

Summary of Comments on Consultation Paper 67 - CEIOPS-CP-67/09 CEIOPS-SEC-169-09

CP No. 67 - L2 Advice on Treatment of Participations

CEIOPS would like to thank ACA – ASSOCIATION DES COMPAGNIES D’ASSURANCES DU, AMICE, Association of British Insurers, Belgian Coordination Group Solvency II (Assuralia/), CEA, CNP Assurances, CRO Forum, DIMA (Dublin International Insurance & Management), European Insurance CFO Forum, European Union member firms of Deloitte Touche Toh, Federation of European Accountants (FEE), FFSA, GDV, GROUPAMA, Institut des actuaires, KPMG, Legal & General Group, Lucida, Munich Re, PricewaterhouseCoopers LLP, ROAM, RSA, and UNESPA

The numbering of the paragraphs refers to Consultation Paper No. 67 (CEIOPS-CP-67/09)

No.	Name	Reference	Comment	Resolution
1.	ACA –	General Comment	<p>Referring to 5.24 of CP 67, CEIOPS itself admits that there is no legal scope for the restricted recognition of eligible own funds arising from participations in (re)insurance undertakings. The same applies to proposed approach for financial non-regulated undertakings. Article 92 (2) only provides for implementing measures regarding the treatment of participations in regulated financial and credit institutions at solo level. The exclusion of (re)insurance participations and financial non-regulated undertakings is not an incomplete Level 1 text that needs to be amended by Level 2 implementing measures. It makes sense to exclude these types of participations from the Directive because with regard to participations in (re)insurance undertakings: Double gearing is already eliminated in the course of the group solvency calculations; and with regard to participations in other undertakings: No double gearing exists, which needs to be eliminated, since no solvency requirement exists.</p> <p>Double gearing is addressed at group level and does not need to be addressed at solo level as well.</p> <p>The extent in which control is exercised should be taken into</p>	<p>The principle of double gearing is well recognised and remains a key objective.</p> <p>The advice has been clarified to explain why the ‘look through’ approach was not recommended by CEIOPS.</p> <p>Clarification of the view on diversification has been provided.</p>

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			<p>account when assessing the treatment of participations. Whether own funds are fungible or are able to absorb losses depend on the level of control which can be exercised. In our opinion not all participations should be treated equally.</p> <p>The proposed method for the treatment of (re)insurance participations has severe shortcomings:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Risks are counted twice: firstly, in the participating undertaking's SCR calculation and secondly in the participated undertaking's SCR, since this is to be deducted in turn from the eligible own funds of the participating undertaking. <input type="checkbox"/> The advice given by CEIOPS majority would lead to a situation in which insurance groups were obliged to calculate the solo solvency of any of the group's (re) insurance undertaking with a (re) insurance participation in the form of a group solvency calculation. As a result, a group would calculate multiple instead of one group solvency calculation. This would infringe Art. 213(1) according to which the group supervision shall only apply at the level of the ultimate undertaking of the group at EU level (unless a sub-group has been established by supervisors). <input type="checkbox"/> The deduction of the SCR of participations from the eligible own funds of the participating undertaking fails to consider diversification effects both between the different participations and between participating undertaking and participated undertaking, thus contradicting the economic principle of Solvency II. <input type="checkbox"/> If an undertaking has participations with a holding function, the SCRs of such holding companies are deducted from the eligible own funds of the participating undertaking. But these SCRs only reflect equity investment risk and the actual underlying risks are 	
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			<p>not considered. The interposing of a holding company thus creates scope for individual manoeuvring, which is precisely what Solvency II aimed to</p> <p>The group supervisor can evaluate where risks reside in the group and whether risks from participations are sufficiently considered.</p> <p>In taking together all solo solvency results of a group the group supervisor will arrive at an overview of the risk allocation within a group and will thus be able to identify where the risks reside within the group. If then the group supervisor should not be satisfied with the risk situation at specific areas/entities of the group, he can require proof from the relevant entities about the appropriate distribution of own funds by considering participations' risks and therefore SCRs in more detail. This additional calculation, which should only have to be turned in on request, should offer two options:</p> <p><input type="checkbox"/> Option one could be to use the method proposed by CEIOPS that is deducting the participation's SCR from the solo entity's own funds.</p> <p><input type="checkbox"/> If however the entity would like to show diversification effects and eliminate the double counting of risks, it may use the burdensome option two which would be calculating on a consolidated subgroup level.</p>	
2.	AMICE	General Comment	<p>These are AMICE's views at the current stage of the project. As our work develops, these views may evolve depending in particular on other elements of the framework which are not yet fixed.</p>	<p>Noted. The position with regard to Level I text has been further clarified .</p> <p>With regard to goodwill,</p>

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			<p>AMICE members have reservations on the treatment proposed by CEIOPS, some of the concerns are the following</p> <ul style="list-style-type: none"> <input type="checkbox"/> CEIOPS wants to consider the participating entity as a solo entity, as it was done in QIS4, participations should be therefore treated in the equity risk module, with a reduced equity shock as defined in the Directive. In this case, the subordinated debt given to the participation by the participating entity should not be excluded from the own funds of the participating entity, and should be considered in the market risk module as any other investment. <input type="checkbox"/> AMICE members agree with CEIOPS minority view to apply a reduced equity shock in order to take into account the likely reduction in volatility due to its strategic nature and the influence exercised by the participating undertaking. This approach is in line with Article 109 (1) (ja) and 105.5 of the Level 1 text; CEIOPS should not therefore deviate from the Level 1 text. <p>Goodwill</p> <ul style="list-style-type: none"> <input type="checkbox"/> Eliminating the goodwill does not recognise the fact that goodwill has an economic value. Additionally, it will be impracticable for the undertakings to eliminate the goodwill when using listed prices, Results could be very variable depending on the methodology chosen, but a company has a value and its value does not change if its shareholders change. 	<p>notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark-to-market methodology.</p>
3.	Association of British Insurers	General Comment	<p>Providing that transferability is not limited, we urge CEIOPS to remove any restriction in the allocation of capital within groups of companies. The proposal as it stands would inevitably involve some major restructuring and some groups may take advantage of the exercise to relocate outside the EEA.</p> <p>In particular the excess own fund from participations in financial institutions should be allowed to be used in the SCR of the parent company.</p>	<p>Noted. We have attempted to address the majority of these issues in the specific comments below.</p>

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		<p>We believe that some element of the goodwill should be recognised as long as the value embedded in subsidiary companies can be realised and used to absorb losses. For instance the asset management arm of a life insurer.</p> <p>For non financial non regulated participation the method used to determine the equity stress for participations should be based on the economic substance of the participation.</p> <p>It does not seem logical for example to apply a standard equity charge to a participation in a real estate holding when the same assets detained directly would only bear a lesser charge. Similarly we fail to see any justification to apply an equity shock to a participation in a servicing company.</p> <p>For (re)insurance participations we believe that two approach are possible either the basis for calculation is :</p> <ul style="list-style-type: none"> - Own funds to which a shock is applied or - Own funds less SCR and then the entire surplus should be allowed. <p>We don't understand the need for applying a shock to SCR since by definition it as already undergone a stress.</p> <p>We do believe that the excess own fund of participation in financial institution should be totally recognised. The standard capital should be sufficient to operate a financial institution otherwise this would be:</p> <ul style="list-style-type: none"> - A disincentive to hold excess capital at solo entity level and insurance group would keep the lowest level of equity in their 	
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			<p>subsidiary.</p> <p>- An acknowledgement that the supervisory framework of financial institution cannot be relied on.</p> <p>We understand that some restrictions to diversification are applied when there are limits in the transferability of assets for example in Ring Fenced Funds. Elsewhere diversification should be recognised.</p> <p>Whilst we acknowledge the need to address double gearing we are concerned that the approach taken by CEIOPS may effectively result in a double exclusion (at subsidiary and parent level). We suggest to stick to a principle based approach by stating that equity can only be recognised once either by the parent or the subsidiary.</p>	
4.			Confidential comments deleted.	
5.	Belgian Coordination Group Solvency II (Assuralia/	General Comment	<p>We consider that the general approach adopted in the CP for the participation in financial and credit institutions included in the scope of the group supervision (non eligibility of own funds arising from these participations) will lead the participating undertakings (the parent companies) to limit as much as possible the level of assets in the participation by transferring any surplus.</p> <p>It appears to be inconsistent with the general prudent approach of the new solvency system.</p>	Noted.
6.	CEA	General Comment	<p>The CEA welcomes the opportunity to comment on the Consultation Paper (CP) No. 67 on Treatment of participations.</p> <p>It should be noted that the comments in this document should be considered in the context of other publications by the CEA.</p> <p>Also, the comments in this document should be considered as a whole, i.e. they constitute a coherent package and as such, the</p>	<p>Noted. With regard to the philosophy of Solvency II, we have further clarified our position.</p> <p>We have attempted to address the majority of the remaining issues in the specific comments below.</p>

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rejection of elements of our positions may affect the remainder of our comments.

These are CEA's views at the current stage of the project. As our work develops, these views may evolve depending in particular, on other elements of the framework which are not yet fixed.

Moreover, it should be noted that this consultation has been carried on an extremely short time frame which has not allowed a complete analysis of all the advice. Therefore, the following comments focus only on the main aspects of Ceiops' advice and are likely to be subject to further elaboration in the future.

We have attached to this comments template our paper "CEA Paper on the treatment of participated undertakings" of 27 February 2009 as an annex. The paper can also be found on our website by following this link:
http://www.cea.eu/uploads/DocumentsLibrary/documents/1236094113_cea-paper-on-participations.pdf

We would like to highlight the importance of a sound treatment of participations.

Groups should not be forced to restructure themselves, e. g. into a branch structure. Solo solvency calculations should not be misused to reduce the legal complexity of existing groups and/or hinder strategic investments in insurance undertaking or other financial institutions.

The treatment of participations proposed by Ceiops is not in line with the philosophy of Solvency II.

These proposals do not meet the Solvency II requirements to establish a risk-based determination of capital requirements. In contrast, Ceiops falls back to Solvency I-methods without accepting diversification effects arising from participations. Moreover, the

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		<p>impact of the proposed treatment of participations in different group structures has not been tested so far.</p> <p>Double gearing is addressed at group level and does not need to be addressed at solo level as well.</p> <p>We refer to our paper "CEA Paper on the treatment of participated undertakings" of 27 February 2009.</p> <p>Any participation (related both to a subsidiary and a simple participated undertaking), which is included in the scope of the supervision (under the Solvency II regime) of the group the participating undertaking belongs to and, as a consequence, is included in the calculation of the related Group SCR, should not be subject to any method for eliminating double gearing and should be treated as an equity investment. If double gearing is addressed at solo level, the most technically correct way is to use the look-through approach. In any case, we do not support the deduction of own funds of participations.</p> <p>We fully support the minority vote of Ceiops members stated in 4.7, according to which all participations included within the scope of group supervision should be treated as an equity investment at solo level, and be subject to a reduced equity charge. [Please note that we are referring to the QIS4 equity shocks throughout our comments, for example half of the 45% equity shock for non-listed participations, and the reduction would be from those levels. Please also see our comments to consultation paper 69 on the level of equity shock. We expect the shock to be lower than what is stated in CP69.] Only this approach allows taking account of diversification effects and is in line with the economic and risk based approach of Solvency II. Moreover, it would avoid "sub-group" SCR calculation and would harmonize across EU what is now left to the discretion of each single Member State. This approach would also assure consistency with Article 109(ja) of the Directive, according to which the equity risk shock should be reduced in order to take into</p>	
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		<p>account the likely reduction in volatility due to the strategic and long term nature of the related undertakings and the influence exercised by the participating undertakings. Thus, we strongly support that all participations (included within the scope of group supervision) should be treated as an equity investment at solo level and be subject to a reduced equity charge. This reduced shock should still be used for non-financial participations, whatever the treatment finally decided for other participations.</p> <p>The extent in which control is exercised should be taken into account when assessing the treatment of participations.</p> <p>Whether own funds are fungible or are able to absorb losses depend on the level of control which can be exercised. In our opinion not all participations should be treated equally.</p> <p>The proposed method (members' majority view) for the treatment of (re)insurance participations has severe shortcomings</p> <p>Article 220 (Elimination of double use of eligible own funds) involves an essential topic for the supervision of group companies. However, for the below listed arguments, we consider the draft implementation proposal as inappropriate, and strongly advocate for applying equity shocks to participations, reduced to take into account the strategic and long term nature of participations, as it has been tested under QIS 4.</p> <p>The proposed method of the deduction of the participations' SCR from the own funds of the participating undertaking is inappropriate for the following reasons:</p> <p>1) Risks are counted twice</p> <p>Firstly, in the participating undertaking's SCR calculation and secondly in the participated undertaking's SCR, since this is to be deducted in turn from the eligible own funds of the participating undertaking.</p>	
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2) Multiple group solvency calculations will have to be undertaken.

We note that the advice given by Ceiops majority would lead to a situation in which insurance groups were obliged to calculate the solo solvency of any of the group's (re) insurance undertaking with a (re) insurance participation in the form of a group solvency calculation. As a result, a group would calculate multiple instead of one group solvency calculation. This would infringe Art. 213(1) according to which the group supervision shall only apply at the level of the ultimate undertaking of the group at EU level (unless a sub-group has been established by supervisors).

3) Diversification effects have not been considered.

If double gearing is addressed at solo level, diversification effects should be considered. The deduction of the SCR of participations from the eligible own funds of the participating undertaking fails to consider diversification effects both between the different participations and between participating undertaking and participated undertaking, thus contradicting the economic principle of Solvency II.

4) Participations in holding companies lead to inconsistencies.

If an undertaking has participations with a holding function, the SCRs of such holding companies are deducted from the eligible own funds of the participating undertaking. But these SCRs only reflect equity investment risk and the actual underlying risks are not considered. The interposing of a holding company thus creates scope for individual manoeuvring, which is precisely what Solvency II aimed to avoid.

A correction would be achieved by going a level further and by considering the SCRs of the participation's participations also. However this would:

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		<p> <input type="checkbox"/> amplify the above mentioned shortcomings, <input type="checkbox"/> have us arrive at a group solvency ratio rather than a solo solvency ratio, and <input type="checkbox"/> would not be feasible in practice for larger groups. </p> <p>5) The interrelation with SCR sub-modules needs to be clarified If the approach proposed by Ceiops leads to an exclusion of the participations own funds, the impact on the SCR sub-modules needs to be clarified. Though Ceiops considers that there should be no additional concentration risk charge, provided that own funds derived from participations are not recognized it needs to be ensured that there is no double-counting of risks arising from participations (particularly with regard to the equity risk sub-module).</p> <p>6) We do not understand the rationale for penalising financial participations. The CP does not recognise own funds from financial (regulated and non-regulated) undertakings, other than (re)insurers. However, for non-financial unregulated participations Ceiops proposes a standard equity shock.</p> <p>7) It is unclear how own funds will be recognized from (re)insurance participations. Ceiops considers recognizing the excess of the participation's own funds over its SCR provided it provides the capacity of absorbing losses. Ceiops refers to the criteria stated in Art. 93. Regardless of our fundamental concerns towards this approach, it also remains unclear how the assessment according the criteria in Article 93 of the excess over SCR will be done (downgrading to ancillary own funds into tier 2 or tier 3?).</p> <p>We propose an alternative solution to Ceiops proposed method.</p>	
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			<p>For the above mentioned reasons we are strongly advocating for adhering to the approach of applying equity stresses as tested in QIS 4.</p> <p>These equity shocks should be reduced. We think that an reduced equity shock would be a proper way to reflect the participations role in the risk profile of the solo entity. The reduction is being argued for by the fact that strategic and long term nature of participations allows for more influence on the business strategy and thus decreases risks.</p> <p>All together the equity shock would meet the aim to look at an entity from a solo entity's perspective. That is looking at participations as investments and not as part of the solo entities' business.</p> <p>The group supervisor can evaluate where risks reside in the group and whether risks from participations are sufficiently considered under Pillar II.</p> <p>In taking together all solo solvency results of a group the group supervisor will arrive at an overview of the risk allocation within a group and will thus be able to identify where the risks reside within the group. If then the group supervisor should not be satisfied with the risk situation at specific areas/entities of the group, he can ask for further information under Pillar II Supervisory Review Process. Supervisors also have the possibility of requiring a capital add-on if the risk profile of the undertaking is deviating significantly from the assumptions underlying the SCR, although a capital add-on should always be an exceptional and last resort measure.</p>	
7.	CNP Assurances	General Comment	The valuation issue is not directly treated in this CP which makes very difficult to have a rational opinion on the proposed structure;	Noted. This has been acknowledged in the Advice and reference has been made to the

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				Final Advice on the methodology for the valuation of participations which was addressed in CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Valuation of Assets and 'Other Liabilities' (Former CP35).
8.	CNP Assurances	General Comment	The valuation issue is not directly treated in this CP which makes very difficult to have a rational opinion on the proposed structure;	Noted. This has been acknowledged in the Advice and reference has been made to the Final Advice on the methodology for the valuation of participations which was addressed in CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Valuation of Assets and 'Other Liabilities' (Former CP35).
9.	CRO Forum	General Comment	<p>A We strongly disagree with the proposal for insurance participation/ subsidiary at local level and suggest a more flexible approach based on the level of influence (priority: very high)</p> <p>This CP proposes to move away from the equity shock approach tested in QIS4 for the treatment of participation at local level. Instead, it suggests for insurance participation in the scope of group supervision to deduct the share of the participated SCR to the Own Funds of the participating undertaking, intended to prevent double use of own funds The proposed method (CEIOPS members' majority view) has some very important shortcomings, and in particular does not ensure the "integrity of solo solvency calculation".</p> <p>We therefore propose an approach that distinguishes participations, depending on level of influence, in order to decide whether for the</p>	Noted. The advice has been clarified to explain why the 'look through' approach was not recommended by CEIOPS

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		<p>undertaking it should be more appropriate to use:</p> <p><input type="checkbox"/> In the case of dominant influence, a look through valuation approach should be used (allowing own funds to be recognized and replace the solo SCR with a "sub-group SCR" calculation for the sub-group formed by the undertaking itself and its subsidiaries and participations. This sub-group SCR will allow for diversification benefits between entities making up the sub-group).</p> <p>The CRO Forum however recognises that when an entity does not control its participations it may not have access to all the data to apply the look through approach and so an equity method should be permitted as a proxy.</p> <p><input type="checkbox"/> Otherwise (i.e., significant influence), an equity shock approach. The valuation of the participation would be reflected in the solvency calculations of the participating entity reflecting the market value or estimated market consistent value of the participation in own funds and would include a capital charge based on a simple equity stress. Goodwill would be included in the value of the participation consistent with a market value approach. The equity charge for the participation should be reduced compared with the standard equity charge to reflect the lower level of risk associated with a participation.</p> <p>We see one caveat for the equity shock approach in case of a deficit of the participated undertaking (i.e., $AFR < SCR$), as it does not perfectly cover this risk. That's why only in this specific situation, additional calculation should be furnished (cf. also our comment on 4.7 on the integrity of the solo solvency calculation).</p> <p>B The treatment of financial regulated participation provides a wrong incentive (priority: high)</p> <p>This CP proposes to move away from the equity shock approach tested in QIS4 for the treatment of non-insurance participation at local level. Instead, the advice proposes to exclude the whole value</p>	
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		<p>of participation in a financial regulated entity. We disagree with this method for 3 reasons: (i) it provides a strong incentive for the undertaking to move surplus funds from the participation up to the participating undertaking (where it can be used for solvency purposes), holding only a minimum level of assets within the participation, (ii) it suggests that any surplus produced under peers frameworks (banking, investment sectors) is not reliable, and (iii) it is not consistent with the approach retained at Group level (cf. Final Advice on CP60).</p> <p>Therefore, we propose an approach that complies with the Financial Conglomerate Directive, as it is performed at group level. It allows the recognition of the excess surplus (based on the underlying regulatory basis) within the solo undertakings solvency calculation (i.e., recognise eligible Own Funds and add the Sectoral requirements to the SCR solo undertaking).</p> <p>C Treatment of non-financial non-regulated participations (priority: medium)</p> <p>We agree with CEIOPS that the treatment of the non-financial non-regulated participations should be based the equity shock method (allowing the recognition of the equity/ market value in the accounts, including goodwill for the AFR, where the SCR to be used is the standard equity shock applied to own funds/ market value of each solo entity). We propose, as in QIS4, that a 1/2 equity-shock is applied for non-financial, non-regulated participations.</p> <p>D Treatment of insurance holding companies, mixed activity insurance holding companies and IORP is missing in this CP (priority: medium)</p> <p>CP 67 is silent on the treatment of insurance holding companies, mixed activity insurance holding companies and IORP, all of which are covered in CP 60 (CP 60 3.57 to 3.62). Same for financial holding companies (although we suspect these would be caught by</p>	
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			the financial and credit institutions and similar non-regulated entity exclusions), and also non-EEA participations.	
10.				
11.	DIMA (Dublin International Insurance & Management	General Comment	<p>DIMA welcomes the opportunity to comment on this paper.</p> <p>Comments on this paper may not necessarily have been made in conjunction with other consultation papers issued by CEIOPS.</p> <p>Consistency is required in the application of definitions of 'participations' by the supervisory authority with the relevant accepted accounting standard adopted (IFRS), particularly relating to the supervisory authority's understanding of 'significant influence'.</p>	Not agreed. Definition is dealt with in the Level 1 text and CP60 and does not fall within the scope of CP67. If something is defined under IFRS but does not fall within the directive's definition it is not a participation.
12.	European Insurance CFO Forum	General Comment	<p>The CFO Forum fundamentally disagrees with the proposed majority view in CP67 due to shortcomings identified below:</p> <ul style="list-style-type: none"> <input type="checkbox"/> CP67 results in risks being double counted. The risks are counted twice under the proposed method in both in the participating and participated undertaking's SCR. <input type="checkbox"/> Participations in holding companies lead to inconsistencies. If an undertaking has participations with a holding function, the SCRs of such holding companies are deducted from the eligible own funds of the participating undertaking. However, these SCRs reflect equity investment risk and the actual underlying risks are therefore not considered. The establishment of a holding company thus creates scope for individual manoeuvring, which contradicts the aims of Solvency II. <input type="checkbox"/> The deduction of the participated undertakings SCR from eligible own funds results in the solvency ratio no longer being an informative figure for the solo undertaking. The deduction of the participated undertaking's SCR from the eligible own funds is intended to prevent double counting of own funds. However, it 	Noted. The advice has been clarified to explain why the 'look through' approach was not recommended by CEIOPS

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		<p>should be borne in mind that the solvency ratio will then no longer be an informative figure for the solo undertaking.</p> <p><input type="checkbox"/> There is no consideration of diversification effects. The deduction of the SCR of participations from the eligible own funds of the participating undertaking fails to consider diversification. This contradicts the economic principle of Solvency II.</p> <p><input type="checkbox"/> The method does not take into account proportionality. For a small undertaking, the requirements set out in the majority view method will be onerous. The principle of proportionality should be taken into account so that undertakings can agree a suitable approach with the regulator.</p> <p>In addressing the resources available from holding participations at solo level and the related capital charge, the objective is to achieve consistency in determining these two amounts. The CFO Forum recognises that such computations may sometimes be burdensome and that shortcuts may have to be applied, explaining why different approaches may be appropriate as long as they reflect a consistent treatment of held resources and capital requirements.</p> <p>In this context, the CFO Forum considers that an appropriate method for participations is a look through approach and would recommend that this is the preferred approach for Solvency II. The CFO Forum recognised that in cases when an entity does not control its participations it may not have access to all the data or when usual materiality thresholds apply an equity method could be permitted as a proxy.</p> <p>Using the look through approach, the participating undertaking's investments in (re)insurance undertakings, credit and financial institutions and other related undertakings are consolidated into its solo SCR creating a "sub-group SCR". The participating undertaking's own funds are replaced with a consolidated</p>	
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		<p>calculation of the own funds of the sub-group. The look-through approach results in a valuation based on a line by line aggregation of the assets and liabilities of the parent with those of the participation. The solvency ratio for the entity is then calculated for the sub-group as the sub-group consolidated own funds divided by the sub-group SCR.</p> <p>The Equity method should be permitted as a proxy where it is impractical or disproportionate to apply the look through approach, for instance when the entity does not have access to sufficient data, which may occur when the participating undertaking does not have control over the participation. The CFO Forum proposes that the participation's contribution to own funds be based on the market value or estimated market consistent value of the participation (addition to numerator in solo solvency ratio). An equity charge with an appropriate reduction for the participation is added to the entity's SCR (addition to denominator in the solo solvency ratio). The equity charge for the participation should be reduced compared with the standard equity charge to reflect the lower level of risk associated with a participation. Goodwill would be included in the value of the participation consistent with a market value approach, but with the appropriate capital charge as well. Diversification benefits between the participation and participating entities would be allowed for in the combined SCR.</p> <p>A surplus own funds approach could be used as a proxy for non-insurance participations. This approach allows the excess surplus, based on the underlying regulatory basis, to be reflected within the undertaking's solvency ratio. The participation's own funds and regulated capital requirement (based on its underlying regulatory basis) are added to the participating entity's own funds and SCR, respectively.</p> <p>We recognise that there may be some benefits in segregating participations by market type and propose that the segmentation</p>	
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			<p>proposed in the consultation paper is retained. We set out below how we believe a look through approach would work in practice:</p> <p>Segmentation Proposed treatment</p> <p>Financial and credit institutions / insurance institutions For insurance participations: A look through approach should be adopted which allows own funds to be recognised and replaces the solo SCR with a "sub-group SCR" calculation for the sub-group formed by the undertaking itself and its subsidiaries and participations. This sub-group SCR will allow for diversification benefits between entities making up the sub-group. For non-insurance participations: A surplus own funds approach could be adopted. The participation's own funds and regulated capital requirement (based on its underlying regulatory basis) are added to the participating entity's own funds and SCR, respectively.</p> <p>(Re)insurers Treatment as per above.</p> <p>Financial non-regulated Treatment as per above.</p>	
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			<p>Non-financial non-regulated entities</p> <p>This category will consist of predominantly service companies. These entities should be included on the basis of underlying own funds.</p> <p>Some members consider that no additional capital needs to be held in respect of these entities whilst other members feel that some additional capital would be required as the entity will at least contribute operational risks.</p> <p>For participations in outsourced services providers, a look through approach would be required that used assets held or percentage of fees as a proxy for own funds.</p> <p>The SCR of non-EEA participations is not considered within the consultation paper.</p> <p>CP 67 does not provide details as to what deductions should be made for non-EEA participations. In line with the rules for CP 60 (Groups). All participations in insurance entities regulated under Solvency II equivalent regimes should be treated in the same way as those regulated under the European Commission’s Directive.</p>	
13.	European Union member firms of Deloitte Touche Tohmatsu	General Comment	European Union member firms of Deloitte Touche Tohmatsu are currently involved in the Level 2 Impact Assessment of Solvency II conducted by the European Commission. “Treatment of holdings in participations and subsidiaries” is one of the policy issues and options dealt with by this impact assessment. As a consequence, we have restricted our comments to those areas where there is no overlap with the issues addressed in the Impact Assessment.	Agreed.
14.	Federation of European	General Comment	We have considered as we have been developing our detailed responses to individual Consultation Papers whether there are any	Noted.

