,94	1.070.000,00	438.607,06	Total liabilities	115.057,99	573.690,92
Rental expense	93.418,32	94.333,61	95.000,00	666,39	Total committee members' equity	1.139.032,15	1.077.840,20
Travelling and entertainment	72.180,16	118.478,05	110.000,00	-8.478,05			
Office supplies	24.816,49	189.510,66	20.000,00	-169.510,66			
Organisation and meetings	79.993,87	108.946,01	120.000,00	11.053,99			
Telecommunication expense	15.484,47	22.610,16	20.000,00	-2.610,16			
Delivery and communication	3.777,70	6.139,01	5.000,00	-1.139,01			
Printing	13.872,12	16.939,39	20.000,00	3.060,61			
EDP installation and maintenance	8.730,49	165.973,28	10.000,00	-155.973,28			
Website	8.894,74	2.088,00	35.000,00	32.912,00			
Professional fees	43.686,96	47.346,80	65.000,00	17.653,20			
Miscellaneous expense	81.322,73	30.329,46	55.000,00	24.670,54			
Total expense	909.596,40	1.434.087,37	1.625.000,00	190.912,63			
Result for the year (ordinary business)	764.574,90	-61.191,95	0,00				
Retained earnings beginning of year	374.457,25	1.139.032,15					
Retained earnings at end of year	1.139.032,15	1.077.840,20					



Abbreviations and Terms Used

3L3	three "Level 3 Committees" (CEIOPS, CEBS, CESR)	FCD	Financial Conglomerates Directive (Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council, OJ L 35 of 11.2.2003)	IMEG	Insurance Mediation Expert Group	Siena Protocol	Protocol relating to the collaboration of the supervisory authorities of the Member States of the European Community in particular in the application of the Directives on life assurance and non-life insurance (DT/F/182/97), 30 October 1997
ARC	Accounting Regulatory Committee	FOPI	Federal Office of Private Insurance (Swiss Insurance Supervisory Authority)	IWCFC	Interim Working Committee on Financial Conglomerates	SCR	Solvency Capital Requirement
BSC-WGMA	Banking Supervision Committee-Working Group on Macroprudential Analysis	FSC	Financial Services Committee	IOPS	International Organisation of Pension Supervisors	STIP	ECB's Statistics Committee Task Force on Insurance Corporations and Pension Funds
Budapest Protocol	Protocol Relating to the Collaboration of the Relevant Competent Authorities of the Member States of the European Union in Particular in the Application of the Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the Activities and Supervision of Institutions for Occupational Retirement Provision (IORPs) Operating Cross-Border (CEIOPS-DOC-08/06), February 2006	GCS	Solvency II - Group/Cross Sectoral Issues Expert Group	IORP(s)	institution(s) for occupational retirement provision	US	United States of America
CEBS	Committee of European Banking Supervisors	Helsinki Protocol	Protocol relating to the Collaboration of the Supervisory Authorities of the Member States of the European Union with regard to the Application of the Directive 98/78/EC on the Supplementary Supervision of Insurance Undertakings in an Insurance Group (DT/NL/194/00 Final), 11 May 2000	IORP-Directive	Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision, OJ No. L 235 of 23 Sept. 2003		
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors	IAIS	International Association of Insurance Supervisors	IWCFC	Interim Working Committee on Financial Conglomerates		
CESR	Committee of European Securities Regulators	IAS	International Accounting Standards	Level 3 Committees	CEIOPS, CEBS and CESR		
CIRC	China Insurance Regulatory Commission	IASB	International Accounting Standards Board	Luxembourg Protocol	Protocol Relating to the Cooperation of the Competent Authorities of the Member States of the European Union in Particular Concerning the Application of Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on Insurance Mediation (CEIOPS-DOC-02/06), April 2006		
Co-Co(s)	Coordination Committee(s)	IFRIC	International Financial Reporting Interpretations Committee	MCR	Minimum Capital Requirement		
COMPASS	Convergence and iMPact ASSESment Task Force	IFRS	International Financial Reporting Standards	MIFID	Markets in Financial Instruments Directive (Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, OJ No. L 145 of 30 April 2004		
ConCo	Convergence Committee	IGD	Insurance Groups Directive (Directive 98/78/EC of the European Parliament and of the Council of 27 October 1998 on the supplementary supervision of insurance undertakings in an insurance group, OJ No. L 330 of 5 Dec. 1998)	MoU	Memorandum of Understanding		
CP	Consultation Paper(s)	IGSC	Insurance Groups Supervision Committee	NAIC	National Association of Insurance Commissioners		
EC	European Commission	IMD	Insurance Mediation Directive (Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation, OJ No. L 9 of 15 Jan. 2003)	OJ	Official Journal of the European Union		
ECB	European Central Bank			OPC	Occupational Pensions Committee		
ECOFIN	Economic and Financial Council			PFS	Preparatory Field Study		
EEA	European Economic Area			Q&A's	Questions and Answers		
EFC	Economic and Financial Committee			QIS	Quantitative Impact Study/Studies		
EFC-FST	Economic and Financial Committee - Financial Stability Table						
EFCC	European Financial Conglomerates Committee						
EFrag	European Financial Reporting Advisory Group						
EIOPC	European Insurance and Occupational Pensions Committee						
EU	European Union						
e.V.	eingetragener Verein (legal form of CEIOPS; a private non-profit organisation under German law)						