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	Accountants (FEE)		<p>matters which come to mind as generic observations that CEIOPS and the European Commission might find helpful.</p> <p>We are mindful that the general principle underlying the regulatory framework is to develop Level 2 and Level 3 regulation and guidance which supports the intention of the Directive. Whilst we recognise the challenge faced by CEIOPS in sustaining where possible a principles based regulatory framework, our sense is that the detail developed in most of the Consultation Papers have tended to be more prescriptive than might initially have been envisaged. There is little doubt that to achieve consistency of application a degree of clarification is necessary. Accountants and auditors face the same challenge when interpreting Accounting Standards with many correspondents seeking greater clarity. However, the temptation to publish detailed supplementary guidance or rules should be strenuously avoided where possible.</p> <p>We suggest that the European Commission in making the final Level 2 regulation might best be focused on narrowing down rather than extending the guidance proposed by CEIOPS where possible. This would have the added advantage of reducing the apparent and ever increasing weight of the regulatory text.</p> <p>We understand that the intention of the draft advice is to mitigate the risk of double gearing. However, we would encourage CEIOPS to be cautious in addressing this on a solo level. Introducing measures beyond the scope of Art. 92 (2) of the Solvency II Level 1 text, could contradict a principle based approach and lead to inconsistencies if benefits, such as diversification, are not considered.</p>	
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			Subject to the general concern above, our detailed comments as provided below relate mainly to some items that in our opinion need further clarity.	
15.	GDV	General Comment	<p>GDV recognises CEIOPS' effort regarding the implementing measures and likes to comment on this consultation paper. In general, GDV supports the detailed comment of CEA. Nevertheless, the GDV highlights the most important issues for the German market based on CEIOPS' advice in the blue boxes. It should be noted that our comments might change as our work develops.</p> <p>Based on our experience during the previous two consultation waves we also want to express our concerns with regard to CEIOPS decisions:</p> <ol style="list-style-type: none"> 1. restricting the consultation period of the 3rd wave to less than 6 six weeks 2. splitting the advice to the EU-commission in two parts ((1) first+second wave and (2) third wave) although both parts are highly interdependent 3. not taking into account many comments from the industry due to the high time pressure (first+second wave) <p>These decisions could reduce the quality of the outcome of this consultation process. Therefore we might deliver further comments after we fully reviewed the documents.</p> <p>From our point of view, it could be foreseen that especially the calibration of the QIS5 will not be appropriate nor finalised when beginning in August 2010.</p>	<p>Noted.</p> <p>Not agreed with regard to double gearing. The principle of double gearing is well recognised and remains a key objective.</p> <p>Double gearing needs to be addressed at both the solo and group levels. This is fundamental in order to maintain the integrity of the solo calculation.</p> <p>We have attempted to address the majority of the remaining issues in the specific comments below.</p>

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We would like to highlight the importance of a sound treatment of participations.

3. Groups should not be forced to restructure themselves, e. g. into a branch structure. Solo solvency calculations should not be misused to reduce the legal complexity of existing groups and/or hinder strategic investments in insurance undertaking or other financial institutions. We strongly recommend to taken into account international implications on the competitiveness of European insurers.

The treatment of participations proposed by CEIOPS is not in line with the philosophy of Solvency II.

These proposals do not meet the Solvency II requirements to establish a risk-based determination of capital requirements. In contrast, CEIOPS falls back to Solvency I-methods without accepting diversification effects arising from participations. Moreover, the impact of the proposed treatment of participations in different group structures has not been tested so far.

There is no legal basis provided in Level 1 text to give advice to the proposed treatment of (re-) insurance participations.

Referring to 5.24 of CP 67, CEIOPS itself admits that there is no legal scope for the restricted recognition of eligible own funds arising from participations in (re)insurance undertakings. The same applies to proposed approach for financial non-regulated undertakings. Article 92 (2) only provides for implementing measures regarding the treatment of participations in regulated financial and credit institutions at solo level. The exclusion of

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		<p>(re)insurance participations and financial non-regulated undertakings is not an incomplete Level 1 text that needs to be amended by Level 2 implementing measures. It makes sense to exclude these types of participations from the Directive because:</p> <ul style="list-style-type: none"> - With regard to participations in (re)insurance undertakings: Double gearing is already eliminated in the course of the group solvency calculations; and - With regard to participations in other undertakings: No double gearing exists, which needs to be eliminated, since no solvency requirement exists. <p>Double gearing is addressed at group level and does not need to be addressed at solo level as well.</p> <p>We refer to the paper "CEA Paper on the treatment of participated undertakings" of 27 February 2009. Any participation (related both to a subsidiary and a simple participated undertaking), which is included in the scope of the supervision (under the Solvency II regime) of the group the participating undertaking belongs to and, as a consequence, is included in the calculation of the related Group SCR, should not be subject to any method for eliminating double gearing and should be treated as an equity investment. Therefore, we fully support the minority vote of CEIOPS members stated in 4.7, according to which all participations included within the scope of group supervision should be treated as an equity investment at solo level, and be subject to a reduced equity charge. [Please note that we are referring to the QIS4 equity shocks throughout our comments, for example half of the 45 % equity shock for non-listed participations, and the reduction would be from those levels. Please also see our comments to consultation paper 69 on the level of equity shock. We expect the shock to be lower than what is stated in CP69.] Only this approach allows taking</p>	
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			<p>account of diversification effects and is in line with the economic and risk based approach of Solvency II. Moreover, it would avoid "sub-group" SCR calculation and would harmonize across EU what is now left to the discretion of each single Member State. This approach would also assure consistency with Article 109(ja) of the Directive, according to which the equity risk shock should be reduced in order to take into account the likely reduction in volatility due to the strategic and long term nature of the related undertakings and the influence exercised by the participating undertakings.</p> <p>The extent in which control is exercised should be taken into account when assessing the treatment of participations.</p> <p>Whether own funds are fungible or are able to absorb losses depend on the level of control which can be exercised. In our opinion not all participations should be treated equally.</p> <p>Undertakings should be allowed to treat participations in consolidated accounts on a voluntary basis</p> <p>Though we basically oppose multiple (sub-) group solvency calculations as a factual result of the CEIOPS approach (see below) there should be an option to apply the consolidated accounts method voluntarily. It is very important to acknowledge diversification effects particularly between insurance undertakings and financial and credit institutions in full and partial group internal models as well as in the standard model. This approach enables undertakings to take benefit from the inherent diversification effects in line with the economic approach of Solvency II. Provisions for the case of non-transferability of own funds are set by implementing measures concerning ring-fenced funds and non-transferable items (cf. art. 99 and 109). Then diversification is</p>	
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			<p>recognised in a way consistent to how business is managed in undertakings holding participations.</p> <p>Although not mentioned in the advice the treatment of participations is also a very important issue for (partially) internal models. In order to evaluate all risks an undertaking is running in a prudential and harmonised way the following proceeding seems to be appropriate: calculation of ASM by using market values if they are available, using the net asset value method or similar mark-to-model-approaches otherwise (which is common sense probably) and calculation of SCR by recognising diversification benefits when they occur and when they can be measured, e.g. by making use of the same economic scenarios and pathwise consolidation for all participations for evaluating the market risk of the participating undertaking.</p> <p>The proposed method (members' majority view) for the treatment of (re)insurance participations has severe shortcomings</p> <p>Article 220 (Elimination of double use of eligible own funds) involves an essential topic for the supervision of group companies. However, for the below listed arguments, we consider the draft implementation proposal as inappropriate, and strongly advocate for applying equity shocks to participations, as it has been tested under QIS 4.</p> <p>The proposed method of the deduction of the participations' SCR from the own funds of the participating undertaking is inappropriate for the following reasons:</p> <p>1) Risks are counted twice</p> <p>Firstly, in the participating undertaking's SCR calculation and secondly in the participated undertaking's SCR, since this is to be</p>	
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			<p>deducted in turn from the eligible own funds of the participating undertaking.</p> <p>2) Multiple group solvency calculations will have to be undertaken.</p> <p>We note that the advice given by CEIOPS majority would lead to a situation in which insurance groups were obliged to calculate the solo solvency of any of the group's (re) insurance undertaking with a (re) insurance participation in the form of a group solvency calculation. As a result, a group would calculate multiple instead of one group solvency calculation. This would infringe Art. 213(1) according to which the group supervision shall only apply at the level of the ultimate undertaking of the group at EU level (unless a sub-group has been established by supervisors).</p> <p>3) Diversification effects have not been considered.</p> <p>If double gearing is addressed at solo level, diversification effects should be considered. The deduction of the SCR of participations from the eligible own funds of the participating undertaking fails to consider diversification effects both between the different participations and between participating undertaking and participated undertaking, thus contradicting the economic principle of Solvency II. In order to accurately recognize diversification effects, it should be acceptable to include participation on the basis of consolidated accounts (see above).</p> <p>4) Participations in holding companies lead to inconsistencies.</p> <p>If an undertaking has participations with a holding function, the SCRs of such holding companies are deducted from the eligible own funds of the participating undertaking. But these SCRs only reflect equity investment risk and the actual underlying risks are not considered. The interposing of a holding company thus creates scope for individual manoeuvring, which is precisely what Solvency</p>	
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		<p>II aimed to avoid.</p> <p>A correction would be achieved by going a level further and by considering the SCRs of the participation's participations also. However this would:</p> <ul style="list-style-type: none"> -amplify the above mentioned shortcomings, -have us arrive at a group solvency ratio rather than a solo solvency ratio, and -would not be feasible in practice for larger groups. <p>5) The interrelation with SCR sub-modules needs to be clarified</p> <p>If the approach proposed by CEIOPS leads to an exclusion of the participations own funds, the impact on the SCR sub-modules needs to be clarified. Though CEIOPS considers that there should be no additional concentration risk charge, provided that own funds derived from participations are not recognized it needs to be ensured that there is no double-counting of risks arising from participations (particularly with regard to the equity risk sub-module).</p> <p>6) We do not understand the rationale for penalising financial participations.</p> <p>The CP does not recognise own funds from financial (regulated and non-regulated) undertakings, other than (re)insurers. However, for non-financial unregulated participations CEIOPS proposes a standard equity shock.</p> <p>7) It is unclear how own funds will be recognized from (re)insurance participations.</p> <p>CEIOPS considers recognizing the excess of the participation's own funds over its SCR provided it provides the capacity of absorbing losses. CEIOPS refers to the criteria stated in Art. 93. Regardless of our fundamental concerns towards this approach, it also remains</p>	
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		<p>unclear how the assessment according the criteria in Article 93 of the excess over SCR will be done (downgrading to ancillary own funds into tier 2 or tier 3?).</p> <p>We propose an alternative solution to CEIOPS proposed method.</p> <p>For the above mentioned reasons we are strongly advocating for adhering to the approach of applying equity stresses as tested in QIS 4.</p> <p>In general we think that an alleviated equity stress would be a proper way to reflect the participations role in the risk profile of the solo entity. The alleviation is being argued for by the fact that strategic and long term nature of participations allows for more influence on the business strategy and thus decreases risks. In our view, a reduced equity shock is particularly suitable approach for regulated and financial participations, especially those that come under the scope of Solvency II. This is because these types of participations are subject to financial regulations and to supervision by supervisory authorities.</p> <p>All together the equity shock would meet the aim to look at an entity from a solo entity's perspective. That is looking at participations as investments and not as part of the solo entities' business.</p> <p>The group supervisor can evaluate where risks reside in the group and whether risks from participations are sufficiently considered.</p> <p>In taking together all solo solvency results of a group the group supervisor will arrive at an overview of the risk allocation within a group and will thus be able to identify where the risks reside within the group.</p> <p>If then the group supervisor should not be satisfied with the risk situation at specific areas/entities of the group, he can require proof from the relevant entities about the appropriate distribution</p>	
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			<p>of own funds by considering participations' risks and therefore SCRs in more detail. This additional calculation, which should only have to be turned in on request, should offer two options:</p> <p>Option one could be to use the method proposed by CEIOPS that is deducting the participation's SCR from the solo entity's own funds.</p> <p>If however the entity would like to show diversification effects and eliminate the double counting of risks, it may use the burdensome option two which would be calculating on a consolidated subgroup level.</p> <p>This approach would be similar to the principle followed under Solvency I. (Generally, proof of appropriate capitalisation with own funds needs to be provided for each subgroup, This requirement can be waived, however, if proof of a appropriate distribution of own funds can be successfully demonstrated.)</p>	
16.	GROUPAMA	General Comment	<p>We consider that the valuation of the participation should be made with goodwill included. Goodwill has an economic value and would be valued in the case of acquisition by another undertaking. Not recognizing this value is inconsistent with an economic valuation of the balance sheet.</p> <p>Moreover, it would be impracticable for the undertakings to eliminate the goodwill when using listed price, and the results could be very variable depending on the methodology chosen. The results would not have any sense.</p> <p>Moreover, it could lead to inconsistencies between how participations and standard equity are considered. The value of the participations would be unfairly underestimated compared to the value of listed stocks. It could lead to non-economic arbitrage, limiting the investment in listed companies to 19% in order to not have to eliminate the goodwill. The value of a company in an economic Solvency II balance sheet should not be linked to the percentage held.</p>	<p>Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark-to-market methodology.</p>

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We would like to question the treatment suggested for the incorporation of the SCR of the participation in the balance sheet of the participating entity: CEIOPS should consider the participating entity as a solo entity, as was done for QIS 4, then the participation should be treated in the equity risk module, with a reduced equity shock as stated in the Directive. In this case, the exclusion of subordinated debt given to the participation by the participating entity should not be excluded from the own funds of the participation entity, and should be considered in the market risk module as any other instrument.

The treatment suggested by CEIOPS, in addition to being inconsistent with the Level 1 text, has no economic rationale. CEIOPS suggests dealing with all solo entities as a sub-group, using the deduction/aggregation method without justification. Consolidation methodologies only make sense in the case of a group (cf CP 60), to take into account the true group risk profile. Undertakings take into account the diversification benefit at group level to allocate capital and minimize their risk exposure, optimizing their diversification. Undertakings manage participations at solo level too, considering their participation as a particular investment. So, capital requirements should be calculated at group level, or at solo level, as prescribed in the Directive, but in no case at a sub-group level. (4.)

Our position is clearly to ask for a treatment of the whole participation (in particular for (re)insurers) in line with the Directive article 109(ja), ie an equity shock in the market submodule, with a reduction of 50% to take into account the volatility and strategic nature of these investments. Hybrid debts should be excluded from the participation, and be subject to the normal market risk charge.

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			<p>This section indicates that one of the objectives of CEIOPS is to limit systemic risk. We would like to stress that the insurance industry is not exposed to the same risks as the banking industry, and has never faced any systemic risks due to its economic cycle. (4.8)</p>	
17.	KPMG	General Comment	<p>We agree with the Commission's view, expressed in paragraph 5.24, that the approach proposed does not meet the terms of the level 1 text. Whilst we accept CEIOPS comment regarding the desire for a degree of cross-sectoral consistency, we believe the proposed approach could lead to a degree of prudence beyond that anticipated in the Directive approved earlier this year.</p> <p>In many respects, the proposed approach appears to be trying to harmonise certain aspects of the group requirements in the Final Advice that related to CP60, but in this regard, we note that there are a number of inconsistencies between the two approaches, with the current proposals being more penal for (re)insurance undertakings that hold subsidiaries/participations in credit institutions, financial institutions and investment firms.</p> <p>We understand that CEIOPS intention is to mitigate the risk of double gearing. Double gearing is one of the objectives of the group solvency assessment and, whilst we agree (as stated in 4.7) that the issue of double gearing cannot be ignored at a solo level, we would point out (as stated in 4.1) that group calculations are intended "to provide context to the solo calculation". In that regard, we would encourage CEIOPS to be cautious about adopting an overly prudent approach in addressing this issue at the solo level. It could be argued that in order to prevent inconsistencies, any adjustments on a solo basis should be limited to participations that are not included at group level.</p>	Partly agreed. The principle of double gearing is well recognised and remains a key objective.

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			<p>We do not believe that the proposed approach represents an economic approach and are concerned at the level of prudence that will be built into own funds as a consequence, particularly where cross-sectoral holdings exist. Introducing measures that go beyond the scope of Article 92(2) could contradict a principles based approach. We do not agree with the exclusion of benefits, such as diversification between the (re)insurance undertaking and its (re)insurance subsidiaries are not considered.</p> <p>In respect of subsidiaries/participations that are credit institutions, financial institutions and investment firms, we would propose that an approach similar to that proposed for (re)insurance subsidiaries/participations be investigated further, rather than their full deduction from own funds as is currently proposed. [In the rest of this response, we use the term “non-insurance financial” to include both credit institutions, financial institutions and investment firms and non-regulated firms whose activities are related to such activities.]</p>	
18.	Legal & General Group	General Comment	It is not clear which sections apply to group calculations as well as solo. Does the section headed 'Participations - included in the scope of Group supervision	Noted. This question is incomplete both on the working template and the CEIOPS website. However, insofar as the underlying issue appears to seek clarification of group and solo treatment included in the scope of group supervision, CEIOPS members' views have been expanded in the final advice to provide further clarification.
19.	Munich Re	General Comment	We fully support all of the GDV statements and would like to add the following points:	Not agreed. An equity risk charge is expected to be only a partial

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			<p>The proposed method (members' majority view) for the treatment of (re)insurance participations has severe shortcomings</p> <p>Article 220 (Elimination of double use of eligible own funds) involves an essential topic for the supervision of group companies. However, for the reasons listed below, we consider the draft implementation proposal inappropriate, and strongly advocate applying equity shocks to participations, as tested under QIS 4.</p> <p>The proposed method of deducting the participations' SCRs from the participating undertaking's own funds is inappropriate for the following reasons:</p> <p>Non-consideration of diversification effects</p> <p>The deduction of the participations' SCRs from the eligible own funds of the participating undertaking fails to consider diversification effects both between the different participations and between participating undertaking and participated undertaking, thus contradicting the economic principle of Solvency II.</p> <p>Counting risks twice</p> <p>Business relations between parent and subsidiary are burdened twice. Firstly, in the participating undertaking's SCR calculation and, secondly, in the participated undertaking's SCR, since this is to be deducted in turn from the eligible own funds of the participating undertaking.</p> <p>Participations in holding companies lead to inconsistencies</p> <p>If an undertaking has participations with a holding function, the SCRs of such holding companies are deducted from the eligible own funds of the participating undertaking. But these SCRs do reflect equity investment risk, and the actual underlying risks are not considered. The interposing of a holding company thus creates</p>	<p>mitigant in respect of participations in insurers. This is because it would be designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. If this mitigation of risk cannot be achieved by a restriction to the investment then there should be an adjustment to the SCR to address the double gearing risk.</p>
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		<p>scope for individual manoeuvring, which is precisely what Solvency II aimed to avoid.</p> <p>A correction would be achieved by going further down the cascade and also considering the SCRs of the participation's participations.</p> <p>However, this would</p> <ol style="list-style-type: none"> a. potentiate the above-mentioned shortcomings, b. end up producing a group solvency ratio rather than a solo solvency ratio, and c. would not be feasible in practice for larger groups. <p>No informative solvency ratio for solo undertakings</p> <p>CEIOPS stresses the wish to create transparency regarding the distribution of the solo undertaking's risks (see 5.21). For this reason, the risk capital of the solo undertaking is initially to reflect its "own risks" only. At the same time, the deduction of the participated undertaking's SCR from the eligible own funds is intended to prevent double use of own funds.</p> <p>However, it should be borne in mind that the solvency ratio will then no longer be an informative figure for the solo undertaking. Especially in the case of operative holding companies, this problem is aggravated and the question arises of what informative value the solo solvency ratio has if deductions are made from the eligible own funds for participations.</p> <p>In fact, a "dirty" group solvency ratio is being calculated.</p> <p>To arrive at a proper group solvency ratio, all of the above shortcomings have to be eliminated. In our view, an exact modelling of a participating undertaking's risk, including all risks of its participations, can only be achieved by establishing a consolidated subgroup, i.e. by using a look-through approach. We agree with CEIOPS, however, that a look-through approach is not</p>	
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		<p>practicable at the level of every participating undertaking and setting up subgroups on every single entity level, should not be demanded from the insurance industry as the work and expense involved in such an exercise will hardly be justifiable.</p> <p>Ultimately, using subgroups would mean that no solo solvency ratio would be identifiable anymore.</p> <p>Proposal of an alternative solution to CEIOPS proposed method</p> <p>For the above-mentioned reasons we strongly advocate adhering to the approach of applying equity stresses as tested in QIS 4.</p> <p>In general, we think that an alleviated equity stress would be an appropriate way of reflecting the participations role in the risk profile of the solo entity. The argument for an alleviation is based on the fact that strategic investments allow for more influence on the business strategy and thus decrease risks. However, we also acknowledge the fact that disadvantages occur due to the non-listing of controlled entities. We would therefore also accept an unadjusted equity shock.</p> <p>Altogether, the equity shock would meet the objective of looking at a entity from a solo entity's perspective, i.e. looking at participations as investments and not as part of the solo entity's business.</p> <p>Supervisor's overview of risk allocation within a group</p> <p>In taking together all solo solvency results of a group, the supervisor will arrive at an overview of the risk allocation within the group and will thus be able to identify where the risks reside within that group.</p> <p>If the supervisor should then not be satisfied with the risk situation</p>	
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			<p>in specific areas/entities of the group, it will still be possible to require proof from the relevant entities about the appropriate distribution of own funds, considering participations' risks and therefore SCRs in more detail.</p> <p>This additional calculation, which should only have to be submitted on request, should offer two options:</p> <p>Option one could be to use the method proposed by CEIOPS, i.e. deducting the participation's SCR from the solo entity's own funds.</p> <p>If, however, the entity prefers to show diversification effects and eliminate the double counting of risks, it may use the more work-intensive option two, which would be a calculation on a consolidated subgroup level.</p> <p>This approach would be similar to the principle followed under Solvency I. (Generally, proof of appropriate capitalisation with own funds needs to be furnished for each subgroup. This requirement can be waived, however, if an appropriate distribution of own funds can be successfully demonstrated.)</p> <p>Definition of "participation"</p> <p>To avoid confusion, reference to IFRS should be made, so that groups which apply IFRS can base their assessment on the one they have already derived for IFRS purposes.</p>	
20.			Confidential comments deleted.	
21.	PricewaterhouseCoopers LLP	General Comment	It would appear in the draft advice that the word 'participation' is often used when in effect a 'related undertaking' or 'participated undertaking' is referred to. This could potentially create some confusion.	Noted. The advice now clarifies that the same approach to definition has been applied as used for group solvency.

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22.	ROAM	General Comment	ROAM is totally agree with AMICE comments on this CP.	Noted.
23.			Confidential comments deleted.	
24.	UNESPA	General Comment	<p>1. UNESPA (Association of Spanish Insurers and Reinsurers) appreciates the opportunity to analyze and comment on Consultation Paper 67 on Treatment of participations.</p> <p>UNESPA is the representative body of more than 250 private insurers and reinsurers that stand for approximately the 96% of Spanish insurance market. Spanish Insurers and reinsurers generate premium income of more than € 55 bn, directly employ 60.000 people and invest more than € 400 bn in the economy.</p> <p>The comments expressed in this response represent the UNESPA 's views at this stage of the project. As our develops, these views may evolve depending in particular, on other elements of the framework which are not yet fixed.</p> <p>1) Participations in financial and credit institutions should not be penalised</p> <p>We do not consider it appropriate that the own funds arising from participations in financial and credit institutions are not recognised as eligible own funds of the participating undertaking. At least they should be recognised in the same way as the participations in (re)insurance companies.</p> <p>2) A reduced equity shock should be applied</p> <p>When participations are subject to an equity risk charge approach</p>	Not agreed. The investment in a participation which is a financial or credit institution should be deducted to achieve full mitigation of double gearing.

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			<p>(e.g. non financial non regulated undertakings) a reduced charge should be applied. Participations are long term investments and strategic in nature and different studies have shown that the longer the holding period the lower is the volatility.</p> <p>3) Diversification effects should be considered</p> <p>The deduction of the SCR of related undertakings from the eligible own funds of the participating undertaking fails to consider diversification effects between participating and participated undertakings. In particular, diversification effects between insurance undertakings and financial and credit institutions should be taken into consideration.</p>	
25.	FFSA	1.	<p>As noted in other consultation papers, the parameters proposed by the CEIOPS to assess the capital charge or impact on own funds of participations appear to be extremely more conservative than the ones used in the QIS4. The CP seems to be very bank-oriented, mentioning the systemic risk which is not the major risk that a company is exposed to. For example, the CP indicates that the participations of regulated financial institutions should be eliminated from the own funds of the participating undertaking. Participations in (re)insurance will be accepted only at the level of the surplus of own funds over SCR, with an additional test based on article 93 of the Directive.</p> <p>We fully disagree with the approach proposed by the consultation paper. Indeed, we consider that the risk of double gearing is already taken into account in the group solvency assessment, as indicated by some members of the CEIOPS. We note that the Commission is also in disagreement with the proposed approach.</p> <p>We would like to question the treatment suggested to the incorporation of the SCR of the participation in the balance sheet of the participating entity :</p>	<p>Not agreed. Goodwill inherent in the valuation should be excluded from the own funds of the participation in order to achieve the Level 1 aim of securing the solvency position of the participating undertaking.</p>

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		<p>- CEIOPS is suggesting not considering the participating entity as a solo entity but as a group, deducting from the own funds the SCR of the participation. In this case, we do not understand why diversification between the risks of the participating entity and the ones of the participations should not be recognized. If CEIOPS is considering the participating entity as a sub-group, then the requirements of the CP 60 should apply, and diversification should be recognized when appropriate. For instance, if the participation and the participating entity are not subject to the same movement of interest rates (upward and downward) then the capital requirement should not be summed up as suggested in the CP, and diversification benefit should be calculated.</p> <p>- If CEIOPS wants to consider the participating entity as a solo entity, as it was done for QIS 4, then the participation should be treated in the equity risk module, with a reduced equity shock as stated in the Directive. In this case, the subordinated debt given to the participation by the participating entity should not be deducted from the own funds of the participation entity, and should be considered in the market risk module as any other instrument</p> <p>Overall, we are in favour of the application of a capital charge (market SCR) to all participations, whether financial institutions (regulated or not), (re)insurance undertakings or non regulated non financial participations, in line with article 109(l), ie with a reduced equity shock. We consider that 50% can be a reasonable level.</p> <p>Finally:</p> <p>- the valuation issue is not directly treated in this CP which makes very difficult to have a rational opinion on the proposed structure.</p> <p>- we estimate that the valuation of the participation should be made goodwill included: the goodwill can absorb losses. Also, it will be burdensome and often impracticable for the undertakings to eliminate the goodwill when using listed price. Moreover, it could</p>	
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			<p>lead to inconsistencies between how participations are considered compared to standard equity. The value of the participations will be unfairly underestimated compared to the value of listed stocks.</p> <p>- the CP is mentioning that the hybrid debts should be included in the participation without saying which debts (internal/external) or the way to take it into account (percentage of detention?). The Directive was just mentioning the hybrid debts on financial institutions. We consider that they do not have the characteristics of a participation, and should be subject to the traditional market module.</p>	
26.	Lucida	1.	<p>Lucida plc is a specialist UK insurance company focused on annuity and longevity risk business. We currently insure annuitants in the UK and the Republic of Ireland (the latter through reinsurance).</p> <p>Our general comment is that we believe that participations particularly in subsidiaries should be treated in the same way as in the Solvency I directive. The measure of group capital should consider the totality of own funds rather than impose some sort of equity stress capital charge. Where the company owns a regulated undertaking which is subject to supervision, we do not consider it appropriate to stress this at a significant level particularly as the entity is carrying surplus capital. For group purposes the total available funds should be calculated to measure the financial strength of the group as a whole. Similarly insurance companies have subsidiaries which carry out ancillary activities. In most cases these subsidiaries do not carry the sort of risk implied by an equity charge. Some of the proposals will therefore lead to an excessive capital charge which would be disproportionate to the risk of the investments. We would therefore disagree with many of the recommendations made in the consultation paper. There is a real danger that these proposals will fundamentally affect the solvency</p>	<p>Not agreed. Double gearing needs to be addressed at both the solo and group levels, this is fundamental in order to maintain the integrity of the solo calculation.</p>

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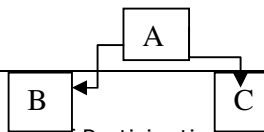
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			position which will require unnecessary restructurings and cost and will not result in any regulatory benefit in our view.	
27.	RSA	1.	<p>The basis of measurement proposed by the majority of CEIOPS members appears to be based on the deduction and aggregation basis of calculation . This method effectively values a participation based upon its solvency II value after deduction of the individual SCR of the participation.</p> <p>We believe that this methodology runs contrary to the intention in solvency II of placing an economic value of the assets of the regulated entity.</p> <p>As noted above we do not believe that the deduction of the individual SCRs of each individual participation in the measurement of the participation provides an economic value of the participation to the participating undertaking. In stressed scenarios, the parent will be able to realise the value of the participation and we believe that this route should be stress tested when considering the liquidity risk of the group in aggregate when determining its ability to fulfil its obligations to all of its policyholders.</p> <p>We note the comment in 5.24 that the commission considers that the approach recommended would not meet the specific terms of the level 1 text and we could not support a solution that fails this basic test.</p> <p>We support the use of the method outlined in option 3 (look through approach) which would allow a relatively straightforward calculation of own funds (as allowed for Group own funds) with the risk assessment completed on a more economic basis at the group level.</p>	Not agreed. Look through is not considered to be in line with Level 1. Further, there are practical issues relating to availability of information and there is a lack of transparency as to where capital and risk reside.
28.				Noted as blank.

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29.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	2.	The consultation paper doesn't give a clear definition of what participation is (subsidiary or participation). We consider the best approach would be to use the IFRS framework (risk & reward approach) to analyse the scope of controls.	Noted. If something is defined under IFRS but does not fall within the directive's definition it is not a participation.
30.	CEA	2.	<p>The CP raises the issue of the definition of a participation. If the article 13 gives a 20% threshold definition, articles 92 and 210(2) lead to understand that the definition is not only based on a mechanical threshold, since it adds the following criterions:</p> <ul style="list-style-type: none"> <input type="checkbox"/> notion of "significant influence" which is not defined in the CP <input type="checkbox"/> notion of "strategic nature of the investment" which could be demonstrated by a durable link. <p>Taking into account the importance of this subject, we would like the consultation paper to give a clear definition of what a participation is (subsidiary or participation). We consider the best approach would be to use the IFRS framework (risk & reward approach) to analyse the scope of controls.</p> <p>Also, the CP does not indicate whether the participation has to be considered under a solo or a group approach. Let's take the following example: A holds 100% of C, and 95% of B. C holds the remaining 5% of B. Should B be considered as a participation at C solo level? Under the durable link principle underlined in §2.5, we understand this will be the case, and would like a confirmation of it.</p>	Noted. If something is defined under IFRS but does not fall within the directive's definition it is not a participation.



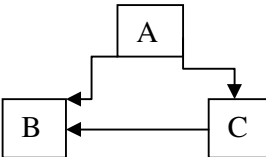
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			<p>We believe that some investments, exceeding a 20% share in capital should not be considered as a participation, and that the analysis should be done on a case-by-case basis. For example, if an undertaking A holds a 25% share in an investment C, the rest (75%) being held by another undertaking B, one could consider that A cannot have a significant influence on C, which should be excluded from the scope of participation.</p>	
31.	CNP Assurances	2.	<p>No clear threshold is proposed by the CP – Several criterions are proposed</p> <ul style="list-style-type: none"> <input type="checkbox"/> First one is based on percentage of share : 20% <input type="checkbox"/> Second one is based on the notion of "significant influence" which is not defined in the CP <input type="checkbox"/> Third one is based on the "strategic nature of the investment" which could be demonstrated by a durable link. <p>Taking into account the importance of this subject, we would recommend a much clearer definition.</p>	Noted. If something is defined under IFRS but does not fall within the directive's definition it is not a participation.
32.	CNP Assurances	2.	<p>No clear threshold is proposed by the CP – Several criterions are proposed</p> <ul style="list-style-type: none"> <input type="checkbox"/> First one is based on percentage of share : 20% <input type="checkbox"/> Second one is based on the notion of "significant influence" which is not defined in the CP <input type="checkbox"/> Third one is based on the "strategic nature of the investment" which could be demonstrated by a durable link. <p>Taking into account the importance of this subject, we would</p>	Noted. If something is defined under IFRS but does not fall within the directive's definition it is not a participation.

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			<p>recommend a much clearer definition.</p>	
<p>33.</p>	<p>FFSA</p>	<p>2.</p>	<p>The CP raises the issue of the definition of a participation. If the article 13 gives a 20% threshold definition, articles 92 and 210(2) lead to understand that the definition is not only based on a mechanical threshold, since it adds the following criterions:</p> <ul style="list-style-type: none"> • notion of "significant influence" which is not defined in the CP • notion of "strategic nature of the investment" which could be demonstrated by a durable link. <p>Taking into account the importance of this subject, we would like the consultation paper to give a clear definition of what a participation is (subsidiary or participation). We consider the best approach would be to use the IFRS framework (risk & reward approach) to analyse the scope of controls.</p> <p>Also, the CP does not indicate whether the participation has to be considered under a solo or a group approach. Let's take the following example: A holds 100% of C, and 95% of B. C holds the remaining 5% of B. Should B be considered as a participation at C solo level? Under the durable link principle underlined in §2.5, we understand this will be the case, and would like a confirmation of it.</p> <div style="text-align: center;">  <pre> graph TD A[A] --> B[B] A[A] --> C[C] C[C] --> B[B] </pre> </div> <p>We believe that some investments, exceeding a 20% share in capital should not be considered as a participation, and that the analysis should be done on a case-by-case basis. For example, if an</p>	<p>Noted. If something is defined under IFRS but does not fall within the directive's definition it is not a participation.</p>

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			undertaking A holds a 25% share in an investment C, the rest (75%) being held by another undertaking B, one could consider that A cannot have a significant influence on C, which should be excluded from the scope of participation.	
34.	GROUPAMA	2.	We highlight that the article 220 on the double use of own funds, used here to justify the CEIOPS proposal is written only for group capital requirement issues. We do not understand why CEIOPS quote this article in a CP dealing with participations at solo level, and we suggest CEIOPS should not quote it.	Noted. CEIOPS members have agreed on applying the same approach to definition as used for group solvency and has attempted to be consistent in this approach.
35.	KPMG	2.	<p>Our expectation before we read this paper was that it would cover advice in relation to holdings in the categories of undertaking listed in Article 92 only and had expected that holdings in other (re)insurance undertakings would have been dealt with in the Advice on Groups (former CP 60), as Article 213(2)(a) applies group supervision in that context.</p> <p>In relation to the solo solvency assessment, we believe the starting point should be that basic own funds as defined in Article 88 is “the excess of assets over liabilities, valued in accordance with Article 75 and Section 2” plus subordinated liabilities, reduced by own shares held. Section 2 deals with technical provisions, so is not relevant to participations. Article 75 requires that, subject to the implementing measures agreed, “assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm’s length transaction”.</p> <p>In this respect, we find the full deduction of all investments in credit institutions, financial institutions and investment firms to be unduly prudent and inconsistent with the principle of “an arm’s length valuation”.</p>	Noted. The principle behind this comment is appreciated however, CEIOPS’ members’ view expressed in the advice is that the investment in a participation which is a financial or credit institution should be deducted to achieve full mitigation of double gearing.

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36.			Confidential comments deleted.	
37.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	2.1.	CEIOPS is referring to “significant influence” as an important feature when deciding if the investment is to be considered as participations. In its final advice on Valuation of Assets and Liabilities, however, CEIOPS is referring to IAS 27 and IAS 28. We would like CEIOPS to include the same references in this advice. Furthermore due to these principles an undertaking should have the ability to ask the supervisor to not define a specific investment as participation if the principles are met as presented in IFRS (IAS 27 / IAS 28).	Noted. The concept expressed in this comment has been given some consideration. CEIOPS’ members’ view is that if something is defined under IFRS but does not fall within the directive’s definition it is not a participation.
38.	CEA	2.1.	Ceiops is referring to “significant influence” as a important feature when deciding if the investment is to be considered as a participations. In its final advice on Valuation of Assets and Liabilities, however, Ceiops is referring to IAS 27 and IAS 28. We would like Ceiops to include the same references in this advice. Furthermore due to these principles an undertaking should have the ability to ask the supervisor to not define a specific investment as a participation if the principles are met as presented in IFRS (IAS 27 / IAS 28).	Noted. The concept expressed in this comment has been given some consideration. CEIOPS’ members’ view is that if something is defined under IFRS but does not fall within the directive’s definition it is not a participation.
39.	CRO Forum	2.1.	This comment applies from 2.1 to 2.5 The CP raises the issue of the definition of participation. If the article 13 gives a 20% threshold definition, articles 92 and 210(2) lead us to understand that the definition is not only based on a mechanical threshold. As expressed in previous responses, we consider the best approach would be to use the IFRS framework to analyse the scope of controls. Furthermore due to these principles an undertaking should have the ability to ask the supervisor to not define a specific investment as a participation if the principles are met as presented in IFRS	Noted. The concept expressed in this comment has been given some consideration. CEIOPS’ members’ view is that if something is defined under IFRS but does not fall within the directive’s definition it is not a participation.

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			(IAS 27 / IAS 28).	
40.	CRO Forum	2.1.	<p>This comment applies from 2.1 to 2.5</p> <p>The CP raises the issue of the definition of participation. If the article 13 gives a 20% threshold definition, articles 92 and 210(2) lead us to understand that the definition is not only based on a mechanical threshold. As expressed in previous responses, we consider the best approach would be to use the IFRS framework to analyse the scope of controls.</p> <p>Furthermore due to these principles an undertaking should have the ability to ask the supervisor to not define a specific investment as a participation if the principles are met as presented in IFRS (IAS 27 / IAS 28).</p>	Noted. The concept expressed in this comment has been given some consideration. CEIOPS' members' view is that if something is defined under IFRS but does not fall within the directive's definition it is not a participation.
41.	DIMA (Dublin International Insurance & Management	2.1.	Will supervisory authorities' definition of 'control' and 'significant influence' be consistent with the accepted accounting standard on the matter adopted by the Group, particularly IFRS?	Noted. The concept expressed in this comment has been given some consideration. CEIOPS' members' view is that if something is defined under IFRS but does not fall within the directive's definition it is not a participation.
42.	Institut des actuares	2.1.	<p>The Consultation Paper 67 is unclear about the way to deal with mutual funds in which the insurance company owns more than 20% of the capital directly or by way of control. Can we consider these funds like "related undertakings" and hence apply the same treatment as participations ?</p> <p>As regards the former Consultation Paper 60, such participations in mutual funds might also have an impact on the scope of the regulatory consolidation group, and its difference with the accounting one. As a matter of fact, IFRS require that certain funds</p>	Noted. The concept expressed in this comment has been given some consideration. CEIOPS' members' view is that if something is defined under IFRS but does not fall within the directive's definition it is not a participation.

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			are consolidated in the same way as a subsidiary.	
43.	KPMG	2.1.	<p>[Comment relates to 2.1 to 2.6]</p> <p>We note and agree that Article 212 implies a different assessment of participation is possible to that given in Article 13, so that we effectively have a presumption that an undertaking is a participation if another entity owns (directly or indirectly) 20% or more of the voting rights, but that a lower level of ownership could also need to be treated as a participation where the participating undertaking effectively exercises a dominant influence over the undertaking.</p> <p>These requirements are not significantly different from accounting requirements, and we would ask CEIOPS to consider following the EU endorsed IFRS accounting rules in this respect, so there is consistency of treatment between financial statements and regulatory reporting.</p>	
44.	UNESPA	2.1.	<p>The definition of significant influence needs harmonization</p> <p>The definition of participation and, specifically, what is significant influence should not be left only to the opinion of the supervisory authorities. There should be clear guidelines that, once implemented and audited, only in exceptional situations could be rebutted by the supervisory authorities.</p>	Noted. The agreed view of CEIOPS' members is that if something is defined under IFRS but does not fall within the directive's definition it is not a participation.
45.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	2.2.	<p>We agree with the CEA who considers that "to enhance harmonisation common principles on how to assess significant influence is important. The definition should take into account if there is an actual link (see durable link) between the participation and participating undertaking. Another issue to take account of is if there are actual possibilities to exercise effectively significant influence e.g. situations where there is another owner holding more than 50 % of the shares and voting rights of the company".</p>	Noted. Clarification of CEIOPS members' agreed approach has been set out at paragraph 1.3 of the Advice.

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			See also our comments on 2 and 2.1.	
46.			Confidential comments deleted.	
47.	CEA	2.2.	We agree that to enhance harmonisation common principles on how to assess significant influence is important. The definition should take into account if there is an actual link (see durable link) between the participation and participating undertaking. Another issue to take account of is if there are actual possibilities to exercise effectively significant influence e.g. situations where there is another owner holding more than 50 % of the shares and voting rights of the company. See also our comments on 2 and 2.1.	Noted. This suggested approach has been noted for consideration when the common principles are developed.
48.	European Insurance CFO Forum	2.2.	<p>The appropriate method for defining control should not be based on a bright line of 20% but should reflect the relationship between the entity and its participation.</p> <p>The CFO Forum agrees that to enhance harmonisation, common principles on how to assess significant influence is important. It is believed that the appropriate method for defining control should not be based on a bright line of 20% but reflect the relationship between the entity and its participation in terms of control.</p> <p>The CFO Forum prefers the IFRS concept of "significant influence" which is defined as "the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies" [IAS 28 (revised) para 2].</p> <p>Another issue to take into account is if there are actual possibilities to effectively exercise significant influence (e.g. situations where there is another owner holding more than 50% of the shares and voting rights of the company).</p>	Noted. This suggested approach has been noted for consideration when the common principles are developed.
49.	UNESPA	2.2.	We agree that it is important to harmonize the understanding of when significant influence is exercised. For this purpose we	Noted. This suggested approach has been noted for consideration

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			recommend to adopt the provisions of IFRS – UE which are applied by a large number of European (re)insurers.	when the common principles are developed.
50.			Confidential comments deleted.	
51.	CEA	2.4.	See our comment on 2.1.	Noted.
52.	European Insurance CFO Forum	2.4.	Comments in 2.2 are also relevant here.	Noted.
53.	European Insurance CFO Forum	2.5.	Comments in 2.2 are also relevant here.	Noted.
54.	PricewaterhouseCoopers LLP	2.5.	We agree that associating the concept of ‘durable link’ with that of the ‘strategic’ nature of investments makes sense. However, the concept of ‘durable link’ is not fully defined in the final advice submitted to the Commission on the Group Solvency Assessment (Para 3.42 of that Advice refers to ongoing work in the Joint Committee on Financial Conglomerates). Until such a concept is clearly defined in the context of Solvency II, it may not be totally clear whether this is the only situation where investments of a strategic nature exist.	Noted. It is agreed that the development of this concept is likely to be influenced by the outcome of the ongoing FCD review.
55.	European Insurance CFO Forum	2.6.	Comments in 5.2 are also relevant here.	Noted.
56.	KPMG	2.6.	We note the proposed classification of non-regulated activities into those related to the financial sector and non-regulated “other”. We would have anticipated that the “related to the financial sector” classification would be intended to capture third country entities which, were they undertaking identical activities within the EEA,	Agreed. Some further clarification has been provided in the advice. Please see paragraphs 5.12 and 5.13 for clarification of advice on the treatment of intermediate

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			<p>would need to be regulated firms. However, the examples quoted here go beyond our initial understanding and include aspects that would not be regulated within the EEA currently (such as hedge funds).</p> <p>Given CEIOPS wider expectation of the types of entities that could fall into this "related to the financial sector" classification, it would be helpful if CEIOPS could provide a more complete list of examples that it envisages would need to be treated as falling within this classification. For example, intermediaries are regulated under the Insurance Mediation Directive, but it is unclear to us whether CEIOPS would intend these to be treated as "Regulated", "Unregulated - - related to the financial sector" or "Unregulated - not related to the financial sector".</p> <p>In this regard, we note that the paper is silent on the treatment of insurance holding companies, mixed activity insurance holding companies, financial holding companies and IORP. We seek clarification that these categories would all fall into the "related to the financial sector" classification.</p> <p>(See also 5.2)</p>	<p>holding companies and insurance holding companies. Also the table at 5.2 of the Advice contains definitional guidance on subsidiaries and participations which are unregulated related to the financial sector as those for which a notional SCR will be required under the group treatment.</p>
57.	PricewaterhouseCoopers LLP	2.6.	<p>The proposed AIFM Directive may bring asset managers of all types (including hedge fund and private equity managers) into the scope of regulation, imposing amongst other things, capital requirements. If this does occur, then the treatment of firms falling within the scope of the AIFM Directive should reflect to the treatment of other regulated financial institutions, removing the need for the calculation of a notional capital requirement (per Art 3.73 of CEIOPS' final advice on Group Solvency Assessment). However, the difference in risk profile of different kinds of financial institution may also need to be taken into account (see comment to 5.4 below).</p>	<p>Noted. Some further clarification has been provided at paragraph 5.4 of the advice.</p>

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58.	RSA	3.1.	We support the use of the method outlined in option 3 (look through approach) which would allow a relatively straightforward calculation of own funds (as allowed for Group own funds) with the risk assessment completed on a more economic basis at the group level.	Not agreed. Look through is not considered to be in line with Level 1. Further, there are practical issues relating to availability of information and there is a lack of transparency as to where capital and risk reside.
59.	Association of British Insurers	3.3.	The method used to determine the equity stress for participations should be based on the economic substance of the participation. It does not seem logical for example to apply a 45% standard equity charge to a participation in a real estate holding when the same assets detained directly would only bear a 25% charge.	Noted. A further industry view has been recognised in the Advice and it was acknowledged that further quantitative analysis of the potential approaches was required for the Final Advice.
60.			Confidential comments deleted.	
61.	Institut des actuaires	3.3.	A reduced equity shock for participations sounds reasonable given the holding period of these assets, their strategic nature which means that their activity is highly intertwined with the one of their parent undertaking, and the fact that these participations are mainly non-listed companies which prevents them to suffer from market volatility and sometimes irrational behaviours of market-participants during a financial crisis.	Not agreed. Please see the clarification at para 5.25 of the Advice.
62.	KPMG	3.3.	This paper does not really discuss why the equity stress approach that was tested in QIS 4 has been discounted. Neither does it fully adopt the look through approach (where investments in (re)insurance undertakings being revalued based on their excess over their solo SCR (the look through approach having suggested that a sub-group SCR be performed) and exclusion of the entire value of participation in a financial (non-insurance) entity, be it regulated in its own right or falling the "related to the financial sector" classification). [See also our comments against 4.7]	Not agreed. Look through is not considered to be in line with Level 1. Further, there are practical issues relating to availability of information and there is a lack of transparency as to where capital and risk reside.

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			We do not agree with this approach, which represents neither “an arm’s length valuation” nor is it consistent with the approach to be taken in the group solvency assessment (as outlined in the Final Advice on CP60). We discuss our concerns later in this response.	
63.			Confidential comments deleted.	
64.	Institut des actuaires	3.4.	<p>The treatment of participations should be correctly designed, both at solo and group level, to ensure that no regulatory arbitrage exists between :</p> <ul style="list-style-type: none"> <input type="checkbox"/> the direct holding in a participation (an insurance company X is the parent of a related undertaking Y) <input type="checkbox"/> the indirect holding in a participation (an insurance company X is the grand-parent of a related undertaking Y) <input type="checkbox"/> the holding of a participation via a non-regulated holding company (an holding company Z is the parent of an insurance company X and of another undertaking Y) <p>The rationale behind this is that group structuring has no influence on the risk borne by an insurance company.</p>	Agreed.
65.	CEA	3.6.	Industry views are only partially reported. Reference to “CEA Paper on the treatment of participated undertakings” of 27 February 2009 is missing.	Noted. Reference has been made to the CEA paper.
66.	GDV	3.6.	Industry views are only partially reported. Reference to “CEA Paper on the treatment of participated undertakings” of 27 February 2009 is missing.	Noted. Reference has been made to the CEA paper.
67.			Confidential comments deleted.	
68.	ACA – ASSOCIATIO	4.	Double gearing should be an issue for the supervision of the parent company.	Not agreed. Double gearing needs to be addressed at both the solo

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	N DES COMPAGNIE S D'ASSURAN CES DU		The solo undertakings should be assessed on the basis of their instruments which are deemed to be eligible elements regardless of whether they are provided by their parent.	and group levels. This is fundamental in order to maintain the integrity of the solo calculation.
69.	Association of British Insurers	4.	In our view CEIOPS approach on double gearing is overly conservative. Effectively this result is to exclude the benefit of the equity at both subsidiary and parent level. We suggest to stick to a principle based approach by stating that equity can only be recognised once either by the parent or the subsidiary.	Not agreed. Double gearing needs to be addressed at both the solo and group levels. This is fundamental in order to maintain the integrity of the solo calculation.
70.	CEA	4.	Double gearing should be an issue for the supervision of the parent company or that company which holds the participation. The solo undertakings should be assessed on the basis of their instruments which are deemed to be eligible elements regardless of whether they are provided by their parent. The tasks of group supervision should not be doubled by the supervisor of the solo undertaking. Any questions regarding the source of the own funds of a solo company could be assessed as part of Pillar II Supervisory Review Process.	Not agreed. The Pillar II supervisory review argument is noted however, double gearing needs to be addressed at both the solo and group levels. This is fundamental in order to maintain the integrity of the solo calculation.
71.	FFSA	4.	The paper introduces the concept of double gearing. We do not agree with the assessment made by consultation paper: As indicated by some members of the CEIOPS, the risks are captured at a group level (that includes the elimination of intragroup operations). As such, we feel that there is a duplication of works, assessment and charge between Group and solo supervision. We would like to question the treatment suggested to the incorporation of the SCR of the participation in the balance sheet of	Not agreed. Double gearing needs to be addressed at both the solo and group levels. This is fundamental in order to maintain the integrity of the solo calculation.

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			<p>the participating entity:</p> <p>CEIOPS is suggesting not considering the participating entity as a solo entity but as a group, deducting from the own funds the SCR of the participation. In this case, we do not understand why diversification between the risks of the participating entity and the ones of the participations should not be recognized. If CEIOPS is considering the participating entity as a sub-group, then the requirements of the CP 60 should apply, and diversification should be recognized when appropriate. For instance, if the participation and the participating entity are not subject to the same movement of interest rates (upward and downward) then the capital requirement should not be summed up as suggested in the CP, and diversification benefit should be calculated.</p> <p>We consider that the participation should be treated in the equity risk module, with a reduced equity shock as stated in the Directive. An appropriate level of reduction is 50%.</p> <p>In this case, the subordinated debt given to the participation by the participating entity should not be excluded from the own funds of the participation entity, and should be considered in the market risk module as any other instrument..</p>	
72.	GDV	4.1.	<p>We do not agree with CEIOPS' view on the Level I text as regards the balance between group and solo calculations. In our view CEIOPS emphasises too much the importance of solo calculations of entities in the scope of group calculations. Not regarding a group as a whole (consolidated method!) will always result in flaws (e. g. intra-group financing, intra-group transactions and diversification across entity level cannot be reflected in a pure solo level view).</p>	Noted.
73.	RSA	4.1.	<p>We believe that CEIOPS approach on double gearing is overly</p>	Not agreed. Double gearing needs

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			conservative. We believe that the group calculation should enable the entity at holding company level to be satisfied that there are adequate resources that are available to meet the policyholder obligations of the group. The resources of the parent will include the investments in the participations that under stressed scenarios may need to be crystallised to meet its own policyholder obligations.	to be addressed at both the solo and group levels. This is fundamental in order to maintain the integrity of the solo calculation.
74.	Munich Re	4.3.	The layout of the sample tables is confusing. The classic balance sheet form should be chosen, with total assets equalling total liabilities.	Noted.
75.	PricewaterhouseCoopers LLP	4.3.	Although by investing in the subsidiary, the parent company appears not to have depleted its basic own funds, it has changed its risk profile. An economic framework should properly reflect this reality. As a consequence, point 4.7 is not necessarily relevant. In other words, if the framework is reliable and (possibly) the diversification benefit is properly valued and allocated, this perimeter of analysis would not be relevant.	Noted.
76.			Confidential comments deleted.	
77.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	4.7.	14. We agree with CEIOPS' statement: "that the aim of holding participations should be related to strategic business decisions rather than regulatory arbitrage". 15. We also share CEA's view who states that "given this, the double gearing issue can be seen as a consequence rather than a reason for creating the participation. We therefore do not understand the statement later in the paragraph: "the issue of double gearing needs to be addressed at both the solo and the group levels". "	Not agreed. Double gearing needs to be addressed at both the solo and group levels as this is fundamental in order to maintain the integrity of the solo calculation.