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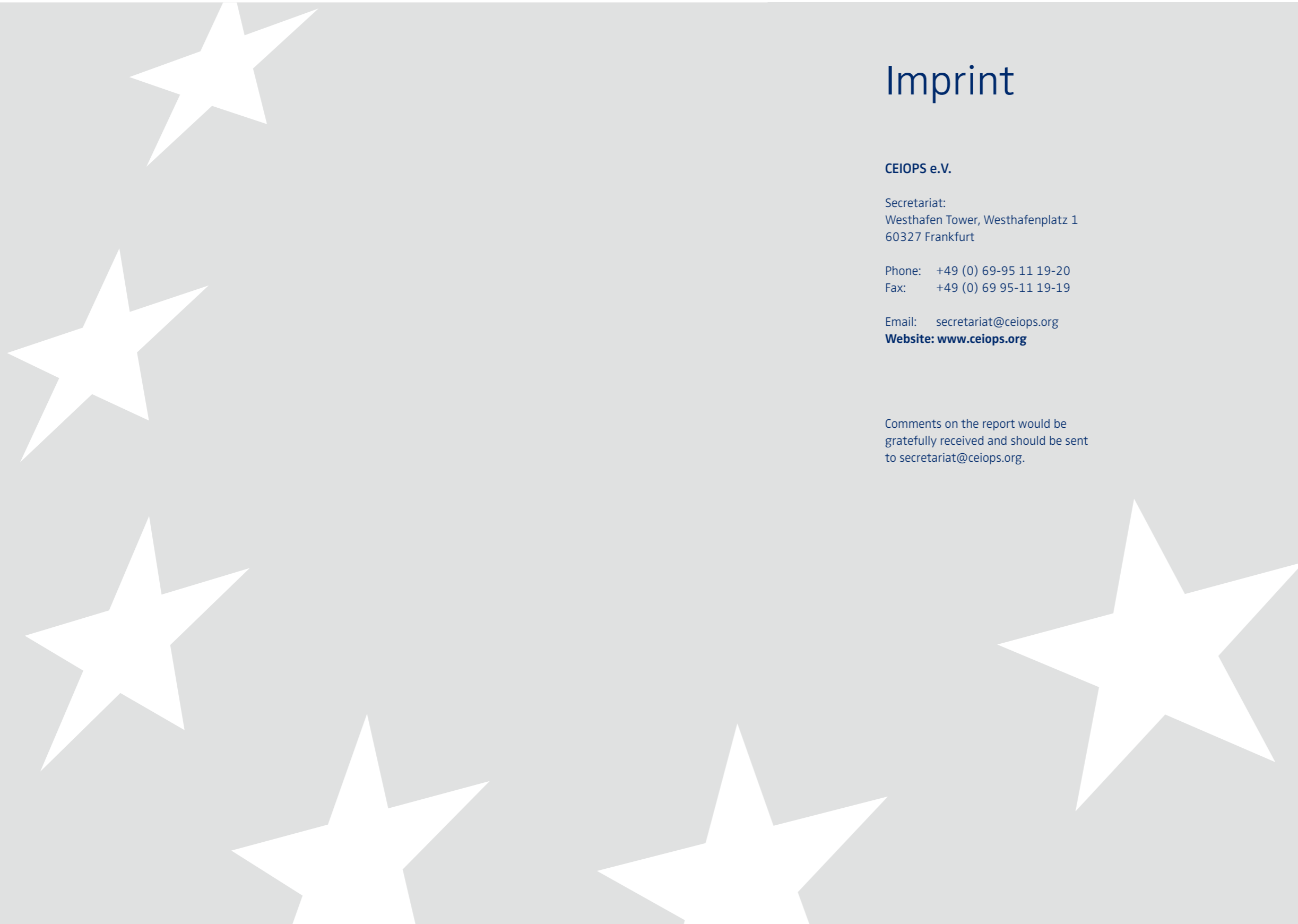
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