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			16. We also support the minority vote of CEIOPS members that double gearing should not be addressed at solo level if group supervision is applicable.	
78.	Association of British Insurers	4.7.	<p>In our view double gearing at solo level should be addressed on the basis that own funds can only be used once i.e. either in the SCR of the parent or in the SCR of the subsidiary.</p> <p>Any own fund in excess of SCR can be used in the parent SCR . (re)insurance own funds held by the participation to meet its SCR should be treated as a restricted item, and excluded from the participating entity's eligible own funds.</p>	Not agreed. Double gearing needs to be addressed at both the solo and group levels as this is fundamental in order to maintain the integrity of the solo calculation.
79.			Confidential comments deleted.	
80.	CEA	4.7.	<p>We agree with Ceiops' statement: "that the aim of holding participations should be related to strategic business decisions rather than regulatory arbitrage". Given this, the double gearing issue can be seen as a consequence rather than a reason for creating the participation. We therefore do not understand the statement later in the paragraph: "the issue of double gearing needs to be addressed at both the solo and the group levels".</p> <p>We support the minority vote of Ceiops members that double gearing should not be addressed at solo level if group supervision is applicable.</p>	Not agreed. Double gearing needs to be addressed at both the solo and group levels as this is fundamental in order to maintain the integrity of the solo calculation.
81.	CRO Forum	4.7.	<p>The wish for "integrity of solo solvency calculation" is understandable. However, CP 67 is not conducive to this objective for the following reason.</p> <p>There are two possibilities for an economically meaningful</p>	Not agreed. Equity shock treatment is not considered sufficient to cover the actual risk. Further, look through is not

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			<p>modelling of solo solvency.</p> <p>1st possibility/ Equity shock approach: All investments, including participations, are considered with an equity stress. This approach could be termed the “pure” solo solvency approach (AFR: equity/ fair value in the accounts and so including goodwill; SCR: standard equity shock applied to own funds of each solo entity).</p> <p>2nd possibility/ Look-through approach: Calculating the solvency ratio on the basis of a consolidated subgroup financial statement. This approach not only considers all the risks precisely and the existing diversification effects but also prevents the double counting which can arise as a result of transactions between the undertakings.</p> <p>The approach proposed by CEIOPS is neither one nor the other. Rather, a quasi-group solvency is used as solo solvency. In reality, it should be a two step process: (i) in a first step, the solo solvency should be calculated with one of the 2 approaches above, (ii) in a second step in case of critical situations, proof should be furnished on request through an additional calculation – as under Solvency I – that the adjusted solvency requirement (or a simplified calculation where participation SCRs are deducted from eligible own funds) is also met.</p> <p>See also our comments on 6.9 and our key message 67.A</p>	<p>considered to be in line with Level 1. Also there are practical issues relating to availability of information and there is a lack of transparency as to where capital and risk reside.</p>
82.	CRO Forum	4.7.	<p>The wish for “integrity of solo solvency calculation” is understandable. However, CP 67 is not conducive to this objective for the following reason.</p> <p>There are two possibilities for an economically meaningful modelling of solo solvency.</p> <p>1st possibility/ Equity shock approach: All investments, including participations, are considered with an equity stress. This approach could be termed the “pure” solo solvency approach (AFR: equity/</p>	<p>Not agreed. Equity shock treatment is not considered sufficient to cover the actual risk.</p> <p>Further, look through is not considered to be in line with Level 1. Also there are practical issues relating to availability of information and there is a lack of transparency as to where capital</p>

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			<p>fair value in the accounts and so including goodwill; SCR: standard equity shock applied to own funds of each solo entity).</p> <p>2nd possibility/ Look-through approach: Calculating the solvency ratio on the basis of a consolidated subgroup financial statement. This approach not only considers all the risks precisely and the existing diversification effects but also prevents the double counting which can arise as a result of transactions between the undertakings.</p> <p>The approach proposed by CEIOPS is neither one nor the other. Rather, a quasi-group solvency is used as solo solvency. In reality, it should be a two step process: (i) in a first step, the solo solvency should be calculated with one of the 2 approaches above, (ii) in a second step in case of critical situations, proof should be furnished on request through an additional calculation – as under Solvency I – that the adjusted solvency requirement (or a simplified calculation where participation SCRs are deducted from eligible own funds) is also met.</p> <p>See also our comments on 6.9 and our key message 67.A</p>	and risk reside.
83.	GDV	4.7.	<p>We agree with CEIOPS' statement: "that the aim of holding participations should be related to strategic business decisions rather than regulatory arbitrage" Given this, the double gearing issue can be seen as a consequence rather than a reason for creating the participation. We therefore do not understand the statement later in the paragraph: "the issue of double gearing needs to be addressed at both the solo and the group levels".</p> <p>We support the minority vote of CEIOPS members that double gearing should not be addressed at solo level if group supervision is applicable.</p>	Not agreed. Double gearing needs to be addressed at both the solo and group levels as this is fundamental in order to maintain the integrity of the solo calculation.
84.	KPMG	4.7.	We agree that double gearing needs to be addressed. It is the	Not agreed. Look through is not

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		<p>method by which this CEIOPS proposes to achieve this that causes us concern. Our thoughts on this issue can be summarised as follows:</p> <ul style="list-style-type: none"> - In an economic values based regime, one approach could be to include participations in “non-insurance financial” related undertakings at market value, apply appropriate stresses in the SCR calibration and then determine whether the remaining value of the investment (which will therefore form part of basic own funds) needs to be subject to any own funds transferability restrictions (for example where the market value net of SCR charges is significantly in excess of the amount of transferable capital in that undertaking determined on the basis of its own regulatory capital requirements). - If double gearing is the key concern, then a full look through approach could be undertaken, whereby the underlying assets and liabilities of the undertaking are included with the (re)insurance undertaking’s own assets and liabilities and a group SCR calculation performed across the combined balance sheet. However, we recognise that this approach is akin to the group solvency assessment and this may not therefore provide sufficient information about the solo position. - Alternatively, the investment in the “non-insurance financial” undertaking could be limited to no more than its regulatory excess capital, determined on an EU Directive or equivalent basis and being the excess over the (notional) capital requirement. This does not represent a market consistent valuation, but would in our opinion address the double gearing concern. This is very similar to the approach currently adopted in the UK in relation to the adjusted solo solvency position and is in line with the approach adopted in the Final Advice relating to the former CP 60. <p>The approach outlined in this paper (to exclude all investment in</p>	<p>considered to be in line with Level 1. Further, there are practical issues relating to availability of information and there is a lack of transparency as to where capital and risk reside. Therefore, look through is not considered to be the right solution here.</p>
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			<p>“non-insurance financial” undertakings) appears to be an overly prudent approach regarding the non-insurance financial sector, and we do not see strong justification for this in the paper.</p>	
85.	Munich Re	4.7.	<p>The wish for “integrity of solo solvency calculation” is understandable. However, CP 67 is not conducive to this objective for the following reason.</p> <p>There are two possibilities for an economically meaningful modelling of solo solvency.</p> <p>1st possibility: All investments, including participations, are considered with an equity stress. In this case, the focus is on the solo undertaking. In spite of the high influence that can be exercised on these investments, they are assumed to bear the full equity stress. This approach could be termed the “pure” solo solvency approach.</p> <p>2nd possibility: The consideration of the solo undertaking takes into account all its actual risks. This can be done through a “look-through” approach or calculating the solvency ratio on the basis of a consolidated subgroup financial statement. This approach not only considers all the risks precisely and the existing diversification effects but also prevents the double counting which can arise as a result of transactions between the undertakings.</p> <p>The approach proposed by CEIOPS is neither one nor the other. Rather, a quasi-group solvency is used as solo solvency.</p> <p>--> There should be a clear separation:</p> <p>As a first step, the solo solvency should be calculated taking into account participations among the investment risks.</p> <p>As a second step, proof should be furnished on request, i.e. in critical situations, in an additional calculation – as under Solvency I – that the adjusted solvency requirement (or a simplified calculation where participation SCRs are deducted from eligible own</p>	<p>Not agreed. Equity shock treatment is not considered sufficient to cover the actual risk.</p> <p>Further, look through is not considered to be in line with Level 1. Also there are practical issues relating to availability of information and there is a lack of transparency as to where capital and risk reside.</p>

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			funds) is also met.	
86.	PricewaterhouseCoopers LLP	4.7.	See comment to 4.3 above.	Noted.
87.	AMICE	4.8.	CEIOPS writes that in addition to double gearing the majority of CEIOPS members that systemic risk, among others, are relevant when considering the issue of participations. In our opinion this is not a major risk that an insurance company is exposed to.	Noted. This particular experience is recognised although the Advice does not reflect it.
88.	CEA	4.8.	We disagree with listing "avoiding incentives to regulatory arbitrage through group structuring" here. As Ceiops stated in 4.7, the aim of holding participations is not related to regulatory arbitrage. We would also like to emphasise that systemic risk in the insurance sector is different from systemic risk in the banking sector. The insurance sector poses less systemic risk.	Noted. This opinion is recognised although the Advice does not reflect it.
89.				Noted as blank.
90.	FFSA	4.8.	This section indicates that one of the objective of the CEIOPS is to limit systemic risk. We would like to stress that the insurance industry is not exposed to such risks as the banking industry, and has never faced any systemic risks due to its economic cycle.	Noted. This opinion is recognised although this Advice does not reflect it.
91.	GDV	4.8.	We disagree with listing "avoiding incentives to regulatory arbitrage through group structuring" here. As CEIOPS stated in 4.7. the aim	Noted. This opinion is recognised although this Advice does not

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			<p>of holding participations is not related to regulatory arbitrage.</p> <p>We would also like to emphasise that systemic risk in the insurance sector is different from systemic risk in the banking sector. The insurance sector poses less systemic risk.</p>	reflect it.
92.	KPMG	4.8.	We agree that these objectives are all relevant.	Agreed.
93.	GDV	4.9.	<p>We disagree (see comments above).</p> <p>In addition, we would like CEIOPS to remind that macro prudential supervision cannot be done at solo level. Addressing systemic risk is of course only possible at macro level. We understand that the creation of the European Systemic Risk Board (ESRB) is aimed at monitoring such issues, e. g. the mentioned point of interconnectedness via capital or business links.</p>	Noted.
94.	Munich Re	4.9.	The treatment of investments in not fully consolidated insurance undertakings at group level was dealt with in CP 60. Attention needs to be given to consistency. See CEIOPS final advice on the assessment of group solvency paragraph 3.70 about the treatment of participations over which significant influence is exercised.	Noted.
95.	PricewaterhouseCoopers LLP	4.9.	In relation to the second sentence of 4.9, it would appear clear that where there is a participation held at the solo level in an entity outside of the group then this can be reflected only at the solo level. It is not clear how this example illustrates all or some of the objectives set out in para 4.8.	Noted.
96.	GDV	4.11.	Level playing field issues have to be carefully monitored.	Agreed.

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97.	PricewaterhouseCoopers LLP	4.11.	It may be worth highlighting that this advice is contingent on the current review of the Financial Conglomerates Directive, if this is the case.	Agreed. This issue concerns the directive not the present advice. However, it is recognised that the aim is to be consistent with the FCD.
98.	CEA	5.		Noted as blank.
99.	GDV	5.		Noted as blank.
100.	European Insurance CFO Forum	5.1.	The CP uses the term 'significant influence'. This is defined in the level 1 text as 20%. The CFO Forum prefers the IFRS concept of "significant influence". The CFO Forum prefers the IFRS concept of "significant influence" which is defined as "the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies [IAS 28 (revised) para 2].	Noted. However, if something is defined under IFRS terms but does not fall within the directive's definition it is not a participation.
101.	PricewaterhouseCoopers LLP	5.1.	In para 4.7, CEIOPS states that "a vast majority of CEIOPS Members agree that the aim of holding participations should be related to strategic business decisions rather than regulatory arbitrage". A decision to establish a subsidiary is often different from that to obtain a participation, from a strategic perspective. The size of an investment, or whether/how a dominant or significant influence is achieved and used, are also strategic business decisions.	Noted. This point of experience is noted.
102.			Confidential comments deleted.	
103.	CEA	5.2.	In our opinion Ceiops should include another category with respect to the regulated: EEA and Non-EEA.	Partly agreed. Distinction is not relevant for the approach to the treatment of participations. But

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				this will be an important distinction for groups purposes so should be addressed by reporting.
104.	CRO Forum	5.2.	It is unclear what kinds of participations are considered to be "unregulated, related to the financial sector". Examples would be appreciated.	Agreed. Further clarification that these are subsidiaries and participations for which a notional SCR will be required under the group treatment is provided in the advice.
105.	CRO Forum	5.2.	It is unclear what kinds of participations are considered to be "unregulated, related to the financial sector". Examples would be appreciated.	Agreed. Further clarification that these are subsidiaries and participations for which a notional SCR will be required under the group treatment is provided in the advice.
106.	European Insurance CFO Forum	5.2.	<p>The CFO Forum highlights that there will be difficulties in categorising participations and subsidiaries into the proposed categories.</p> <p>There will be practical difficulties in categorising institutions into the four categories. For example, a company may have a participation in an intermediate holding company that owns both insurance and non-insurance undertakings, and the intermediate holding company may or may not be a regulated entity.</p> <p>The CFO Forum requests further examples of participations considered to be "unregulated, related to the financial sector".</p> <p>Whilst we note the examples provided in paragraph 2.6, it is unclear what kind of participations are considered to be "unregulated, related to the financial sector" and request further examples.</p>	Partly agreed. The treatment of participations follows from the groups definition which also includes calculation of the notional SCR.

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			<p>The CFO Forum requests confirmation that certain non-regulated financial undertakings can be treated as equity investments for insurance companies.</p> <p>Paragraph 2.6 specifies hedge funds and private equity as examples of non-regulated financial companies. For insurance companies these kinds of companies represent equity investments and should be treated accordingly. The CFO Forum requests confirmation that for insurance companies, these non-regulated financial undertakings companies can be treated as equity investments.</p> <p>Further, the CFO Forum requests confirmation that unit trusts can be treated as equity investments for insurance companies.</p>	
107.	Federation of European Accountants (FEE)	5.2.	<p>Subject to the general concern above, our detailed comments as provided below relate mainly to some items that in our opinion need further clarity.</p> <p>Paragraph 5.2 presents what CEIOPS sees as a suitable way of categorising the different types of participations and subsidiaries. We note that in this categorisation, a distinction is made between "Regulated" and "Unregulated". For the avoidance of doubt, we would recommend to specify that "Regulated" relates to prudential regulation and not to other forms of regulation.</p>	Not agreed. Approach is consistent with group advice.
108.	KPMG	5.2.	<p>We note that a distinction is made between ""Regulated"" and ""Unregulated"". For the avoidance of doubt, we ask that CEIOPS clarify that ""regulated"" in this context relates to prudential regulation and not to other forms of regulation. (See also comments under 2.6)</p>	Not agreed. Approach is consistent with group advice
109.	Munich Re	5.2.	<p>It is unclear to us what kind of participations are considered to be</p>	Noted. Please refer to paragraph

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			"unregulated, related to the financial sector". Please give examples.	2.7 of the Advice.
110.	PricewaterhouseCoopers LLP	5.2.		
111.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.3.	<p>17. This paragraph indicates that investment in the participation can be in the form of ordinary shares or other types of own funds such as subordinated debt instruments. Their inclusion extends the concept of control in a way which we think is not consistent with the Level 1 text. The only correct inclusion would be if those debt instruments would include some other arrangement by which a certain control could be exercised.</p> <p>18. Furthermore, it does not seem in line with article 92.2.b of the Directive, which states that "participations shall comprise (...) subordinated claims and instruments which insurance and reinsurance undertakings hold in respect of the entities defined in point (a) of this paragraph in which they hold a participation". The Directive was indicating that subordinated claims and instruments were to be considered as participations only for credit and financial institutions. This is not the case for (re)insurers. See also our general comments for the scope of this CP.</p>	Noted.
112.	Association of British Insurers	5.3.	<p>Inclusion of subordinated debt in the treatment of participation is narrowing the scope of the definition given in Art 210 of the directive.</p> <p>CEIOPS position does not take into consideration the emergence of convertible subordinated debt "CoCo" which we think should be allowed.</p>	Noted. Paragraph 5.3 has been clarified, also please refer to paragraph 1.3 on classification.

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113.	CEA	5.3.	<p>This paragraph indicates that investment in the participation can be in the form of ordinary shares or other types of own funds such as subordinated debt instruments. Their inclusion extends the concept of control in a way which we think is not consistent with the Level 1 text. The only correct inclusion would be if those debt instruments would include some other arrangement by which a certain control could be exercised.</p> <p>Furthermore, it does not seem in line with article 92.2.b of the Directive, which states that "participations shall comprise (...) subordinated claims and instruments which insurance and reinsurance undertakings hold in respect of the entities defined in point (a) of this paragraph in which they hold a participation". The Directive was indicating that subordinated claims and instruments were to be considered as participations only for credit and financial institutions. This is not the case for (re)insurers. See also our general comments for the scope of this CP.</p>	Noted. The position has been clarified in paragraphs 5.3 and 5.4.
114.	CRO Forum	5.3.	<p>In our opinion the inclusion of subordinated debt is extending the definition of control which is not consistent with the level 1 text. The only correct inclusion would be if those debt instruments would include some other arrangement by which a certain control could be exercised.</p>	Noted. The position has been clarified in paragraphs 5.3 and 5.4.
115.	CRO Forum	5.3.	<p>In our opinion the inclusion of subordinated debt is extending the definition of control which is not consistent with the level 1 text. The only correct inclusion would be if those debt instruments would include some other arrangement by which a certain control could be exercised.</p>	Noted. The position has been clarified in paragraphs 5.3 and 5.4.

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116.	European Insurance CFO Forum	5.3.	Comments in 5.2 are also relevant here.	Noted.
117.	FFSA	5.3.	<p>This paragraph indicates that investment in the participation can be in the form of ordinary shares or other types of own funds such as subordinated debt instruments.</p> <p>It does not seem in line with article 92.2.b of the Directive, that states that "participations shall comprise (...) subordinated claims and instruments which insurance and reinsurance undertakings hold in respect of the entities defined in point (a) of this paragraph in which they hold a participation". The Directive was indicating that subordinated claims and instruments were to be considered as participations only for credit and financial institutions. This is not the case for (re)insurers.</p> <p>As such, the sole detention of subordinated instruments shall not constitute a participation if there is no investment in equity. For (re)insurances participations, the participation shall be defined based on the equity participation, and shall not include hybrid debts.</p> <p>For credit and financial institutions, the participation feature should be established based on the equity detention. Only in this case, the treatment of participations within the credit and financial institutions can include the subordinated instruments. This shall be clarified in the text of the level 2 implementation.</p>	Noted. The position has been clarified in paragraphs 5.3 and 5.4.
118.	GDV	5.3.	This paragraph indicates that investment in the participation can be in the form of ordinary shares or other types of own funds such as subordinated debt instruments. Their inclusion extends the concept	Noted. The position has been clarified in paragraphs 5.3 and 5.4.

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			<p>of control in a way which we think is not consistent with the Level 1 text. The only correct inclusion would be if those debt instruments would include some other arrangement by which a certain control could be exercised.</p> <p>57. Furthermore, it does not seem in line with article 92.2.b of the Directive, which states that "participations shall comprise (...) subordinated claims and instruments which insurance and reinsurance undertakings hold in respect of the entities defined in point (a) of this paragraph in which they hold a participation". The Directive was indicating that subordinated claims and instruments were to be considered as participations only for credit and financial institutions. This is not the case for (re)insurers. See also our general comments for the scope of this CP.</p>	
119.	Institut des actuaires	5.3.	The Level 1 text defines participation as the ownership, direct or by way of control, of 20% or more of the voting rights or capital of an undertaking. Paragraph 5.3 of this consultation paper refers to investment in a participation via the holding of subordinated debt instruments. It seems to us that such debt instruments cannot be considered as ordinary share capital, since they do not grant any voting right or control on the undertaking's decisions. Therefore such an investment should not be treated as a participation.	Noted.
120.	PricewaterhouseCoopers LLP	5.3.		Noted as blank.
121.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURAN	5.4.	The undertaking which holds participation should be considered from the context of the extent in which control can be exercised.	Noted. Further clarification of the treatment of participations for own funds purposes has been provided in the Advice.

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122.	CEA	5.4.	<p>The undertaking which holds participation should be considered from the context of the extent in which control can be exercised. This should be the key concept. See also our comments to 5.3.</p> <p>As conceded by Ceiops, Level 1 does not allow for implementing measures referring to subordinated investments in all regulated undertakings. Apart from our legal concerns we believe that investments in hybrids with tier 2 quality only need to be considered in the adjustment of own tier 2 own funds.</p>	Noted. The Advice recommends consistent treatment of different types of own funds items and confirms the Commission's view that the 'look through' approach would not be in accordance with the Level 1 text.
123.	European Insurance CFO Forum	5.4.	<p>The approach for subordinated debt should be dependent upon tier quality.</p> <p>Investments in hybrids with tier 2 qualities should only need to be considered in the adjustment of own tier 2 funds.</p>	Noted. The Advice recommends consistent treatment of different types of own funds items and confirms the Commission's view that the 'look through' approach would not be in accordance with the Level 1 text.
124.	FFSA	5.4.	<p>The Directive only refers to subordinated claims and instruments held in credit institutions or investments firms, and do not refer to subs instruments held in (re)insurance undertakings.</p> <p>As such, the scope of the CP is not in line with the Directive. These instruments do not have the same purpose as equity for the investor, and shall be excluded from the treatment of participation. They should be charged based on the market modules only in the SCR determination of the participating entity.</p>	Noted. The position has been clarified in paragraphs 5.3 and 5.4.
125.	GDV	5.4.	<p>The undertaking which holds a participation should be considered from the context of the extent in which control can be exercised. This should be the key concept. See also our comments to 5.3.</p>	Noted. The Advice recommends consistent treatment of different types of own funds items and

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			As conceded by CEIOPS, Level 1 does not allow for implementing measures referring to subordinated investments in all regulated undertakings. Apart from our legal concerns we believe that investments in hybrids with tier 2 quality only need to be considered in the adjustment of own tier 2 own funds.	confirms the Commission's view that the 'look through' approach would not be in accordance with the Level 1 text.
126.	Munich Re	5.4.	The approach used in considering subordinated debt should depend on the tier quality. Investments in hybrids with Tier 2 quality only need to be considered in the adjustment of own Tier 2 own funds.	Noted. The Advice recommends consistent treatment of different types of own funds items and confirms the Commission's view that the 'look through' approach would not be in accordance with the Level 1 text.
127.	PricewaterhouseCoopers LLP	5.4.	Treating all investment firms as other credit and financial institutions might be inappropriate, given the very different nature of the risks they carry.	Not agreed. The vast majority of CEIOPS members agree that there is no justification for an inconsistent approach.
128.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.5.	The look through approach should still be considered as an appropriate method. If an insurer is able to aggregate line-by-line the identification of assets and liabilities should be no problem. How is the insurer otherwise able to perform a line-by-line aggregation? Furthermore a look through approach could also be achieved by including the net asset value on an economic basis and adding the properly calculated SCR with the SCR of the insurer who holds the participations relative to its participation.	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
129.	Association of British Insurers	5.5.	The method used to determine the equity stress for participations should be based on the economic substance of the participation.	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there

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				should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
130.			Confidential comments deleted.	
131.	CEA	5.5.	<p>The look through approach should still be considered as an option. If an insurer is able to aggregate line-by-line the identification of assets and liabilities should be no problem. How is the insurer otherwise able to perform a line-by-line aggregation?</p> <p>Furthermore a look through approach could also be achieved by including the net asset value on an economic basis and adding the properly calculated SCR with the SCR of the insurer who holds the participations relative to its participation.</p>	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
132.	CRO Forum	5.5.	We do not share the rationale not to retain the look-through approach (ie. replace the solo SCR with the group SCR calculation for the (sub)group formed by the undertaking itself and its subsidiaries and participations; which implies to recognize the diversification of the solo SCR with the sub-group). The participating undertaking should be able to use this method if practical, which fairly and truly reflects its risk exposure and profile.	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
133.	CRO Forum	5.5.	We do not share the rationale not to retain the look-through approach (ie. replace the solo SCR with the group SCR calculation for the (sub)group formed by the undertaking itself and its subsidiaries and participations; which implies to recognize the diversification of the solo SCR with the sub-group). The participating undertaking should be able to use this method if	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is

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			practical, which fairly and truly reflects its risk exposure and profile.	based on the elimination of any goodwill element derived from a mark to market methodology.
134.	European Insurance CFO Forum	5.5.	<p>The CFO Forum considers that an appropriate method for participations is a look through approach and would recommend that this is the preferred approach for Solvency II. The CFO Forum recognised that in cases when an entity does not control its participations it may not have access to all the data or when usual materiality thresholds apply an equity method could be permitted as a proxy.</p> <p>See comments in general section.</p>	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
135.	GDV	5.5.	<p>59. The look through approach should still be considered as an option.</p> <p>60. If an insurer is able to aggregate line-by-line the identification of assets and liabilities should be no problem. How is the insurer otherwise able to perform a line-by-line aggregation?</p> <p>61. Furthermore a optional look through approach could also be achieved by including the net asset value on an economic basis and adding the properly calculated SCR with the SCR of the insurer who holds the participations relative to its participation.</p>	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
136.	KPMG	5.5.	<p>The rationale for not adopting the QIS 4 look-through approach is that supervisors will be unable to identify the level of own funds in the solo entity and assess the stand alone solvency position. We believe that the third of our approaches set out in our response to 4.7 would enable (re)insurance groups to continue to recognize some value from its non-insurance financial investments, while enabling the solo solvency position to be understood by supervisory authorities. This would also mean that a similar approach is adopted to these entities as to ring-fenced funds and non-transferable capital in a group context, which we believe is</p>	Noted.

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			desirable.	
137.	PricewaterhouseCoopers LLP	5.5.	The look-through approach is the soundest in economic terms and perhaps should be retained. If proper information is provided by undertakings, although an additional burden, supervisors will still be able to identify what own funds reside in the solo entities commensurate to the risks they hold on a stand alone basis.	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
138.	RSA	5.5.	<p>We note that the look through approach was not seriously considered by CEIOPS. We firmly believe that this option provides a relatively straightforward calculation of own funds (as allowed for Group own funds) with the risk assessment completed on a more economic basis at the group level.</p> <p>In response to the criticism that this does not allow supervisors to identify the own funds residing in the participating entity, we believe that it would be relatively straightforward to produce a solvency balance sheet incorporating the assets of the solo entity (including the value of the participations) with the Group SCR allocated to the relevant components.</p>	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
139.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.6.	See 5.5.	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.

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140.	CEA	5.6.	See comment to 5.5.	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
141.	European Insurance CFO Forum	5.6.	Comments in 4.7 are also relevant here.	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
142.	GDV	5.6.	In our opinion the application of the look-through approach could be an option for the insurer.	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
143.	Munich Re	5.6.	See comment on 4.7.	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there

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				should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
144.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.7.	If participation's SCR is deducted from the eligible own funds of the participating undertaking, there should be no other deduction, i.e. the SCR of the participating undertaking should not be adjusted for any additional risk burden (e.g. the equity risk) from holding the participation.	Noted. The advice recognises that where the participations own funds have not been recognised, there should be no sub-module risk charge.
145.				Noted as blank.
146.			Confidential comments deleted.	
147.	CEA	5.7.	The proposed approach does not seem to sufficiently adjust with the SCR sub-modules. If participation's SCR is deducted from the eligible own funds of the participating undertaking, there should be no other deduction, i.e. the SCR of the participating undertaking should not be adjusted for any additional risk burden (e.g. the equity risk) from holding the participation. See our general comments.	Agreed. Paragraph 5.7 has been clarified. The advice recognises that where the participations own funds have not been recognised, there should be no sub-module risk charge.
148.	European Insurance CFO Forum	5.7.	If a participation's SCR is deducted from eligible own funds, no further deductions should be required. If a participation's SCR is deducted from the eligible own funds of the participating undertaking, there should be no further deductions; i.e. the SCR of the participating undertaking should not be adjusted for any additional risk burden (e.g. the equity risk) from holding the participation.	Noted. The advice recognises that where the participations own funds have not been recognised, there should be no sub-module risk charge.

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149.	Federation of European Accountants (FEE)	5.7.	<p>Subject to the general concern above, our detailed comments as provided below relate mainly to some items that in our opinion need further clarity.</p> <p>This paragraph provides an example as to why the treatment of participations is a relevant issue also for the sub-modules within the SCR. In the context of the example, it is mentioned "own funds derived from a participation". We find the terminology used confusing with respect to whether it is the undertaking or its participation that this is referred to. It would be helpful to confirm that it relates to "own funds invested in a participation".</p>	Agreed. Paragraph 5.7 has been clarified. The advice recognises that where the participations own funds have not been recognised, there should be no sub-module risk charge.
150.	GDV	5.7.	<p>The proposed approach does not seem to sufficiently adjust with the SCR sub-modules.</p> <p>If a participation's SCR is deducted from the eligible own funds of the participating undertaking, there should be no other deduction, i.e. the SCR of the participating undertaking should not be adjusted for any additional risk burden (e.g. the equity risk) from holding the participation.</p>	Agreed. Paragraph 5.7 has been clarified. The advice recognises that where the participations own funds have not been recognised, there should be no sub-module risk charge.
151.	KPMG	5.7.	<p>We agree that where an investment is deducted in full from own funds, it will not impact on the SCR calibration. However, we believe that full deduction is an unnecessarily prudent approach.</p> <p>In the context of the example given, could CEIOPS clarify that ""own funds derived from a participation"" should be read as ""own funds invested in a participation"". (Also relevant to 5.8)</p>	Noted. However, the advice now recognises that where the participations own funds have not been recognised, there should be no sub-module risk charge.
152.	Munich Re	5.7.	<p>If a participation's SCR is deducted from the eligible own funds of the participating undertaking, there should be no other deduction, i.e. the SCR of the participating undertaking should not be adjusted for any additional risk burden (e.g. the equity risk) from holding the participation.</p>	Noted. Noted. The advice recognises that where the participations own funds have not been recognised, there should be no sub-module risk charge.

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153.	UNESPA	5.7.	When calculating the solvency position at a solo level there should not be a concentration risk charge.	Agreed. Paragraph 5.7 has been clarified. The advice recognises that where the participations own funds have not been recognised, there should be no sub-module risk charge.
154.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.8.	The fact that there is "... a difference between the methods for calculating solvency and capital adequacy requirements for insurance firms versus credit and financial institutions" does not represent a sufficient reason to justify a full deduction of the value of the participation from the own funds of the participating undertakings (the same focus on the difference of calculation methods can be seen in paragraph 5.38).	Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.
155.			Confidential comments deleted.	
156.	CEA	5.8.	See our general comments and comments to 6.7. The fact that there is "... a difference between the methods for calculating solvency and capital adequacy requirements for insurance firms versus credit and financial institutions" does not represent a sufficient reason to justify a full deduction of the value of the participation from the own funds of the participating undertakings (the same focus on the difference of calculation methods can be seen in paragraph 5.38).	Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.
157.	CNP Assurances	5.8.	The CEIOPS recommends to fully derecognising any investment in a financial or credit institutions. We would expect to apply the same methodology that the one applied to treat the investments in the insurance sector: To	Noted.

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			recognise as own fund the excess of asset over the minimum requirement defined in the financial sector.	
158.	CNP Assurances	5.8.	<p>The CEIOPS recommends to fully derecognising any investment in a financial or credit institutions.</p> <p>We would expect to apply the same methodology that the one applied to treat the investments in the insurance sector: To recognise as own fund the excess of asset over the minimum requirement defined in the financial sector.</p>	Noted.
159.	Federation of European Accountants (FEE)	5.8.	<p>Subject to the general concern above, our detailed comments as provided below relate mainly to some items that in our opinion need further clarity.</p> <p>In this paragraph the terminology "own funds arising from a participation" is used. We refer to our comments on paragraph 5.7. It would be helpful to confirm that what it is meant by this is "own funds invested in a participation".</p>	Agreed. Amended paragraph 5.3 should help clarify this.
160.	FFSA	5.8.	<p>We fully disagree on not recognizing any own funds when holding a participation in a regulated financial and credit institutions. Since these are regulated industries, there should be some credit given to the participation. We are in favour of using the reduced shock on equity, at a 50% reduction level. In the worst case scenario, we consider the methodology proposed in the Group Solvency Assessment could be used (excess of own funds over industry requirements).</p> <p>Hybrid instruments should be charged like other debt instruments.</p> <p>The CP states that own funds in participation will not be available to absorb losses in times of crisis. We want to stress that solvency 2 is dealing with going concern entities, and is based on economic principle. As such, we do not understand why referring to the</p>	Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.

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			elimination of the participation due to considerations of a crisis period.	
161.	GDV	5.8.	The fact that there is "... a difference between the methods for calculating solvency and capital adequacy requirements for insurance firms versus credit and financial institutions" does not represent a sufficient reason to justify a full deduction of the value of the participation from the own funds of the participating undertakings (the same focus on the difference of calculation methods can be seen in paragraph 5.38).	Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.
162.	KPMG	5.8.	<p>We recognise that banking and investment groups deduct the value of investments in other financial subsidiaries/participations (both in the banking/investment and insurance sectors) in full, and that the treatment proposed in section 5.1.1 would therefore give a degree of consistency of approach (albeit that in section 5.1.2 there is no full elimination of investment in (re)insurers). However, as expressed elsewhere, we have a number of reservations about the full deduction of investments in "non-insurance financial" undertakings.</p> <p>We believe that there are a number of actions that this approach could encourage, which may not necessarily be in the interests of the customers (policyholders and customers of the other sectors). Some examples could include:</p> <ul style="list-style-type: none"> - Sale of such entities from ownership by the (re)insurer to ownership elsewhere in the group - Maintaining minimum levels of capital in the subsidiary/participation to limit the extent of the deduction in the insurer, or at least it could act as a disincentive for capitalising them beyond this level 	Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.

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			<p>- Reducing the incentives for understanding any aggregation of risks between the (re)insurer and its subsidiaries/participations.</p> <p>We would therefore encourage CEIOPS to consider possible ways to allow (re)insurance undertakings to be allowed to recognise the excess solvency in “non-insurance financial” undertakings as eligible assets, which we believe should be possible if it is determined in accordance with the Capital Requirements Directive.</p>	
163.	PricewaterhouseCoopers LLP	5.8.	<p>The ‘one-size-fits-all’ appears counter-intuitive, whether this refers to regulated credit and financial institutions (paras 5.8 to 5.11) or (re)insurers (paras 5.12 to 5.24), to the risk-based principle underpinning Solvency II. Clearly, all regulated entities do not have the same risk profile and this ultimately should be considered. This, however, may perhaps be a longer term goal of the Solvency II regime, rather than an approach which can be implemented in the short-term.</p>	<p>Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.</p>
164.	UNESPA	5.8.	<p>We do not agree with the view that own funds arising from participations in financial and credit institutions should not be recognised as eligible own funds</p> <p>Although there are differences in the methods of calculating the solvency and adequate capital levels of (re)insurers and financial institutions, we believe that Basel II requires adequate levels of solvency and capital to financial institutions.</p> <p>Not recognising at all the own funds arising from participations in financial and credit institutions as eligible own funds of the participating undertakings could lead to:</p> <p><input type="checkbox"/> A higher distribution of own funds (mainly through dividends) from the financial and credit institutions to the participating undertaking, thus weakening the financial position of those</p>	<p>Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.</p>

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			<p>participations. This could also have a tax cost for the participating.</p> <p><input type="checkbox"/> Not be comparable to the Basel II treatment given by the participating financial institutions to their participations in (re) insurance companies. Basel II permits, to some extent, the recognition of surplus capital of (re)insurance entities in calculating a bank's capital adequacy.</p>	
165.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.9.	<p>Elimination of goodwill does not take into consideration the fact that this goodwill has an economic value (future cash-flows). Also, the control premium held by the participating has a value in the market. Finally, identifying the goodwill can be burdensome, and often impracticable (for example for listed participations).</p>	<p>Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.</p>
166.	Association of British Insurers	5.9.	<p>We disagree with the derecognising of goodwill from participations.</p>	<p>Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.</p>
167.	CEA	5.9.	<p>See or general comments and comments to 6.7.</p> <p>This approach implies that a sub holding with insurance business is treated more onerously than any other insurer.</p>	<p>Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to</p>

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			<p>In our opinion the question whether own funds are to be recognised should rely on the fungibility of the own funds and whether the own funds are able to absorb losses.</p> <p>We disagree with the derecognising of goodwill from participations. Elimination of goodwill does not take into consideration the fact that this goodwill has an economic value (future cash-flows). Also, the control premium held by the participating has a value in the market. Finally, identifying the goodwill can be burdensome, and often impracticable (for example for listed participations).</p>	<p>address the issues raised. CEIOPS members have also agreed that notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.</p>
168.	Federation of European Accountants (FEE)	5.9.	<p>Subject to the general concern above, our detailed comments as provided below relate mainly to some items that in our opinion need further clarity.</p> <p>Paragraph 5.9 advocates a full derecognition (including goodwill of) the participations in financial and credit institutions. While we understand the background of this approach in relation to the prevention of double gearing, we note that doing so may also represent a disincentive for capitalising financial and credit institutions that are investees of insurance undertakings. We would therefore encourage CEIOPS to consider possible ways of recognising excess solvency as eligible assets, in situations where the participation's required solvency is sufficiently responsive to risk in the context of Solvency II.</p>	<p>Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.</p>
169.	FFSA	5.9.	<p>The CP indicates that goodwill should be eliminated. This does not take into consideration the fact that this goodwill has an economic value (future cash-flows). Also, the control premium held by the participating has a value in the market.</p>	<p>Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there</p>

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			Finally, identifying the goodwill can be burdensome, and often impracticable (for example for listed participations). As such, we consider this request is irrelevant and inadequate.	should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
170.	GDV	5.9.	<p>This approach implies that a sub holding with insurance business is treated more onerously than any other insurer.</p> <p>In our opinion the question whether own funds are to be recognised should rely on the fungibility of the own funds and whether the own funds are able to absorb losses.</p> <p>We disagree with the derecognising of goodwill from participations.</p> <p>Elimination of goodwill does not take into consideration the fact that this goodwill has an economic value (future cash-flows). Also, the control premium held by the participating has a value in the market. Finally, identifying the goodwill can be burdensome, and often impracticable (for example for listed participations).</p>	Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised. CEIOPS members have also agreed that notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
171.	GROUPAMA	5.9.	<p>We consider that the valuation of the participation should be made with goodwill included. Goodwill has an economic value and would be valued in the case of acquisition by another undertaking. Not recognizing this value is inconsistent with an economic valuation of the balance sheet.</p> <p>Moreover, it would be impracticable for the undertakings to eliminate the goodwill when using listed price, and the results could be very variable depending on the methodology chosen. The results would not have any sense.</p>	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.

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			Moreover, it could lead to inconsistencies between how participations and standard equity are considered. The value of the participations would be unfairly underestimated compared to the value of listed stocks. It could lead to non-economic arbitrage, limiting the investment in listed companies to 19% in order to not have to eliminate the goodwill. The value of a company in an economic Solvency II balance sheet should not be linked to the percentage held.	
172.	Munich Re	5.9.	Goodwill is a subject of consolidated financial statements. The deduction of the goodwill of participations automatically involves the goodwill shown in consolidated accounting as well. The remark in brackets is superfluous and leads to confusion.	Noted. However, the remark has remains for clarity.
173.	PricewaterhouseCoopers LLP	5.9.	Full de-recognition of participations in financial and credit institutions implies that, under no circumstances, could participating undertakings use the own funds of participated entities to cover risk. This may not be a truly economic approach, depending not only on the nature and correlation of the risks carried by the groups' undertakings, but also on the amount of excess own funds held by participated entities.	Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.
174.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.10.	This statement should be assessed on a case-by-case basis	Noted.
175.			Confidential comments deleted.	

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176.	CEA	5.10.	<p>This statement should be assessed on a case-by-case basis. Any own funds due to the investment in listed participations could be realised and should be recognised.</p> <p>We want to stress that solvency 2 is dealing with going concern entities, and is based on economic principle. Therefore, we do not understand why referring to the elimination of the participation due to considerations of a crisis period.</p>	Noted. CEIOPS members agree that this approach is appropriately prudent whether in a time of crisis or security.
177.	GDV	5.10.	<p>This statement should be assessed on a case-by-case basis. Any own funds due to the investment in listed participations could be realised and should be recognised.</p> <p>We want to stress that solvency 2 is dealing with going concern entities, and is based on economic principle. Therefore, we do not understand why referring to the elimination of the participation due to considerations of a crisis period.</p>	Noted. CEIOPS members agree that this approach is appropriately prudent whether in a time of crisis or security.
178.	Munich Re	5.10.	The assumption that a participation does not realise any sales proceeds is too conservative, even in times of crisis.	Noted. CEIOPS members agree that this approach is appropriately prudent whether in a time of crisis or security.
179.	UNESPA	5.10.	Usually, own funds in excess of the SCR of the participation could serve, via dividends, to absorb the losses of the participating undertaking. In times of crisis the possibility of obtaining dividends from those participations, as well as from (re)insurers) will decrease. However, this situation is not different from other stock investments were the difficulty to make them liquid will increase in times of crisis.	Noted. This point of view has been noted during consideration.
180.	ACA – ASSOCIATION DES	5.11.	In our opinion this is outside the scope of the implementing measures and should not be included. Subordinated debts do not have the same use as equity for the investors. The only correct	Not agreed. See article 92(2)(b) of Level 1.

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	COMPAGNIE S D'ASSURANCES DU		inclusion would be if those debt instruments would include some other arrangement by which a certain control could be exercised. See also our comments to 5.3.	
181.	CEA	5.11.	In our opinion this is outside the scope of the implementing measures and should not be included. Subordinated debts do not have the same use as equity for the investors. The only correct inclusion would be if those debt instruments would include some other arrangement by which a certain control could be exercised. See also our comments to 5.3.	Not agreed. For the scope of the implementing measures, see article 92(2)(b) of Level 1.
182.	European Insurance CFO Forum	5.11.	Exclusion should depend on the tier quality. Consideration of the exclusion in the relevant tiers should depend on the tier quality.	Not agreed. This approach is based upon the fact of subordination and reduction commensurate with tier quality is unlikely to achieve the prudential goal.
183.	FFSA	5.11.	Subordinated debts do not have the same use as equity for the investors. As such, we consider that debt instruments should not follow the same methodology as equity participations. They should be submitted to the market risk modules, as any other bonds.	Noted. This view is recognised however CEIOPS members have agreed that exclusion is appropriately prudent treatment.
184.	GDV	5.11.	In our opinion this is outside the scope of the implementing measures and should not be included. Subordinated debts do not have the same use as equity for the investors. The only correct inclusion would be if those debt instruments would include some other arrangement by which a certain control could be exercised. See also our comments to 5.3.	Not agreed. For the scope of the implementing measures, see article 92(2)(b) of Level 1.
185.	Munich Re	5.11.	Consideration of the exclusion in the relevant tiers should depend on the tier quality. (Tier 2 investments should reduce Tier 2 capital	Not agreed. This approach is based upon the fact of

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			only).	subordination and reduction commensurate with tier quality is unlikely to achieve the prudential goal.
186.	PricewaterhouseCoopers LLP	5.11.	Depending on surplus levels and instruments' features, subordinated claims might actually serve to cover risk.	Noted. This view is recognised however CEIOPS members have agreed that exclusion is appropriately prudent treatment.
187.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.12.	Risks that a solo entity holds can also be considered to be the risks it bears from equity investments in its participation that is a regular equity shock.	Noted. This point has been noted in consideration.
188.	CEA	5.12.	See comment on 6.9. Risks that a solo entity holds can also be considered to be the risks it bears from equity investments in its participation, to be assessed by means of an equity shock.	Noted. This point has been noted in consideration and further feedback is provided under specific comments on paragraph 6.9.
189.	CNP Assurances	5.12.	The principle proposed by the CEIOPS is to consider all the own fund held by a participation to meet its SCR requirement should be treated as a restricted item. This principle can be considered as not fully consistent with the level 1 text (see 5.24) but has been set with the double gearing issue in mind. If this principle would not be accepted by the EC, an alternative approach is developed in Appendix A.	Noted. This point has been noted in consideration.

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			<p>The only item that could possibly be recognised as eligible own fund would be the excess of own fund over the SCR. The excess should be analysed with the following conditions:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Goodwill : a test to assess the value given to the goodwill <input type="checkbox"/> Criteria of Article 93 : to assess in which Tier this excess should be classify <p>Several remarks :</p> <ul style="list-style-type: none"> <input type="checkbox"/> The valuation issues is not directly treated in this CP which makes very difficult to have a rational opinion on the proposed structure <input type="checkbox"/> The treatment of goodwill should be analysed according to the nature of the participation : <ul style="list-style-type: none"> o For a listed participation, there is no easy way to isolate the goodwill in the market price o For non listed participation, the valuation used by the undertaking insurer is mainly based on a model approach. This valuation is usually part of the financial reporting and reviewed by auditor. We propose to consider the valuation used in the account of the undertaking o The use of Criteria of Article 93 seems too inappropriate at a solo level. Indeed, if we admit that the portion of the value that meets the SCR should be eliminated from the own fund, there is no argument to eliminate the excess. Indeed the criteria of Article 93 deals with the transferability of own fund and their capacity to absorb losses. At a solo level, this participation can be sold/transferred, and therefore all the excess should be treated as own fund without any additional capital charge. <p>We would like to underline other issues that are not sufficiently clear in this CP :</p>	
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			<p><input type="checkbox"/> To determine the excess of value over the SCR should be calculated using the percentage of share held by the participating undertaking [ie : (Value of the share) less (percentage of share multiplied by the SCR of the participation)]</p> <p><input type="checkbox"/> Moreover, the SCR of the participation should be reduced depending with the structure of the financing of B : indeed all instruments that are recognized to cover the SCR but which are not capital (giving voting right for instance) as subordinated debt for instance should be deducted from the SCR of the participation</p> <p><input type="checkbox"/> Let's analyse the following example :</p> <p>A holds 20% of B</p> <p>B has a SCR of 100 covered by 60 of hard capital and 40 of subordinated debt (issued on the financial market)</p> <p>If we assume that the value of B in the accounts of A is equal to 15.</p> <p>To calculate the excess of value over the SCR, the following calculation could be done :</p> <p>Value of 20% of B – 20% of SCR B = 15 – 20 = -5 so using that direct approach would lead to decrease the own fun of A which is clearly inconsistent : at 99.5%, the risk of A will be equal to 20% * 60 = 12</p> <p>To reflect the financial structure of B, which is more much consistent, we have to deduct the subordinated debt from the SCR, so that the excess of value would be : 15 – 12 = 3</p>	
190.	CNP Assurances	5.12.	<p>The principle proposed by the CEIOPS is to consider all the own fund held by a participation to meet its SCR requirement should be treated as a restricted item.</p> <p>This principle can be considered as not fully consistent with the level 1 text (see 5.24) but has been set with the double gearing</p>	Noted. This point has been noted in consideration.

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		<p>issue in mind.</p> <p>If this principle would not be accepted by the EC, an alternative approach is developed in Appendix A.</p> <p>The only item that could possibly be recognised as eligible own fund would be the excess of own fund over the SCR. The excess should be analysed with the following conditions:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Goodwill : a test to assess the value given to the goodwill <input type="checkbox"/> Criteria of Article 93 : to assess in which Tier this excess should be classify <p>Several remarks :</p> <ul style="list-style-type: none"> <input type="checkbox"/> The valuation issues is not directly treated in this CP which makes very difficult to have a rational opinion on the proposed structure <input type="checkbox"/> The treatment of goodwill should be analysed according to the nature of the participation : <ul style="list-style-type: none"> o For a listed participation, there is no easy way to isolate the goodwill in the market price o For non listed participation, the valuation used by the undertaking insurer is mainly based on a model approach. This valuation is usually part of the financial reporting and reviewed by auditor. We propose to consider the valuation used in the account of the undertaking o The use of Criteria of Article 93 seems too inappropriate at a solo level. Indeed, if we admit that the portion of the value that meets the SCR should be eliminated from the own fund, there is no argument to eliminate the excess. Indeed the criteria of Article 93 deals with the transferability of own fund and their capacity to absorb losses. At a solo level, this participation can be sold/transferred, and therefore all the excess should be treated as 	
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			<p>own fund without any additional capital charge.</p> <p>We would like to underline other issues that are not sufficiently clear in this CP :</p> <ul style="list-style-type: none"> <input type="checkbox"/> To determine the excess of value over the SCR should be calculated using the percentage of share held by the participating undertaking [ie : (Value of the share) less (percentage of share multiplied by the SCR of the participation)] <input type="checkbox"/> Moreover, the SCR of the participation should be reduced depending with the structure of the financing of B : indeed all instruments that are recognized to cover the SCR but which are not capital (giving voting right for instance) as subordinated debt for instance should be deducted from the SCR of the participation <input type="checkbox"/> Let's analyse the following example : <p>A holds 20% of B</p> <p>B has a SCR of 100 covered by 60 of hard capital and 40 of subordinated debt (issued on the financial market)</p> <p>If we assume that the value of B in the accounts of A is equal to 15.</p> <p>To calculate the excess of value over the SCR, the following calculation could be done :</p> <p>Value of 20% of B – 20% of SCR B = 15 – 20 = -5 so using that direct approach would lead to decrease the own fun of A which is clearly inconsistent : at 99.5%, the risk of A will be equal to 20% * 60 = 12</p> <p>To reflect the financial structure of B, which is more much consistent, we have to deduct the subordinated debt from the SCR, so that the excess of value would be : 15 – 12 = 3</p>	
191.	European Insurance	5.12.	'Risks' should be defined as the risks an entity bears from equity investments.	Noted. This point has been noted in consideration.

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	CFO Forum		In this context, "risks" that a solo entity holds should also include the risks it bears from equity investments in its participation, that is, a regular equity shock.	
192.	GDV	5.12.	Risks that a solo entity holds can also be considered to be the risks it bears from equity investments in its participation that is a regular equity shock.	Noted. This point has been noted in consideration and further feedback is provided under specific comments on paragraph 6.9.
193.	Munich Re	5.12.	Risks that a solo entity holds can also be considered to be the risks it bears from equity investments in its participation, i.e. can be modelled using a regular equity stress test.	Noted. This point has been noted in consideration.
194.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.13.	See 6.9.	Noted. Further feedback is provided under specific comments on paragraph 6.9.
195.	CEA	5.13.	See comment on 6.9.	Noted. Further feedback is provided under specific comments on paragraph 6.9.
196.	Association of British Insurers	5.14.	The word "undertaking" relates to insurance entity. Either the term is misused or the CP exclude the case of participation in non financial non regulated entity such as commercial, Real estate...	Noted. Please refer to paragraph 5.28 on non-financial non regulated undertakings for clarification of the treatment of investments in property.
				Noted as blank
198.	European Insurance	5.14.		Noted as blank.

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	CFO Forum			
199.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.15.	<p>22. If the participation is considered to be a subsidiary, than this approach would contradict the default treatment within a group which is to consider the group as one entity and then to calculate the SCR. We urge CEIOPS to make a distinct difference between the various levels of control and then to apply a treatment.</p> <p>23. We ask that (re)insurers participations are treated in line with the Directive article 109(ja).</p> <p>24. This is an equity shock in the market submodule, with a reduction of 50% to take into account the volatility and strategic nature of these investments. Hybrid debts should be excluded from the participation, and be subject to the normal market risk charge.</p> <p>25. SCR of non-EEA participations is not considered.</p> <p>26. The CP is stating in 5.15 and 5.16 that the whole SCR of the participation should be considered. The correct way would be to consider the proportional share of the SCR. The excess of value over the SCR should be calculated using the percentage of shares held by the participating undertaking [i.e.: (Value of the share) less (percentage of share multiplied by the SCR of the participation)].</p>	Noted. The Advice provides further clarification including a discussion on diversification benefits at paragraph 5.17.
200.			Confidential comments deleted.	
201.	CEA	5.15.	<p>If the participation is considered to be a subsidiary, than this approach would contradict the default treatment within a group.</p> <p>The default treatment is to consider the group as one entity and then to calculate the SCR. We urge Ceiops to make a distinct difference between the various levels of control and then to apply a treatment.</p> <p>We ask that (re)insurance participations are treated in line with the</p>	Not agreed. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members

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			<p>Directive article 109(ja).</p> <p>This is an equity shock in the market submodule, with a reduction of 50% to take into account the long term and strategic nature of these investments. Hybrid debts should be excluded from the participation, and be subject to the normal market risk charge.</p> <p>SCR of non-EEA participations is not considered.</p> <p>CP 67 does not give any details on what deduction should be made for non-EEA participations. If a supervisory regime is deemed equivalent, the same treatment should apply as for EEA-participations. It is not clear what the treatment of non-EEA participations would be in the absence of equivalence.</p> <p>The CP is stating in 5.15 and 5.16 that the whole SCR of the participation should be considered. The correct way would be to consider the proportional share of the SCR.</p> <p>The excess of value over the SCR should be calculated using the percentage of shares held by the participating undertaking [i.e: (Value of the share) less (percentage of share multiplied by the SCR of the participation)].</p> <p>See also our comments on 5.3. on subordinated debt.</p>	<p>believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.</p>
202.	CRO Forum	5.15.	<p>CP 67 does not give any details of what deduction should be made for non-EEA participations. In line with the rules for CP 60 (Groups), the respective local SCR should be acknowledged as the own-funds deduction factor for participations from countries recognized by Solvency II.</p>	<p>Noted. This Advice is consistent with CP 60 (Groups).</p>

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203.	CRO Forum	5.15.	<p>CP 67 does not give any details of what deduction should be made for non-EEA participations. In line with the rules for CP 60 (Groups), the respective local SCR should be acknowledged as the own-funds deduction factor for participations from countries recognized by Solvency II.</p>	<p>Noted. This Advice is consistent with CP 60 (Groups).</p>
204.	FFSA	5.15.	<p>Our position is clearly to ask for a treatment of the participation in (re)insurers in line with the Directive article 109(ja), ie an equity shock in the market submodule, with a reduction of 50% to take into account the volatility and strategic nature of these investments. Hybrid debts should be excluded from the participation, and be subject to the normal market risk charge.</p> <p>The position taken in the CP, to limit the own funds of the participating to its share in the excess of own funds over SCR of the participation, appears to be extremely conservative, and ignores the resilience of insurance industry vs a crisis. We want to remind, as indicated by a CEIOPS member that the risks are captured at a Group supervision level; thus we consider the proposed approach to be a duplication of charge and burden.</p> <p>Also, the CP is stating that the amount of assets over liabilities held by the participation to meet its SCR should be treated as a restricted item. It should be the Q/P of detention in the SCR that could be restricted, and not the full SCR: the excess of value over the SCR should be calculated using the percentage of shares held by the participating undertaking [ie : (Value of the share) less (percentage of share multiplied by the SCR of the participation)] .</p> <p>As indicated previously, the Directive is not referring to own funds, but to participations, without mentioning subordinated debts. We definitely consider that subordinated instruments shall not be analyzed the same way as equity on the investor side, and shall be charged in the SCR market modules. As such, if the CP proposed</p>	<p>Not agreed. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.</p>

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			<p>method had to be accepted, the restricted SCR to be considered should be limited to the sole amount used by equity to meet the {SCR – subordinated debts}.</p> <p>Indeed, the SCR of the participation should be reduced depending with the structure of the financing of B : indeed all instrument that are recognized to cover the SCR but which are not capital (giving voting right for instance), as subordinated debt for instance, should be deducted from the SCR of the participation</p> <p><input type="checkbox"/> Let's analyse the following example :</p> <p>A holds 20% of B</p> <p>B has a SCR of 100 covered by 60 of hard capital and 40 of subordinated debt (issued on the financial market)</p> <p>If we assume that the value of B in the accounts of A is equal to 15.</p> <p>To calculate the excess of value over the SCR, the following calculation could be done :</p> <p>Value of 20% of B – 20% of SCR B = 15 – 20 = -5 so using that direct approach would lead to decrease the own fun of A which is clearly inconsistent : at 99.5%, the risk of A will be equal to 20% * 60 = 12</p> <p>To reflect the financial structure of B, which is more much consistent, we have to deduct the subordinated debt from the SCR, so that the excess of value would be : 15 – 12 = 3</p>	
205.	GDV	5.15.	<p>If the participation is considered to be a subsidiary, than this approach would contradict the default treatment within a group.</p> <p>The default treatment is to consider the group as one entity and then to calculate the SCR. We urge CEIOPS to make a distinct difference between the various levels of control and then to apply a</p>	<p>Not agreed. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment</p>

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			<p>treatment.</p> <p>We ask that (re)insurers participations are treated in line with the Directive article 109(ja).</p> <p>This is an equity shock in the market submodule, with a reduction of 50% to take into account the volatility and strategic nature of these investments. Hybrid debts should be excluded from the participation, and be subject to the normal market risk charge.</p> <p>SCR of non-EEA participations is not considered.</p> <p>CP 67 does not give any details on what deduction should be made for non-EEA participations. In line with the rules for CP 60 (Group Solvency Assessment), the respective local SCR should be acknowledged as the own funds deduction factor for participations from countries recognised by Solvency II.</p> <p>The CP is stating in 5.15 and 5.16 that the whole SCR of the participation should be considered. The correct way would be to consider the proportional share of the SCR.</p> <p>The excess of value over the SCR should be calculated using the percentage of shares held by the participating undertaking [i.e: (Value of the share) less (percentage of share multiplied by the SCR of the participation)].</p>	<p>whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.</p>
206.	GROUPAMA	5.15.	<p>We would like to question the treatment suggested for the incorporation of the SCR of the participation in the balance sheet of the participating entity: CEIOPS should consider the participating entity as a solo entity, as was done for QIS 4, then the participation should be treated in the equity risk module, with a reduced equity shock as stated in the Directive. In this case, the exclusion of subordinated debt given to the participation by the participating entity should not be excluded from the own funds of the participation entity, and should be considered in the market risk</p>	<p>Not agreed. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the</p>

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			<p>module as any other instrument.</p> <p>The treatment suggested by CEIOPS, in addition to being inconsistent with the Level 1 text, has no economic rationale. CEIOPS suggests dealing with all solo entities as a sub-group, using the deduction/aggregation method without justification. Consolidation methodologies only make sense in the case of a group (cf CP 60), to take into account the true group risk profile. Undertakings take into account the diversification benefit at group level to allocate capital and minimize their risk exposure, optimizing their diversification. Undertakings manage participations at solo level too, considering their participation as a particular investment. So, capital requirements should be calculated at group level, or at solo level, as prescribed in the Directive, but in no case at a sub-group level. (4.)</p> <p>Our position is clearly to ask for a treatment of the whole participation (in particular for (re)insurers) in line with the Directive article 109(ja), ie an equity shock in the market submodule, with a reduction of 50% to take into account the volatility and strategic nature of these investments. Hybrid debts should be excluded from the participation, and be subject to the normal market risk charge.</p> <p>This section indicates that one of the objectives of CEIOPS is to limit systemic risk. We would like to stress that the insurance industry is not exposed to the same risks as the banking industry, and has never faced any systemic risks due to its economic cycle. (4.8)</p>	<p>majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.</p>
207.	KPMG	5.15.	<p>Although it is not an "arm's length" value, we concur with the approach adopted in respect of (re)insurance</p>	<p>Partly agreed. The advice has been clarified to explain why</p>

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			<p>subsidiaries/participations, whereby the starting point for the valuation basis is taken as the regulatory excess capital over its capital requirement.</p> <p>Whilst non-EEA (re)insurance undertakings are not specifically covered, we assume this would be on a Solvency II/Solvency II equivalent basis. This would be consistent with the groups requirements, and we seek CEIOPS clarification that this is the intention.</p> <p>However, we would point out that if a group solvency assessment is required at the level of the participating (re)insurance undertaking (due to the application of Article 213(2)(a)), the solo and group solvency assessments would produce different outcomes, even though they cover the same entities. This arises due to the fact that the group calculation works from consolidated data (i.e. it works on a look through basis), so the group (consolidated) SCR will be able to benefit from any diversification benefits between the group entities, whereas the proposed approach considers solo positions separately, so as well as non-inclusion of diversification benefits, there are no adjustments made to the solo SCR in relation to exposures with the participating undertaking (or indeed other entities also owned by that company).</p>	diversification benefits do not arise at the solo level.
208.	Munich Re	5.15.	<p>SCR of non-EEA participations</p> <p>CP 67 does not give any details of what deduction should be made for non-EEA participations. In line with the rules for CP 60 (Groups), the respective local SCR should be acknowledged as the own-funds deduction factor for participations from countries recognised by Solvency II.</p>	Noted.
209.	PricewaterhouseCoopers LLP	5.15.	See 5.9 but limited to the amount of own funds covering the SCR.	Noted.

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210.			Confidential comments deleted.	
211.	CEA	5.16.	<p>A comparison with ring-fenced funds is not appropriate.</p> <p>Investments that constitute participations are not attributable to a particular group of stakeholders. Their risks and rewards are borne by shareholders and policyholders, just as with other investments. Rather, double gearing involves the issue that the risks are in fact not only equity risks but also "risks subject to supervision" or risks of the sort that arise from the participating undertaking's own insurance business – a concentration risk, as it were. For this reason it makes sense to consider the real risk, namely the SCR of the participation. In our view, this has nothing to do with ring-fenced funds. The reference should be deleted.</p>	Partly agreed. Confusion recognised and clarification provided.
212.	European Insurance CFO Forum	5.16.	<p>The deduction of the participated undertakings' SCR from eligible own funds results in the solvency ratio no longer being an informative figure for the solo undertaking.</p> <p>The deduction of the participated undertaking's SCR from the eligible own funds is intended to prevent double counting of own funds.</p> <p>However, it should be borne in mind that the solvency ratio will then no longer be an informative figure for the solo undertaking. In the case of a holding company, this problem is aggravated and the question arises as to what informative value the solo solvency ratio has if deductions are made from the eligible own funds for participations.</p> <p>A comparison with ring-fenced funds is not appropriate as investments that constitute participations are not attributable to a particular group of stakeholders.</p>	Not agreed. Double counting is avoided and any ratio is more meaningful.

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			<p>A comparison with ring-fenced funds is not appropriate. Investments that constitute participations are not attributable to a particular group of stakeholders. Their risks and rewards are borne by all shareholders and policyholders, just as with other investments. Double gearing in comparison involves the issue that the risks are in fact not only equity risks but also "risks subject to supervision" or risks of the sort that arise from the participating undertaking's own insurance business. For this reason it makes sense to consider the real risk, namely the SCR of the participation. In our view, the reference to ring-fenced funds should be deleted.</p>	
213.	FFSA	5.16.	Idem 5.15	Noted.
214.	GDV	5.16.	<p>A comparison with ring-fenced funds is not appropriate. Investments that constitute participations are not attributable to a particular group of stakeholders. Their risks and rewards are borne by shareholders and policyholders, just as with other investments. Rather, double gearing involves the issue that the risks are in fact not only equity risks but also "risks subject to supervision" or risks of the sort that arise from the participating undertaking's own insurance business – a concentration risk, as it were. For this reason it makes sense to consider the real risk, namely the SCR of the participation. In our view, this has nothing to do with ring-fenced funds. The reference should be deleted.</p>	Not agreed. Double counting is avoided and any ratio is more meaningful.
215.	Munich Re	5.16.	<p>For participations in which the participating undertaking holds less than 100%, the determination of the amount to be deducted (own funds covering SCR of the participation) is to be based solely on the stake held.</p> <p>A comparison with ring-fenced funds is not appropriate. Investments that constitute participations are not attributable to a particular group of stakeholders. Their risks and rewards are borne</p>	Agreed. Clarified. As a result of its commitment it has to be excluded on a proportional basis. The second point has been addressed in response to comment 211.

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			by shareholders and policyholders, just as with other investments. Rather, double gearing involves the issue that the risks are in fact not only equity risks but also "risks subject to supervision" or risks of the sort that arise from the participating undertaking's own insurance business – a concentration risk, as it were. For this reason it makes sense to consider the real risk, namely the SCR of the participation. In our view, this has nothing to do with ring-fenced funds. The reference should be deleted.	
216.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.17.	See 6.11.	Noted.
217.	Association of British Insurers	5.17.	Exclusion of goodwill may prove costly for listed groups as the value embedded in subsidiary companies can be realised and used to absorb losses.	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
218.	CEA	5.17.	See comments on 6.11.	Noted.
219.	European Insurance CFO Forum	5.17.	A loss absorbency test is not economically justified. The three-step approach of deducting first goodwill, then SCR and subsequently requiring a loss absorbency test is inconsistent, as it mixes different approaches.	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment

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			<p>The subsequent test of loss absorbency capacity presupposes that a participating undertaking has no possibility to sell its participations and thus has to use them to help carry risks in the event of a loss. This approach is too conservative. A loss absorbency test is not economically justified.</p> <p>An element of goodwill should be included.</p> <p>It is understandable why all goodwill should not be taken into account. However, an element of goodwill should be included as, for example, you could sell a subsidiary and the price would contain an element of goodwill. It is not correct to say that goodwill has no value. Further, there are practical problems with estimating the goodwill component of market values.</p>	<p>for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.</p>
220.	FFSA	5.17.	<p>The proposition made by the CEIOPS to reduce the value of participations by the goodwill is not acceptable – also refer to 5.9 comment.</p> <p>First, it appears to be impracticable. In the case of listed entities, how to determine the goodwill? Let’s bear in mind that under IFRS, the balance sheet is not fully “fair valued”. Determining a goodwill would lead to an excessive burden borne by the undertakings.</p> <p>Secondarily, the goodwill itself has a loss absorption capacity. As such, we do not see why participation value should be reduced by the goodwill. The goodwill has an economic value and would be valued in case of acquisition by an other undertaking. Not recognizing this value is inconsistent with an economic valuation of the balance sheet.</p> <p>Moreover, it could lead to inconsistencies between how participations are considered compared to standard equity. The value of the participations will be unfairly underestimated compared to the value of listed stocks.</p>	<p>Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.</p>

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			Under IFRS, there is indeed a test of goodwill (impairment test), that leads to recognise the adequate value of goodwill. We do not see any reason for departing from IFRS.	
221.	Munich Re	5.17.	<p>The three-step approach of deducting first goodwill and then SCR and subsequently requiring a loss absorbency test is inconsistent, as it mixes different approaches.</p> <p>The deduction of the SCR represents a risk in line the Solvency II requirements. It can be interpreted as the capital used up at the level of the participation at a time of stress. If one disregards influences on the market value of a company like those exerted by share prices, the value of the participation at the time of stress should be reduced precisely by this SCR. An additional deduction of goodwill is not necessary.</p> <p>The subsequent test of loss absorbency capacity presupposes that a participating undertaking has no possibility to sell its participations and thus to use them to help carry risks in the event of a loss. This approach is too conservative. A loss absorbency test is not economically justified.</p>	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
222.	UNESPA	5.17.	<p>We do not agree with the view that goodwill has no value.</p> <p>In times of crisis goodwill may be partially impaired and consequently partially eliminated from own funds. However, under normal circumstances, goodwill represents the future cash flows that the company will obtain and that will help it to cover the risks it is assuming.</p>	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.

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223.	KPMG	5.18.	We agree that the loss absorbing capacity of the excess of the (re)insurance subsidiary/participation's excess of own funds over its SCR should be tested for loss absorbency, in the same way that items of own funds are. Fungibility of capital should not need consideration if our assumption in 5.15 is correct, but transferability should be assessed. For example, if the (re)insurance subsidiary/participation has any element of the excess own funds in a ring-fenced fund, or there are other transferability restrictions (for example due to legal requirements), then part of this excess may need to be restricted further for the purposes of the parent/participating (re)insurer's solo solvency assessment.	Partly agreed. Transferability restrictions should be considered in the assessment of eligibility of the 'excess'.
224.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.19.	See 6.13.	Noted.
225.	CEA	5.19.	See our comments to 6.13.	Noted.
226.	FFSA	5.19.	We do not understand the rationale for an additional test: we are dealing here with regulated (re)insurers, within the EU. In this case, any own funds can be transferred within a Group, due to the mechanisms of intragroup loans (cf. CP60 comments). As long as the participation is within EU, own funds are considered eligible as tier 1. Indeed, if we admit that the portion of the value that meets the SCR should be eliminated from the own fund, there is no argument to eliminate the excess. Indeed the criteria of Article 93 deals with	Noted. There may be cases where transferability or other encumbrances may be an issue.

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			the transferability of own fund and their capacity to absorb losses. At a solo level, this participation can be sold/transferred, and therefore all the excess should be treated as own fund without any additional capital charge.	
227.	KPMG	5.19.	We concur with this approach, which is in line with our comments in 5.18.	Agreed.
228.	PricewaterhouseCoopers LLP	5.19.	Since an assessment of the participated undertaking's excess with respect to Article 93 might not be straightforward, certainty and enforceability might be difficult, and supervisors might be tempted to err on the side of prudence. Furthermore, clarification on the approach to identify items to be considered excess rather than coverage of SCR might also be needed, since undertakings might simply decide to rearrange the funds within the limits applicable to the tiers (Article 98).	Disagreed. It is important to identify potential obstacles to transferability.
229.	European Insurance CFO Forum	5.20.	Comments in 5.16 are also relevant here.	Noted.
230.	KPMG	5.20.	This paragraph specifically states that this approach mitigates double counting of capital and is likely to provide supervisors with a better assessment of the solvency position of the (re)insurance undertaking. We are struggling to understand why a similar approach is not possible in relation to the "non-insurance financial" undertakings.	Not agreed. For `non-insurance financial undertakings, deductions are also made to remove double gearing.
231.	Federation of European Accountants (FEE)	5.22.	Subject to the general concern above, our detailed comments as provided below relate mainly to some items that in our opinion need further clarity.	Partly agreed. The assessment would be part of any determination of the criteria for the eligibility of own funds.

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			Paragraph 5.22 refers to the "availability" test. It would be helpful having further detailed guidance regarding the "availability test" on the share in free solvency in insurance participations. In our view, without further detailed guidance, there is a risk of double counting between asset charges in the required solvency of the participation and an availability haircut to the share of the participating undertaking in the participation's free surplus.	
232.	KPMG	5.22.	This refers to the ""availability"" test. We understand this in the context of ""transferability"". However, whatever the test is, we believe it should be structured such that it does not result in any double deductions across the combined entities when taken together.	Partly agreed. The assessment would be part of any determination of the criteria for the eligibility of own funds.
233.	PricewaterhouseCoopers LLP	5.22.	Disincentives towards over-capitalisation of participated undertakings seem to remain for financial and credit institutions.	Noted.
234.	AMICE	5.23.	The approach described in paragraphs 5.12.-5.23 seems not to be consistent with the general risk-based approach of the Level 1 text as set out in article 109 .1(ja) and 105.5. setting the criteria for the calculation of the solvency capital requirements. The amount which will be deducted from the eligible own funds of the participating undertaking if such approach is applied, will not necessarily reflect the inherent risk of those assets. Furthermore, should the suggested regulation be implemented, it will have a restrictive effect on the way insurance and reinsurance undertakings organize their business. Thus, AMICE members reject the suggested proposal.	Noted.
235.	European Insurance CFO Forum	5.23.	Comments in 5.16 are also relevant here.	Noted.

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236.	Munich Re	5.23.	See remarks in general comment on the non-consideration of diversification effects and double-counting of risks.	Noted. The Advice provides further clarification including a discussion on diversification benefits at paragraph 5.17.
237.			Confidential comments deleted.	
238.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.24.	The approach recommended by CEIOPS is not consistent with the Level 1 text. The proposed approach appears to be a complex method that would lead to additional burden on the undertakings. We would be keener to support a look-through approach (consolidation approach under Group solvency).	Not agreed. The Commission's view is that the approach recommended would not meet the specific terms of the level 1 text in so far as this suggests an approach based on an SCR and in particular through the equity risk sub-module.
239.	AMICE	5.24.	We also agree with the Commission that the approach recommended by CEIOPS is not consistent with the Level 1 text.	Not agreed. The Commission's view is that the approach recommended would not meet the specific terms of the level 1 text in so far as this suggests an approach based on an SCR and in particular through the equity risk sub-module.
240.			Confidential comments deleted.	
241.	CEA	5.24.	We fully agree with the European Commission that the approach recommended by Ceiops is not consistent with the Level 1 text. We do not agree with the proposed approach, which appears to be a deduction/aggregation approach. This appears to be a complex method that would lead to additional burden on the undertakings. As an alternative to a reduced equity	Not agreed. The Commission's view is that the approach recommended would not meet the specific terms of the level 1 text in so far as this suggests an approach based on an SCR and in particular through the equity risk sub-module.

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			shock, we would be keener to support a look-through approach (consolidation approach under Group solvency).	
242.	CRO Forum	5.24.	We fully support the Commission position that the approach does not meet the specific terms of the Level 1 text.	Not agreed. The Commission's view is that the approach recommended would not meet the specific terms of the level 1 text in so far as this suggests an approach based on an SCR and in particular through the equity risk sub-module.
243.	CRO Forum	5.24.	We fully support the Commission position that the approach does not meet the specific terms of the Level 1 text.	Not agreed. The Commission's view is that the approach recommended would not meet the specific terms of the level 1 text in so far as this suggests an approach based on an SCR and in particular through the equity risk sub-module.
244.	FFSA	5.24.	We do not agree with the proposed approach, which appears to be a deduction/aggregation approach (considering the overall SCR of the participation, and correcting the correlation to impede any correlation with the other risks of the participating undertaking). This appears to be a complex method, that would lead to additional burden on the undertakings. We would be more keen to support a look-through approach (consolidation approach under Group solvency).	Noted.
245.	GDV	5.24.	We fully agree with the European Commission that the approach recommended by CEIOPS is not consistent with the Level 1 text.	Not agreed. The Commission's view is that the approach

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			<p>We do not agree with the proposed approach, which appears to be a deduction/aggregation approach.</p> <p>This appears to be a complex method, that would lead to additional burden on the undertakings. We would be keener to support a look-through approach (consolidation approach under Group solvency).</p>	<p>recommended would not meet the specific terms of the level 1 text in so far as this suggests an approach based on an SCR and in particular through the equity risk sub</p>
246.	KPMG	5.24.	<p>We share the Commission's concerns that CEIOPS proposals do not meet the level 1 text.</p>	<p>Not agreed. The Commission's view is that the approach recommended would not meet the specific terms of the level 1 text in so far as this suggests an approach based on an SCR and in particular through the equity risk sub</p>
247.	Munich Re	5.24.	<p>We agree with the European Commission that the approach recommended by CEIOPS is not consistent with the Level 1 text.</p>	<p>Not agreed. The Commission's view is that the approach recommended would not meet the specific terms of the level 1 text in so far as this suggests an approach based on an SCR and in particular through the equity risk sub</p>
248.	RSA	5.24.	<p>We note the comment that the commission considers that the approach recommended would not meet the specific terms of the level 1 text and we could not support a solution that fails this basic test.</p>	<p>Not agreed. The Commission's view is that the approach recommended would not meet the specific terms of the level 1 text in so far as this suggests an approach based on an SCR and in particular through the equity risk sub</p>
249.			<p>Confidential comments deleted.</p>	

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250.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.25.	See our comments on 6.15.	Noted.
251.			Confidential comments deleted.	
252.	CEA	5.25.	See our comments on 6.15.	Noted.
253.	FFSA	5.25.	<p>With respect to financial non regulated undertakings, the paper proposes to purely eliminate the participation from the own funds of the participating entity, as proposed for credit institutions. This is not in line with the Directive, and is a very extreme approach.</p> <p>We ask for a reduced equity shock (50% would be an acceptable reduction, in line with QIS4 differentiated approach), to take into consideration the absence of volatility and the strategic feature of the participation, in compliance with the Directive level 1 – cf. comment above.</p>	Not agreed. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk.
254.	KPMG	5.25.	<p>We agree that the economic substance of a subsidiary/participation should drive the treatment to be followed, regardless of whether an entity is regulated in its own right or not.</p> <p>Given the proposed full elimination of investments in banking and investment subsidiaries/participations, but the inclusion of (re)insurance undertakings on an excess capital over SCR basis, we assume that the reference to a notional SCR being required is</p>	Noted. Please refer to new paragraph 5.26 for the advice on a consistent treatment for all participations.

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			meant to relate to (re)insurance only.	
255.	Munich Re	5.25.	It is unclear to us what kind of participations are considered to be "unregulated, related to the financial sector". Please give examples.	Agreed. Further clarification that these are subsidiaries and participations for which a notional SCR will be required under the group treatment is provided in the advice.
256.	PricewaterhouseCoopers LLP	5.25.	See 5.9	Noted.
257.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.26.	See our comments on 6.16.	Noted.
258.			Confidential comments deleted.	
259.	CEA	5.26.	For non-financial non-regulated undertakings, we fully support a reduced equity charge, to ensure consistency with Article 109 (ja) of the Directive.	Not agreed. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk.

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260.	FFSA	5.26.	<p>As commented in the CP, the participations are not similar to pure equity. It is reasonable to say that they are not exposed to the same level of volatility as other assets, due to the strategic detention and block of shares owned by the participating undertaking.</p> <p>As such, we consider that these participations should not have a standard equity risk charge approach, but be subject to a reduced standard equity risk charge approach, in line with the prescription of article 109(I):</p> <p>“taking into account the likely reduction in the volatility of the value of those related undertakings arising from the strategic nature of those investments and the influence exercised by the participating undertaking on those related undertakings”.</p> <p>We consider the CP should precise the “subject to the criteria in Article 109(I)”, and set up the parameter of reduction of the equity shock. 50% appears to be an acceptable parameter to take into account.</p> <p>However, we also recommend a case-by-case analysis. Some participations are only servicing entities, e.g. to manage claims, SI... These shared center or servicing entities (ancillary service entities in CP60 – Group solvency assessment) should not be charged at all, since there is strictly no risk on it. This kind of “outsourcing” should not lead to an additional charge for the company in comparison with an equity investment.</p>	<p>Not agreed. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk.</p>
261.	Institut des actuaires	5.26.	<p>CEIOPS’ proposal for the treatment of non-financial non-regulated undertakings (i.e. to apply a standard equity shock) is not acceptable for participations that are wholly invested in lands and buildings. From a rational economic point of view, this kind of participations should rather be treated as a directly owned building,</p>	<p>Noted. Clarification provided.</p>

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			and not a standard equity investment.	
262.	KPMG	5.26.	For non-financial related undertakings (which we assume to exclude insurance, financial and insurance mixed financial holding companies), we concur with the proposed equity charge approach.	Agreed.
263.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.27.	We fully support the minority view that is described here and in the following paragraphs.	Noted.
264.	Association of British Insurers	5.27.	The method used to determine the equity stress for participations should be based on the economic substance of the participation. It does not seem logical for example to apply a 45% standard equity charge to a participation in a real estate holding when the same assets detained directly would only bear a 25% charge.	Noted.
265.	CEA	5.27.	We fully support the minority view that is described here and in the following paragraphs. However, we would like to ensure that once this shock is made, there is no other charge to calculate on participations, such as counterparty risks, concentration, for the reasons explained previously.	Noted.
266.	FFSA	5.27.	The CP proposes an alternative method for financial, (re)insurers undertakings (regulated or not), which is the differentiated approach used in QIS4. The reduction in equity shock would be 50%. We are definitely in favour of this approach.	Noted.

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			We would like to ensure that once this shock is made, there is no other charge to calculate on participations, such as counterpart risks, concentration, for the reasons exposed previously.	
267.	GDV	5.27.	We fully support the minority view that is described here and in the following paragraphs. However, we would like to ensure that once this shock is made, there is no other charge to calculate on participations, such as counterparty risks, concentration, for the reasons explained previously.	Noted.
268.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.28.	See comments on 5.27.	Noted.
269.	CEA	5.28.	See comments on 5.27.	Noted.
270.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.29.	See comments on 5.27.	Noted.
271.	CEA	5.29.	See comments on 5.27.	Noted.

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272.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.30.	See comments on 5.27.	Noted.
273.	CEA	5.30.	See comments on 5.27.	Noted.
274.	RSA	5.30.	We believe that ideally it should be possible to include the value of participations with suitable risk charges but we also believe that there would be practical difficulties in ensuring a consistent valuation approach. We believe that applying a standard risk charge would also be overly simplistic.	Noted.
275.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.31.	See comments on 5.27.	Noted.
276.	AMICE	5.31.	AMICE members strongly support CEIOPS minority view that allows the equity risk shock to be reduced according article 109(ja) in order to take into account the likely reduction in volatility due to the strategic nature of the related undertakings and the influence exercised by the participating undertaking. We therefore support a 50% reduction in the standard equity shock (as was done in	Noted.

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			QIS4).	
277.	CEA	5.31.	See comments on 5.27. We agree that an appropriate reduction would be 50% of the standard shock.	Noted.
278.	FFSA	5.31.	We are in favour of the proposed approach, and the level of 50% reduction in equity shock.	Noted.
279.	GDV	5.31.	We agree that an appropriate reduction would be 50% of the standard shock.	Noted.
280.	Institut des actuaires	5.31.	<p>This approach is simpler and takes into account a reduced volatility for participations.</p> <p>However and for the same reason that quoted before, this is not acceptable for participations that are wholly invested in lands and buildings. These participations should be treated as properties, with an appropriate reduction, e.g. 50%, of the standard property shock.</p>	Noted.
281.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.32.	The CEIOPS minority view in 5.32 is indicating that subordinated claims and instruments should be charged with the counterparty default risk module. We do not understand the rationale for it. We consider that only the market risk modules shall apply, and would like clarification on why on this type of investment, there should be a counterparty default risk calculation.	Noted.
282.	CEA	5.32.	The Ceiops minority view in 5.32 is indicating that subordinated claims and instruments should be charged with the counterparty default risk module. We do not understand the rationale for it. We	Noted.

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			consider that only the market risk modules shall apply, and would like clarification on why on this type of investment, there should be a counterparty default risk calculation.	
283.	FFSA	5.32.	5.32 is indicating that subordinated claims and instruments should be charged with the counterparty default risk module. We do not understand the rationale for it. We consider that only the market risk modules shall apply, and want to get clarification on why on this type of investment, there should be a counterparty default risk calculation.	Noted.
284.	GDV	5.32.	The CEIOPS minority view in 5.32 is indicating that subordinated claims and instruments should be charged with the counterparty default risk module. We do not understand the rationale for it. We consider that only the market risk modules shall apply, and would like clarification on why on this type of investment, there should be a counterparty default risk calculation.	Noted.
285.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.33.	See comments on 5.34.	Noted.
286.	CEA	5.33.	See comments on 5.34.	Noted.
287.	FFSA	5.33.	This paragraph states that the solo supervisor can decide to exclude the out-of-scope participations (financial and (re)insurers undertakings) from eligible own funds if the circumstances leading	Noted.

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			<p>to the exclusion of scope also apply to the assessment of the solo solvency position of the relevant undertaking, and that the loss absorbency of the own funds derived from the participation is affected. Let's remind that the out-of-scope is possible under three cases:</p> <p>a) if the undertaking is situated in a third country where there are legal impediments to the transfer of the necessary information, without prejudice to the provisions of Article 227;</p> <p>b) if the undertaking which should be included is of negligible interest with respect to the objectives of group supervision;</p> <p>c) if the inclusion of the undertaking would be inappropriate or misleading with respect to the objectives of the group supervision.</p> <p>Under cases b) and c), there is no reason to eliminate the participation from own funds.</p> <p>Under case a), we consider that the fact the solo supervisor cannot get information from the local supervisor should not lead to eliminate the participation.</p> <p>As such, we would like more precisions on how the loss absorbency of the own funds could be affected.</p> <p>We consider these participations should be charged with the 50% reduced equity shock.</p>	
288.	KPMG	5.33.	<p>We agree that where a subsidiary/participation is excluded from the scope of group supervision, supervisors should assess whether the same circumstances apply at the solo level. In this regard, given the limited scope for exclusion under the Directive, we assume that this will usually only be on the grounds of materiality to the solo entity.</p> <p>[The three conditions can be summarised as legal impediments to</p>	Noted.

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			the transfer of information. negligible interest and inclusion would be inappropriate or misleading. The first of these either does or does not apply, so cannot be different for solo and group assessments and it is difficult to think of an example where inclusion would be inappropriate/misleading at group level but relevant and not misleading at solo level other than as a result of its materiality.]	
289.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.34.	<p>(Re)insurance subsidiary: It should be treated as an equity investment, with a reduced equity shock.</p> <p>Financial and credit institution subsidiary: If the subsidiary is subject to prudential supervision (e.g. Capital Requirement Directive) a partial “accounting- consolidation method” should be in principle applied, i.e. it should be applied to the calculation of own funds. As to capital requirement, pending further discussion on the degree of cross sector diversification to be recognised, they should be the sum of the SCR of the insurance participating undertaking and the capital requirement of the financial undertaking as laid down in the relevant prudential requirements. The available capital should instead be based on the consolidated financial statement. This is consistent with the treatment in the Financial Conglomerates Directive (see Annex I, II Technical calculation methods). If this approach is not attainable, because of valuation problems or other consolidation problems the “deduction and aggregation method” could be used.</p> <p>Other subsidiary: If the subsidiary is not subject to prudential supervision the parent has to consider whether the “subsidiary” is eligible to be part of the accounting consolidation scope. If the subsidiary is consolidated a “look-through” approach is automatically applied. If the subsidiary is not consolidated, the parent has to apply an equity stress over the net asset value and to</p>	Noted.

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			<p>apply a Pillar II assessment for any material risk not included in the Pillar I calculations. The stress that is applied to participated undertakings should be lower than the stress that is applied to other equity investments due to the specific and long term nature of participated undertakings.</p> <p>(Re)insurance participation: If the participation is subject to Solvency II supervision the "deduction and aggregation method should be applied".</p> <p>Financial and credit institution participation: Same treatment as for financial and credit institution subsidiary but instead of the SCR the relevant sectoral capital requirement applies.</p> <p>Other participation: If the participation is not subject to prudential supervision a "reduced" equity shock should be applied to the net asset value of the participation.</p>	
290.	CEA	5.34.	<p>Treatment of participations which are excluded from the scope of group supervision</p> <p>We refer to our paper "CEA Paper on the treatment of participated undertakings" of 27 February 2009. In this paper we propose a treatment for participations (differentiated between subsidiaries and other participations) which are not in the scope of group supervision:</p> <p>Financial and credit institution subsidiary</p> <p>If the subsidiary is subject to prudential supervision (e.g. Capital Requirement Directive) a partial "accounting- consolidation method" should be in principle applied, i.e. it should be applied to the calculation of own funds. As to capital requirement, pending further discussion on the degree of cross sector diversification to be recognised, they should be the sum of the SCR of the insurance participating undertaking and the capital requirement of the</p>	Noted.

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		<p>financial undertaking as laid down in the relevant prudential requirements. The available capital should instead be based on the consolidated financial statement. This is consistent with the treatment in the Financial Conglomerates Directive (see Annex I, II Technical calculation methods). If this approach is not attainable, because of valuation problems or other consolidation problems the "deduction and aggregation method" could be used.</p> <p>Other subsidiary</p> <p>If the subsidiary is not subject to prudential supervision the parent has to consider whether the "subsidiary" is eligible to be part of the accounting consolidation scope. In principle, this assessment should be based on the same criteria as set out in IFRS standards, which require consolidation of any entity of which the parent has control (IAS27, paragraphs 4 and 12). This is the case even if the business activities of an entity are dissimilar from those of the other entities within the group (IAS 27, paragraph 17). This is consistent with the economic approach of Solvency II. However, we acknowledge that the issue of accounting consolidation requires further analysis and reflection. If the subsidiary is consolidated a "look-through" approach is automatically applied. If the subsidiary is not consolidated, the parent has to apply an equity stress over the net asset value and to apply a Pillar II assessment for any material risk not included in the Pillar I calculations. The stress that is applied to participated undertakings should be lower than the stress that is applied to other equity investments due to the specific and long term nature of participated undertakings.</p> <p>(Re)insurance participation</p> <p>If the participation is subject to Solvency II supervision the "deduction and aggregation method should be applied". If more</p>	
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			<p>recent information is not available, the latest available SCR and Available Capital can be used. As part of the Pillar II assessment the parent should consider whether the SCR and Available Capital of the participated undertaking are considered to be appropriate. If new information becomes available the parent should assess whether its assessment is still valid. If not, a new calculation has to be made.</p> <p>Financial and credit institution participation</p> <p>Same treatment as for (re)insurance participation but instead of the SCR the relevant sectoral capital requirement applies.</p> <p>Other participation</p> <p>If the participation is not subject to prudential supervision a "reduced" equity shock should be applied to the net asset value of the participation. Within the Pillar II assessment the parent should consider whether all the risks are properly included and no other contagion effects exist.</p>	
291.	GDV	5.34.	<p>We refer to the paper "CEA Paper on the treatment of participated undertakings" of 27 February 2009. In this paper it was proposed a treatment for participations (differentiated between subsidiaries and other participations) which are not in the scope of group supervision:</p> <p>(Re)insurance subsidiary:</p> <p>It should be treated as an equity investment, with a reduced equity shock.</p>	Noted.

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			<p>Financial and credit institution subsidiary:</p> <p>If the subsidiary is subject to prudential supervision (e.g. Capital Requirement Directive) a partial "accounting- consolidation method" should be in principle applied, i.e. it should be applied to the calculation of own funds. As to capital requirement, pending further discussion on the degree of cross sector diversification to be recognised, they should be the sum of the SCR of the insurance participating undertaking and the capital requirement of the financial undertaking as laid down in the relevant prudential requirements. The available capital should instead be based on the consolidated financial statement. This is consistent with the treatment in the Financial Conglomerates Directive (see Annex I, II Technical calculation methods). If this approach is not attainable, because of valuation problems or other consolidation problems the "deduction and aggregation method" could be used.</p> <p>Other subsidiary</p> <p>If the subsidiary is not subject to prudential supervision the parent has to consider whether the "subsidiary" is eligible to be part of the accounting consolidation scope. In principle, this assessment should be based on the same criteria as set out in IFRS standards, which require consolidation of any entity of which the parent has control (IAS27, paragraphs 4 and 12). This is the case even if the business activities of an entity are dissimilar from those of the other entities within the group (IAS 27, paragraph 17). This is consistent with the economic approach of Solvency II. However, we acknowledge that the issue of accounting consolidation requires further analysis and reflection. If the subsidiary is consolidated a "look-through" approach is automatically applied. If the subsidiary is not consolidated, the parent has to apply an equity stress over the net</p>	
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			<p>asset value and to apply a Pillar II assessment for any material risk not included in the Pillar I calculations. The stress that is applied to participated undertakings should be lower than the stress that is applied to other equity investments due to the specific and long term nature of participated undertakings.</p> <p>(Re)insurance participation:</p> <p>If the participation is subject to Solvency II supervision the "deduction and aggregation method should be applied". If more recent information is not available, the latest available SCR and Available Capital can be used. As part of the Pillar II assessment the parent should consider whether the SCR and Available Capital of the participated undertaking are considered to be appropriate. If new information becomes available the parent should assess whether its assessment is still valid. If not, a new calculation has to be made.</p> <p>Financial and credit institution participation</p> <p>Same treatment as for financial and credit institution subsidiary but instead of the SCR the relevant sectoral capital requirement applies.</p> <p>Other participation</p> <p>If the participation is not subject to prudential supervision a "reduced" equity shock should be applied to the net asset value of the participation. Within the Pillar II assessment the parent should consider whether all the risks are properly included and no other contagion effects exist.</p>	
292.	KPMG	5.34.	We assume that the full exclusion applying if the same	Noted.

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			circumstances apply relates to (re)insurance subsidiaries/participations ("non-insurance financial" being proposed to be deducted in full in any case).	
293.	PricewaterhouseCoopers LLP	5.34.	There is a lack of certainty for firms in the approach.	Noted
294.	FFSA	5.35.	As indicated before, there is no reason to deduct subordinated claims and instruments on this category of participations. They are substantially different from equity for the investors. Except for the holdings in credit institutions and investment firms, Directive level 1 does not include the subordinated claims as participations. As such, the level 2 proposal is not in line with the Directive. Subs instruments should be charged with regular market risks module.	Noted.
295.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	5.37.	We consider that these out-of-scope non financial non regulated undertakings should not be subject to a standard equity risk charge, but to a reduced equity shock, in line with the Article 109 (ja). We recommend the reduced shock to be 50%.	Noted.
296.	CEA	5.37.	We consider that these out-of-scope non financial non regulated undertakings should not be subject to a standard equity risk charge, but to a reduced equity shock, in line with the Article 109 (ja). We recommend the reduced shock to be 50%.	Noted.
297.	FFSA	5.37.	We consider that these out-of-scope non financial non regulated undertakings should not be subject to a standard equity risk charge, but to a reduced equity shock, in line with the Article 109 (ja).	Noted.

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			We recommend the reduction amount to 50%.	
298.	GDV	5.37.	We consider that these out-of-scope non financial non regulated undertakings should not be subject to a standard equity risk charge, but to a reduced equity shock, in line with the Article 109 (ja). We recommend the reduced shock to be 50%.	Noted.
299.	KPMG	5.37.	[Also relevant to 5.26] We agree with the proposed approach in respect of non-financial subsidiaries/participations, but would like to understand what level of equity risk charge CEIOPS believes to be appropriate.	Noted.
300.	ACA –	5.38.	CP 67 does not give any details of what deduction should be made for non-EEA participations. In line with the rules for CP 60 (Groups), the respective local SCR should be acknowledged as the own-funds deduction factor for participations from countries recognised by Solvency II.	Noted.
301.	Association of British Insurers	5.38.	We would like some additional information regarding the treatment of non EEA participation.	Noted.
302.			Confidential comments deleted.	
303.	CEA	5.38.	SCR of non-EEA participations is not considered. CP 67 does not give any details of what deduction should be made for non-EEA participations. If a supervisory regime is deemed equivalent, the same treatment should apply as for EEA-participations. It is not clear what the treatment of non-EEA participations would be in the absence of	Noted.

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			<p>equivalence.</p> <p>See our comments to 5.8.</p>	
304.	GDV	5.38.	<p>72. SCR of non-EEA participations is not considered.</p> <p>73. CP 67 does not give any details of what deduction should be made for non-EEA participations. In line with the rules for CP 60 (Groups), the respective local SCR should be acknowledged as the own-funds deduction factor for participations from countries recognised by Solvency II.</p>	Noted.
305.	KPMG	5.38.	<p>This paragraph refers to the “complexities that arise from different capital adequacy requirements for banks and other credit institutions” being avoided by the full deduction proposed. Given that these complexities would have to be addressed in the group solvency assessment, we do not see this as a compelling argument for the full deduction approach proposed.</p>	Noted.
306.	Munich Re	5.38.	<p>SCR of non-EEA participations</p> <p>CP 67 does not give any details of what deduction should be made for non-EEA participations. In line with the rules for CP 60 (Groups), the respective local SCR should be acknowledged as the own-funds deduction factor for participations from countries recognised by Solvency II.</p>	Noted.
307.	PricewaterhouseCoopers LLP	5.39.	<p>It is not clear that Solvency II should provide a disincentive for “excessive” cross-holdings between firms. Firstly, the definition of “excessive” is likely to be subjective and case-specific. The assumption appears to be that cross-holdings undermine financial stability and fair and stable markets, without potentially providing protection of policyholders and beneficiaries. Although we understand that the crisis has highlighted the difficulties created by</p>	Noted.

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			the interconnectedness of markets, we do not believe that this assumption is based upon conclusive evidence to this effect.	
308.	Association of British Insurers	5.40.	The CP makes reference to the features used to classify own fund (art 93) but does not mention article 94 which details the circumstances when own fund should be considered tier 1 or tier 2.	Noted.
309.	PricewaterhouseCoopers LLP	6.	Much of the text in 6.1 to 6.23 would need to be reworded in order to constitute Level 2 implementing measures.	Agreed. Some rewording of the advice has been done.
310.	RSA	6.1.	We do not believe that the preferred CEIOPS solution meets this objective due to the overly prudent valuation of the participation in the own funds calculation of a participating entity .	Noted.
311.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	6.2.	The treatment of participations at solo level does not need to address the issue of double gearing, since the issue is already dealt with at group level.	Noted. The principle of double gearing is well recognised and remains a key objective.
312.	CEA	6.2.	See comment to 4. The treatment of participations at solo level does not need to address the issue of double gearing, since the issue is already dealt with at group level.	Noted. The principle of double gearing is well recognised and remains a key objective.
313.	FFSA	6.2.	Refer to our comment in 4.	Noted.
314.	GDV	6.2.	The treatment of participations at solo level does not need to	Noted. The principle of double

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			address the issue of double gearing, since the issue is already dealt with at group level.	gearing is well recognised and remains a key objective.
315.	Legal & General Group	6.2.	We agree that it is necessary to eliminate double counting of capital but we believe the CEIOPS approach is likely to create regulatory structure arbitrage for firms who will move away from their current structures to simplify their calculations.	Noted. The principle of double gearing is well recognised and remains a key objective.
316.	Munich Re	6.2.	Please refer to 4.7	Noted.
317.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	6.3.	See our comment on 4.8.	Noted.
318.	CEA	6.3.	See our comment on 4.8.	Noted.
319.	FFSA	6.3.	Refer to our comment in 4.8	Noted.
320.	RSA	6.3.	We believe that these objectives are best satisfied by the option 3 model and evaluating the full economic situation of the participating entity and its participants	Noted.
321.	Legal & General Group	6.4.	We do not agree with the majority view that contagion risk will affect all participations. A group may have a very wide mixture of participations in different markets and countries. Further many structures are designed to either eliminate or minimise the spread of contagion from one part of the business to others. These arrangements are often legal in nature and common in the UK market.	Noted.

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322.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	6.7.	<p>We agree with the CEA who considers that “Participations in credit and financial institutions should be treated as equity investments if the participation is within the scope of Solvency II group supervision. A reduced equity shock should apply”.</p> <p>If own funds from credit and financial institution participations are excluded, the capital requirements relating to these participations should also be excluded for the calculation of the SCR both at solo level and group level.</p>	Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.
323.	AMICE	6.7.	<p>We reject CEIOPS proposal to exclude own funds arising from participations in financial and credit institutions. We agree with the CEA that they should be treated as equity investments and that a reduced equity shock should apply.</p>	Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.
324.	Association of British Insurers	6.7.	<p>We do believe that the excess own fund of participation in financial institution should be totally disregarded. The standard capital should be sufficient to operate a financial institution otherwise this would be:</p> <ul style="list-style-type: none"> - A disincentive to hold excess capital at solo entity level and insurance group would keep the lowest level of equity in their subsidiary. - An acknowledgement that the supervisory framework of financial institution cannot be relied on. 	Noted.
325.			Confidential comments deleted.	
326.	CEA	6.7.	<p>We are strongly opposed to excluding the own funds from a credit and financial institution participations.</p> <p>Participations in credit and financial institutions should be treated</p>	Noted. The investment in a participation which is a financial or credit institution should be

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			<p>as equity investments if the participation is within the scope of Solvency II group supervision. A reduced equity shock should apply. We refer to our paper "CEA paper on the treatment of participated undertakings" of 27 February 2009 on the explanation of how participations should be treated if they are not subject to group supervision.</p> <p>Of course there are differences between the methods of calculating SCR for insurance companies and credit institutions. But these kinds of differences also occur while calculating SCR for insurance companies only (e.g. interest rate risk and non-life underwriting risk). Furthermore some risks can be evaluated by using exactly the same methods for insurance companies and credit institutions (e.g. equity risk).</p> <p>If own funds from credit and financial institution participations are excluded, the capital requirements relating to these participations should also be excluded for the calculation of the SCR both at solo level and group level.</p> <p>In our opinion this question whether own funds are to be recognised should be based on the fungibility and the extent in which these own funds are really able to absorb losses. For example, a participation in a listed insurer implies that the related own funds can be recovered on the market. In our opinion the implementing measure should allow for a different treatment based on the extent in which control can be exercised.</p> <p>18. Not recognising at all the own funds arising from participations in financial and credit institutions as eligible own</p>	<p>deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.</p>
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			<p>funds of the participating undertakings could lead to:</p> <ul style="list-style-type: none"> <input type="checkbox"/> A higher distribution of own funds (mainly through dividends) from the financial and credit institutions to the participating undertaking, thus weakening the financial position of those participations. This could also have a tax cost for the participating. <input type="checkbox"/> Lack of comparability with Basel II treatment given by the participating financial institutions to their participations in (re) insurance companies. Basel II permits, to some extent, the recognition of surplus capital of (re)insurance entities in calculating a bank's capital adequacy <p>There is no need to eliminate double gearing also at a solo level.</p> <p>Double gearing is dealt with on a more effective way, considering all intra group transactions and items valued at market values or market-consistent values, at a group level.</p> <p>If the double gearing issue is decided to be addressed even at a solo level the fundamental issue must be to derecognise the capital of double counting. Therefore, to create a meaningful picture of solvency position, excess capital over MCR (or secondly SCR) should not be derecognised.</p> <p>See our comments on 5.8.</p>	
327.	CRO Forum	6.7.	<p>For financial & credit institutions, this CP suggests to exclude the whole value of participation from the Own Funds of the participating undertaking. So, it provides a strong incentive to move surplus funds from the participation up to the participating undertaking (where it can be used for solvency purposes), holding only a minimum level of assets within the participation.</p> <p>12. In addition, it is unclear why excess surplus in a financial</p>	<p>Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to</p>

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			<p>regulated entity is not recognised. By doing so, CEIOPS seems (i) suggesting that any surplus produced under peers frameworks (banking, investment sectors) is not reliable, and (ii) is not consistent with the approach retained at Group level (cf. Final Advice on CP60).</p> <p>Therefore, we propose an approach that distinguishes participations depending on the size of the participation and the level of influence, in order to decide for the undertaking's whether it should be more appropriate:</p> <ul style="list-style-type: none"> - to comply with the Financial Conglomerate Directive (ie. Sectoral requirements) or - to use the equity shock approach (ie. AFR: equity/ fair value in the accounts and so including goodwill; SCR: standard equity shock applied to own funds of each solo entity). 	<p>address the issues raised. Further, notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.</p>
328.	CRO Forum	6.7.	<p>For financial & credit institutions, this CP suggests to exclude the whole value of participation from the Own Funds of the participating undertaking. So, it provides a strong incentive to move surplus funds from the participation up to the participating undertaking (where it can be used for solvency purposes), holding only a minimum level of assets within the participation.</p> <p>12. In addition, it is unclear why excess surplus in a financial regulated entity is not recognised. By doing so, CEIOPS seems (i) suggesting that any surplus produced under peers frameworks (banking, investment sectors) is not reliable, and (ii) is not consistent with the approach retained at Group level (cf. Final</p>	<p>Not agreed. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.</p>

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			<p>Advice on CP60).</p> <p>Therefore, we propose an approach that distinguishes participations depending on the size of the participation and the level of influence, in order to decide for the undertaking's whether it should be more appropriate:</p> <ul style="list-style-type: none"> - to comply with the Financial Conglomerate Directive (ie. Sectoral requirements) or - to use the equity shock approach (ie. AFR: equity/ fair value in the accounts and so including goodwill; SCR: standard equity shock applied to own funds of each solo entity). 	
329.	European Union member firms of Deloitte Touche Toh	6.7.	<p>CEIOPS states that own funds arising from the participation in financial and credit institutions should not be recognised as eligible own funds. We consider that it would be appropriate to offer guidance on how this exclusion would work in practice, for example is it the intention to deduct the participation from a specific Tier of capital OR is it the intention to deduct it from total capital?</p>	<p>Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.</p>
330.	Federation of European Accountants (FEE)	6.7.	<p>Subject to the general concern above, our detailed comments as provided below relate mainly to some items that in our opinion need further clarity.</p> <p>Paragraph 6.7 states that "the own funds arising from participations" in financial and credit institutions should not be</p>	<p>Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to</p>

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			recognised as eligible funds. See our comments on paragraph 5.9.	address the issues raised.
331.	FFSA	6.7.	Refer to our comment in 5.8	Noted.
332.	GDV	6.7.	<p>We are strongly opposed to excluding the own funds from a credit and financial institution participations.</p> <p>Participations in credit and financial institutions should be treated as equity investments if the participation is within the scope of Solvency II group supervision. A reduced equity shock should apply. We refer to our paper "CEA paper on the treatment of participated undertakings" of 27 February 2009 on the explanation of how participations should be treated if they are not subject to group supervision.</p> <p>Of course there are differences between the methods of calculating SCR for insurance companies and credit institutions. But these kinds of differences also occur while calculating SCR for insurance companies only (e.g. interest rate risk and non-life underwriting risk). Furthermore some risks can be evaluated by using exactly the same methods for insurance companies and credit institutions (e.g. equity risk).</p> <p>If own funds from credit and financial institution participations are excluded, the capital requirements relating to these participations should also be excluded for the calculation of the SCR both at solo level and group level.</p> <p>In our opinion this question whether own funds are to be recognised should be based on the fungibility and the extent in which these own funds are really able to absorb losses. For example, a participation in a listed insurer implies that the related own funds can be recovered on the market. In our opinion the</p>	Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.

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			<p>implementing measure should allow for a different treatment based on the extent in which control can be exercised.</p> <p>There is no need to eliminate double gearing also at a solo level.</p> <p>Double gearing is dealt with on a more effective way, considering all intra group transactions and items valued at market values or market-consistent values, at a group level.</p> <p>If the double gearing issue is decided to be addressed even at a solo level the fundamental issue must be to derecognise the capital of double counting. Therefore, to create a meaningful picture of solvency position, excess capital over MCR (or secondly SCR) should not be derecognised.</p>	
333.	Legal & General Group	6.7.	<p>Surplus own funds in a financial undertaking should be subject to transferability and fungibility tests, rather than automatically excluded from own funds. As these funds may be readily available to the parent.</p>	Noted.
334.	Lucida	6.7.	<p>We believe that the current method of taking the net assets less the capital requirement is a more appropriate way of reflecting the value of funds in the solo calculation. If we understand the consultation paper correctly, it seems to us that the entire investment in financial and credit institution would be eliminated. If this is correct, we do not believe this approach will show a meaningful solvency positions and does not appear to be an economically sound basis. The alternative would be to hold the investments in another part of the group and economically this will not result in a different view at group level.</p>	Noted.
335.	UNESPA	6.7.	<p>Own funds from participations in financial and credit institutions should be recognised</p> <p>For the reasons given in 5.8 and 5.10, own funds from participations in financial and credit institutions should be recognised, at least to some extent, as eligible own funds. They</p>	Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the

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			could be treated the same way as the participations in other (re)insurers. Diversification effects between insurance undertakings and financial and credit institutions should be taken into consideration	different regulatory regime. The advice has been clarified to address the issues raised.
336.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	6.8.	Any subordinated claims and other instruments could have the function to act as "investments" and not as participations.	Noted.
337.	CEA	6.8.	Any subordinated claims and other instruments could have the function to act as "investments" and not as participations. In our opinion these should be considered as "investments" and treated accordingly. See also our comments to 5.3, 5.11, and 5.15.	Noted.
338.	European Union member firms of Deloitte Touche Toh	6.8.	Same comment applies as in 6.7 above.	Noted.
339.	FFSA	6.8.	Refer to our comment in 5.8	Noted.
340.	GDV	6.8.	Any subordinated claims and other instruments could have the function to act as "investments" and not as participations. In our opinion these should be considered as "investments" and treated accordingly.	Noted.
341.	Munich Re	6.8.	Please refer to 5.11	Noted.
342.	ACA –	6.9.	We strongly oppose the treatment of (re)insurance participations in	Noted.

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		<p>this CP.</p> <p>As stated by the CEA “the approach described in paragraphs 5.12.-5.23. seems not to be consistent with the Directive’s general risk-based approach as set out in 109 .1.(ja) and 105.5. concerning the calculation of the solvency capital requirement. The amount which with this method will be deducted from the eligible own funds in the participating undertaking, will not necessarily reflect the inherent risk in these assets. Hence, we oppose the suggested regulation. Furthermore, should the suggested regulation be implemented, it would affect the way of how insurance and reinsurance undertakings organizes their business in a restricting way. Participations should be treated as equity investments if they are within the scope of Solvency II group supervision. A reduced equity shock should apply due to long term and strategic nature of participations.</p> <p>It can be difficult to get the needed information in time to compile the solvency calculations in the participating undertaking.</p> <p>If the principles related to the availability of the own funds are very strict this can lead to unreasonable situations and actions to have the excess of funds in the participating undertaking. This comment applies to 6.9-6.13.”</p> <p>There is no mandate under Art. 92 to advise on participations other than in financial and credit institutions. Secondly, the level 1 text does not require a treatment of participations in other than in financial and credit institutions.</p> <p>The level 1 section on solo own funds (Art. 86 et seq.) does not mention participations in insurance undertakings and non-regulated financial undertakings. Art. 92(2) only stipulate that the Commission shall adopt implementing measures with regard to the treatment of participations in financial and credit institutions.</p> <p>Therefore we hold – together with the CEOIPS minority - that under</p>	
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			<p>Solvency II as well as under Solvency I, double gearing with regard to participations in insurance undertakings is dealt with exclusively with regard to the group SCR.</p> <p>These considerations also apply to the proposed treatment of financial non-regulated entities.</p> <p>See also comments to 5.15.</p>	
343.	AMICE	6.9.	See our comments to 5.23 and 5.31.	Noted.
344.	Association of British Insurers	6.9.	<p>There is no legal mandate to give advice on participations in (re)insurers. Firstly there is no mandate under Art. 92 to advise on participations other than in financial and credit institutions. Secondly, the level 1 text does not require a treatment of participations in other than in financial and credit institutions.</p> <p>For (re)insurance participations we believe that two approaches are possible either the basis for calculation is :</p> <ul style="list-style-type: none"> - Own funds to which a shock is applied or - Own funds less SCR and then the entire surplus should be allowed. <p>We don't understand the need for applying a shock to SCR since by definition it has already undergone a stress.</p>	Noted.
345.			Confidential comments deleted.	
346.	CEA	6.9.	<p>We strongly oppose the treatment of (re)insurance participations in this CP.</p> <p>The approach described in paragraphs 5.12.-5.23. seems not to be consistent with the Directive's general risk-based approach as set out in 109.1.(ja) and 105.5. concerning the calculation of the</p>	Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the

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			<p>solvency capital requirement. The amount which with this method will be deducted from the eligible own funds in the participating undertaking, will not necessarily reflect the inherent risk in these assets. Hence, we oppose the suggested regulation. Furthermore, should the suggested regulation be implemented, it would affect the way of how insurance and reinsurance undertakings organizes their business in a restricting way. Participations should be treated as equity investments if they are within the scope of Solvency II group supervision. A reduced equity shock should apply due to long term and strategic nature of participations. We refer to our paper "CEA paper on the treatment of participated undertakings" of 27 February 2009 for our detailed view.</p> <p>It can be difficult to get the needed information in time to compile the solvency calculations in the participating undertaking.</p> <p>If the principles related to the availability of the own funds are very strict this can lead to unreasonable situations and actions to have the excess of funds in the participating undertaking. This comment applies to 6.9-6.13.</p>	<p>different regulatory regime. The advice has been clarified to address the issues raised.</p>
347.	CRO Forum	6.9.	<p>This comment applies from 6.9 to 6.14</p> <p>This CP proposes to move away from the equity shock approach tested in QIS4 for the treatment of participation at local level. Instead, it suggests for insurance participation in the scope of group supervision to deduct the share of the participated SCR to the Own Funds of the participating undertaking, intended to prevent double use of own funds</p> <p>The proposed method (CEIOPS members' majority view) for the treatment of (re)insurance participations has some very important shortcomings:</p>	<p>Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.</p>

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a. Non-consideration of diversification effects: this approach fails to consider diversification effects both between the different participations and between participating undertaking and participated undertaking, thus contradicting the economic principle of Solvency II.

b. Counting risks twice: firstly, in the participating undertaking's SCR calculation and secondly in the participated undertaking's SCR, since this is to be deducted in turn from the eligible own funds of the participating undertaking.

c. No informative solvency ratio for solo undertakings: by deducting the participated undertaking's SCR from the eligible own funds, the solvency ratio will then no longer be an informative figure for the solo undertaking.

But deriving to a proper group solvency ratio can only be achieved by using a look-through approach (ie. replace the solo SCR with the group SCR calculation for the (sub)group formed by the undertaking itself and its subsidiaries and participations), which implies to recognize the diversification of the solo SCR with the sub-group.

We agree with CEIOPS, however, that a look-through approach is not practicable at the level of every participating undertaking and should not be automatically demanded. In addition, the look through approach raises the issue of goodwill, in particular the capital charge for the market risk in front of the goodwill. As already expressed in our response to CP35, we would suggest in the look-through approach to exclude goodwill in the own funds and not to take the capital charge to cover the goodwill into account in the SCR.

Therefore, we propose an approach that distinguishes participations

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			<p>depending on the size of the participation and the level of influence, in order to decide for the undertaking's whether it should be more appropriate to use</p> <ul style="list-style-type: none"> - the look through valuation approach (and so diversification of the solo SCR with the sub-group should be allowed) or - the equity shock approach (ie. AFR: equity/ fair value in the accounts and so including goodwill; SCR: standard equity shock applied to own funds of each solo entity). <p>We see one caveat for the equity shock approach in case of a deficit of the undertaker (ie AFR<SCR), as it does not perfectly cover this risk. That's why only in this specific situation, additional calculation should be furnished (cf. also our comment on 4.7 on the integrity of the solo solvency calculation)</p>	
348.	CRO Forum	6.9.	<p>This comment applies from 6.9 to 6.14</p> <p>This CP proposes to move away from the equity shock approach tested in QIS4 for the treatment of participation at local level. Instead, it suggests for insurance participation in the scope of group supervision to deduct the share of the participated SCR to the Own Funds of the participating undertaking, intended to prevent double use of own funds</p> <p>The proposed method (CEIOPS members' majority view) for the treatment of (re)insurance participations has some very important shortcomings:</p> <ul style="list-style-type: none"> a. Non-consideration of diversification effects: this approach fails to consider diversification effects both between the different participations and between participating undertaking and participated undertaking, thus contradicting the economic principle of Solvency II. b. Counting risks twice: firstly, in the participating undertaking's SCR calculation and secondly in the participated 	<p>Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.</p>

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		<p>undertaking's SCR, since this is to be deducted in turn from the eligible own funds of the participating undertaking.</p> <p>c. No informative solvency ratio for solo undertakings: by deducting the participated undertaking's SCR from the eligible own funds, the solvency ratio will then no longer be an informative figure for the solo undertaking.</p> <p>But deriving to a proper group solvency ratio can only be achieved by using a look-through approach (ie. replace the solo SCR with the group SCR calculation for the (sub)group formed by the undertaking itself and its subsidiaries and participations), which implies to recognize the diversification of the solo SCR with the sub-group.</p> <p>We agree with CEIOPS, however, that a look-through approach is not practicable at the level of every participating undertaking and should not be automatically demanded. In addition, the look through approach raises the issue of goodwill, in particular the capital charge for the market risk in front of the goodwill. As already expressed in our response to CP35, we would suggest in the look-through approach to exclude goodwill in the own funds and not to take the capital charge to cover the goodwill into account in the SCR.</p> <p>Therefore, we propose an approach that distinguishes participations depending on the size of the participation and the level of influence, in order to decide for the undertaking's whether it should be more appropriate to use</p> <ul style="list-style-type: none"> - the look through valuation approach (and so diversification of the solo SCR with the sub-group should be allowed) or - the equity shock approach (ie. AFR: equity/ fair value in the accounts and so including goodwill; SCR: standard equity shock 	
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			<p>applied to own funds of each solo entity).</p> <p>We see one caveat for the equity shock approach in case of a deficit of the undertaker (ie $AFR < SCR$), as it does not perfectly cover this risk. That's why only in this specific situation, additional calculation should be furnished (cf. also our comment on 4.7 on the integrity of the solo solvency calculation)</p>	
349.	European Insurance CFO Forum	6.9.	<p>It is not clear why participations should not be included in the balance sheet.</p> <p>Participations should be reflected in the capital requirements of the entity and consistently their own funds should be reflected in the balance sheet. Alternatively, participations are seen as investments that could be sold at market value and therefore should be included in own funds.</p> <p>It is more understandable why all goodwill would not be taken into account. However, an element of goodwill should be included as for example, you could sell a subsidiary and the price would contain an element of goodwill. It is not correct to say that goodwill has no value. Further there are practical problems with estimating the goodwill component of market values.</p> <p>The deduction of participations from the eligible own funds of the participating undertaking fails to consider the diversification effects both between the different participations and between participating undertakings and participations, thus contradicting the economic principle of Solvency II.</p> <p>Business relations between parent and subsidiary are burdened twice. Firstly, in the participating undertaking's SCR calculation and secondly in the participated undertaking's SCR, since this is to be deducted in turn from the eligible own funds of the participating undertakings.</p>	Noted. The investment in a participation which is a financial or credit institution should be deducted to mitigate double gearing having regard to the different regulatory regime. The advice has been clarified to address the issues raised.
350.	FFSA	6.9.	Refer to our comment in 5.15	Noted.

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351.	GDV	6.9.	<p>We strongly oppose the treatment of (re)insurance participations in this CP.</p> <p>The approach described in paragraphs 5.12.-5.23. seems not to be consistent with the Directive's general risk-based approach as set out in 109 .1.(ja) and 105.5. concerning the calculation of the solvency capital requirement. The amount which with this method will be deducted from the eligible own funds in the participating undertaking, will not necessarily reflect the inherent risk in these assets. Hence, we oppose the suggested regulation. Furthermore, should the suggested regulation be implemented, it would affect the way of how insurance and reinsurance undertakings organizes their business in a restricting way. Participations should be treated as equity investments if they are within the scope of Solvency II group supervision. A reduced equity shock should apply due to long term and strategic nature of participations. We refer to the paper "CEA paper on the treatment of participated undertakings" of 27 February 2009 for our detailed view.</p> <p>It can be difficult to get the needed information in time to compile the solvency calculations in the participating undertaking.</p> <p>If the principles related to the availability of the own funds are very strict this can lead to unreasonable situations and actions to have the excess of funds in the participating undertaking. This comment applies to 6.9-6.13.</p> <p>There is no legal mandate to give advice on participations in (re)insurers. Firstly there is no mandate under Art. 92 to advise on participations other than in financial and credit institutions. Secondly, the level 1 text does not require a treatment of participations in other than in financial and credit institutions.</p>	Noted.
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			<p>This refers to the following:</p> <ul style="list-style-type: none"> <input type="checkbox"/> - participations in (re) insurance undertakings are not to be dealt with as regards the solo SCR, <input type="checkbox"/> - participations in non-regulated financial undertakings are not to be dealt with as regards the solo SCR <input type="checkbox"/> . <p>The level 1 section on solo own funds (Art. 86 et seq.) does not mention participations in insurance undertakings and non-regulated financial undertakings. Art. 92(2) only stipulates that the Commission shall adopt implementing measures with regard to the treatment of participations in financial and credit institutions. Therefore we hold – together with the CEOIPS minority - that under Solvency II as well as under Solvency I, double gearing with regard to participations in insurance undertakings is dealt with exclusively with regard to the group SCR.</p> <p>These considerations also apply to the proposed treatment of financial non-regulated entities.</p>	
352.	Lucida	6.9.	<p>We disagree also with this proposal for the same reasons as outlined above. We would agree that goodwill should be eliminated but not any part of the surplus over the capital requirements. The solvency position would not reflect the amount which could be realised if the investment in the participation was sold to a third party.</p>	Noted.
353.	RSA	6.9.	<p>We fundamentally disagree with this approach and believe in a more economic approach that considers the capital adequacy of the participating entity and its participants in aggregate. We therefore</p>	Noted.

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			support option 3.	
354.			Confidential comments deleted.	
355.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	6.10.	See comments to 5.15. and 6.9.	Noted.
356.	CEA	6.10.	See comments to 5.15 and 6.9.	Noted.
357.	European Insurance CFO Forum	6.10.	Comments in 6.9 are also relevant here.	Noted.
358.	FFSA	6.10.	Refer to our comment in 5.15	Noted.
359.	Munich Re	6.10.	Please refer to 5.11	Noted.
360.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	6.11.	<p>Excluding goodwill is impracticable and inconsistent.</p> <ul style="list-style-type: none"> In the case of listed entities, how can one determine goodwill? Let us bear in mind that under IFRS, the balance sheet is not fully “fair valued”. Determining a goodwill would lead to an excessive burden borne by the undertakings. Goodwill itself has a loss absorption capacity. As such, we do not see why participation value should be reduced by the goodwill. The goodwill has an economic value and would be valued in case of acquisition by another undertaking. Not recognizing this value is inconsistent with an economic valuation of the balance sheet. It could lead to inconsistencies between how participations are considered compared to standard equity. The value of the 	Noted. Notwithstanding the different valuation bases that might apply to participations CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.

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			<p>participations will be unfairly underestimated compared to the value of listed stocks.</p> <ul style="list-style-type: none"> • Under IFRS, there is indeed a test of goodwill (impairment test), that leads to recognise the adequate value of goodwill. We do not see any reason for departing from IFRS. • How is CEIOPS able to distinct the inherent goodwill in the valuation of a participation? According to the IAS when applying IAS 28 and Business combinations they are advocating that a split is not able to be made and that this should not be applied. • The loss absorbency test presupposes that a participating undertaking no possibility to sell its participations. 	
361.	AMICE	6.11.	<p>CEIOPS writes that any inherent goodwill in the valuation should be excluded from the own funds of the participating undertaking. Eliminating the goodwill does not recognise the fact that goodwill has an economic value. Additionally, it will be impracticable for the undertakings to eliminate the goodwill when using listed prices, Results could be very variable depending on the methodology chosen, but a company has a value and its value does not change if its shareholders change.</p>	<p>Noted. Notwithstanding the different valuation bases that might apply to participations CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.</p>
362.	Association of British Insurers	6.11.	<p>We disagree with excluding goodwill from the own funds of the participated undertaking.</p>	<p>Noted. Notwithstanding the different valuation bases that might apply to participations CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.</p>

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363.			Confidential comments deleted.	
364.	CEA	6.11.	<p>We disagree with excluding goodwill from the own funds of the participated undertaking.</p> <p>Excluding goodwill is impracticable and inconsistent.</p> <p><input type="checkbox"/> In the case of listed entities, how can one determine goodwill? Let us bear in mind that under IFRS, the balance sheet is not fully "fair valued". Determining a goodwill would lead to an excessive burden borne by the undertakings.</p> <p><input type="checkbox"/> Goodwill itself has a loss absorption capacity. As such, we do not see why participation value should be reduced by the goodwill. The goodwill has an economic value and would be valued in case of acquisition by another undertaking. Not recognizing this value is inconsistent with an economic valuation of the balance sheet.</p> <p><input type="checkbox"/> It could lead to inconsistencies between how participations are considered compared to standard equity. The value of the participations will be unfairly underestimated compared to the value of listed stocks.</p> <p><input type="checkbox"/> Under IFRS, there is indeed a test of goodwill (impairment test), that leads to recognise the adequate value of goodwill. We do not see any reason for departing from IFRS.</p> <p><input type="checkbox"/> How is Ceiops able to distinct the inherent goodwill in the valuation of a participation? According to the IAS when applying IAS 28 and Business combinations they are advocating that a split is not able to be made and that this should not be applied.</p> <p><input type="checkbox"/> The loss absorbency test presupposes that a participating undertaking no possibility to sell its participations.</p>	Noted. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
365.	European	6.11.	Comments in 5.17 and 6.9 are also relevant here.	Noted.

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	Insurance CFO Forum			
366.	Federation of European Accountants (FEE)	6.11.	<p>Subject to the general concern above, our detailed comments as provided below relate mainly to some items that in our opinion need further clarity.</p> <p>As stated in paragraph 6.11, we agree that “any inherent goodwill in the valuation should be excluded from own funds of the participating undertaking”. We assume that this exclusion cannot exceed the total book value of the participation in the balance sheet of the participating undertaking.</p>	Noted.
367.	FFSA	6.11.	Refer to our comment in 5.17	Noted.

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368.	GDV	6.11.	<p>We disagree with excluding goodwill from the own funds of the participated undertaking.</p> <p>Excluding goodwill is impracticable and inconsistent.</p> <p><input type="checkbox"/> In the case of listed entities, how can one determine goodwill? Let us bear in mind that under IFRS, the balance sheet is not fully "fair valued". Determining a goodwill would lead to an excessive burden borne by the undertakings.</p> <p><input type="checkbox"/> Goodwill itself has a loss absorption capacity. As such, we do not see why participation value should be reduced by the goodwill. The goodwill has an economic value and would be valued in case of acquisition by another undertaking. Not recognizing this value is inconsistent with an economic valuation of the balance sheet.</p> <p><input type="checkbox"/> It could lead to inconsistencies between how participations are considered compared to standard equity. The value of the participations will be unfairly underestimated compared to the value of listed stocks.</p> <p><input type="checkbox"/> Under IFRS, there is indeed a test of goodwill (impairment test), that leads to recognise the adequate value of goodwill. We do not see any reason for departing from IFRS.</p> <p><input type="checkbox"/> How is CEIOPS able to distinct the inherent goodwill in the valuation of a participation? According to the IAS when applying IAS 28 and Business combinations they are advocating that a split is not able to be made and that this should not be applied.</p> <p><input type="checkbox"/> The loss absorbency test presupposes that a participating undertaking no possibility to sell its participations.</p>	<p>Noted. Notwithstanding the different valuation bases that might apply to participations CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.</p>
369.	KPMG	6.11.	<p>We agree that ""any inherent goodwill in the valuation should be excluded from own funds of the participating undertaking"". We assume that this exclusion needs to be limited though, so it cannot exceed the total book value of the participation in the balance sheet</p>	<p>Noted.</p>

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			of the participating undertaking.	
370.	Munich Re	6.11.	Please refer to 5.17	Noted.
371.	UNESPA	6.11.	For the reasons mentioned in 5.17, goodwill should not be excluded from own funds of the participating undertaking.	Noted. Notwithstanding the different valuation bases that might apply to participations CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
372.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	6.12.	See comment to 6.9 and 6.13.	Noted.
373.			Confidential comments deleted.	
374.	CEA	6.12.	See comment to 6.9 and 6.13.	Noted.
375.	FFSA	6.12.	Refer to our comment in 5.19	Noted.
376.	Munich Re	6.12.	For participations in which the participating undertaking holds less than 100%, the determination of the amount to be deducted (own funds covering SCR of the participation) is to be based solely on the stake held.	Agreed. Clarified. As a result of its commitment it has to be excluded on a proportional basis. The second point has been addressed in response to comment 211.

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377.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	6.13.	The supervisors judgment on whether the excess of own funds over the participation's SCR will be recognized or further excluded is intransparent and leaves room for arbitrary decisions.	Not agreed. The 'excess' must be assessed on the basis of the criteria for own funds.
378.			Confidential comments deleted.	
379.	CEA	6.13.	<p>We disagree with the assessment of the eligibility of excess own funds.</p> <p>It is unclear how this assessment would be done in practice. As mentioned in our general comments, the supervisors judgment on whether the excess of own funds over the participation's SCR will be recognized or further excluded is intransparent and leaves room for arbitrary decisions.</p> <p>We do not understand the rationale for an additional test: we are dealing here with regulated (re)insurers, within the EU. In this case, any own funds can be transferred within a Group, due to the mechanisms of intragroup loans (see our comments to CP60 comments).</p> <p>See also comment to 6.9.</p>	Not agreed. The 'excess' must be assessed on the basis of the criteria for own funds.
380.	CRO Forum	6.13.	We disagree with the additional test for fungibility proposed in the advice on the basis that all insurance participations would be subject to Solvency II. We do not see the need for an additional test: we are dealing here with regulated insurers. Within the group	Not agreed. The 'excess' must be assessed on the basis of the criteria for own funds.

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			supervision scope, any own funds can be transferred within a Group through intra-group loans (cf. our response to CP60).	
381.	CRO Forum	6.13.	We disagree with the additional test for fungibility proposed in the advice on the basis that all insurance participations would be subject to Solvency II. We do not see the need for an additional test: we are dealing here with regulated insurers. Within the group supervision scope, any own funds can be transferred within a Group through intra-group loans (cf. our response to CP60).	Not agreed. The 'excess' must be assessed on the basis of the criteria for own funds.
382.	European Union member firms of Deloitte Touche Toh	6.13.	CEIOPS states that additional guidance is required in order for firms to assess under which tier the excess would fall. However we consider that guidance should be provided as to which tier of capital the restricted amount should be deducted. CEIOPS states also that guidance is required to assist firms in determining the value to be assessed i.e. is it the participating entity's share of the participation's regulatory balance sheet value OR an adjustment to the participating entity's value in its balance sheet? Additionally for participations where there is no control, participating entities may not be able to obtain sufficient information to be able to make this adjustment.	Noted. Generally, deductions should be made from the excess of assets over liabilities. Also see CEIOPS' Advice on Valuations.
383.	FFSA	6.13.	Refer to our comment in 5.19	Noted.
384.	GDV	6.13.	We disagree with the assessment of the eligibility of excess own funds. It is unclear how this assessment would be done in practice. As mentioned in our general comments, the supervisors' judgment on whether the excess of own funds over the participation's SCR will be recognized or further excluded is intransparent and leaves room for arbitrary decisions. 82. We do not understand the rationale for an additional test:	Not agreed. The 'excess' must be assessed on the basis of the criteria for own funds.

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			we are dealing here with regulated (re)insurers, within the EU. In this case, any own funds can be transferred within a group, due to the mechanisms of intragroup loans (see our comments to CP60 comments).	
385.	Munich Re	6.13.	Please refer to 5.17	Noted.
386.	UNESPA	6.13.	General rules should be established about how to carry out the tests that are mentioned in this point.	Partly agreed. The 'excess' must be assessed on the basis of the criteria for own funds.
387.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	6.14.	We take from this that the CEIOPS majority holds that participations are to be recognised either with regard to own funds (deduction), or with regard to the SCR, but not both.	Noted.
388.			Confidential comments deleted.	
389.	CEA	6.14.	This is the only majority position on (re)insurance participations that complies with the Level 1 text. We further take from this that the Ceiops majority holds that participations are to be recognised either with regard to own funds (deduction), or with regard to the SCR, but not both. This should be emphasised. See also our comment on annex A.	Noted.
390.	FFSA	6.14.	Refer to our comment in 5.24 and annex A	Noted.

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391.	GDV	6.14.	<p>This is the only majority position on (re)insurance participations that complies with the Level 1 text.</p> <p>We further take from this that the CEIOPS majority holds that participations are to be recognised either with regard to own funds (deduction), or with regard to the SCR, but not both. This should be emphasised.</p> <p>See also our comment on annex A.</p>	Noted.
392.	RSA	6.14.	<p>We fundamentally disagree with this approach and believe in a more economic approach that considers the capital adequacy of the participating entity and its participants in aggregate. We therefore support option 3.</p>	Noted.
393.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	6.15.	<p>Our comments to 6.7 apply also to 6.15. We support a reduced equity charge, consistent with the criteria in article 109(ja) of the Level 1 text. 50% appears to be an acceptable parameter to take into account.</p> <p>Please also see our comments to 6.9 (legal considerations).</p>	Noted.
394.			Confidential comments deleted.	
395.	CEA	6.15.	<p>We are strongly opposed to the treatment of financial non-regulated participations.</p> <p>Our comments to 6.7 apply also to 6.15. We support a reduced equity charge, consistent with the criteria in article 109(ja) of the Level 1 text. 50% appears to be an acceptable parameter to take into account.</p> <p>Please also see our comments to 6.9 (legal considerations).</p>	Noted.

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396.	CRO Forum	6.15.	It is unclear what kinds of participations are considered to be "unregulated, related to the financial sector". Examples would be appreciated.	Noted.
397.	CRO Forum	6.15.	It is unclear what kinds of participations are considered to be "unregulated, related to the financial sector". Examples would be appreciated.	Noted.
398.	FFSA	6.15.	Refer to our comment in 5.25	Noted.
399.	GDV	6.15.	We are strongly opposed to the treatment of financial non-regulated participations. Our comments to 6.7 apply also to 6.15. We support a reduced equity charge, consistent with the criteria in article 109(ja) of the Level 1 text. 50% appears to be an acceptable parameter to take into account. Please also see our comments to 6.9 (legal considerations).	Noted.
400.	Legal & General Group	6.15.	We agree the same approach should be taken for non regulated as for regulated financial firms, but these funds are even more likely to be transferable and fungible so able to provide capital for the parent. It is not clear why participations should not be included in the balance sheet provided that there has been a look through to the "real value" of intangibles and goodwill under fire-sale conditions.	Not agreed. Notwithstanding the different valuation bases that might apply to participations, CEIOPS considers that there should be a consistent treatment for own funds purposes which is based on the elimination of any goodwill element derived from a mark to market methodology.
401.	Lucida	6.15.	We disagree with this recommendation and 6.16. We cannot really see how an equity stress charge is appropriate for subsidiaries which are carrying out ancillary services which are not exposed to the same risks and volatility as listed equities.	Noted.

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402.	Munich Re	6.15.	It is unclear to us what kind of participations are considered to be "unregulated, related to the financial sector". Please give examples.	Noted. Clarification has been provided in the advice.
403.	UNESPA	6.15.	We agree as long as the explanations given in point 6.7 are taken into consideration.	Noted.
404.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	6.16.	<p>As for the CEA, we agree that "non-financial non-regulated participations should be treated as equity investments. However, a reduced equity shock should be applied. We do not understand why an equity shock approach is not applied to other types of participations".</p> <p>However, we also recommend a case-by-case analysis. Some participations are only servicing entities, e.g. to manage claims, SI... These shared center or servicing entities (ancillary service entities in CP60 – Group solvency assessment) should not be charged at all, since there is strictly no risk in them. This kind of "outsourcing" should not lead to an additional charge for the company in comparison with an equity investment.</p>	Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.
405.	AMICE	6.16.	We share CEA concerns on the penalisation of financial participations compared to non-financial non-regulated participations.	Noted.
406.	Association of British Insurers	6.16.	<p>For non financial non regulated participation the method used to determine the equity stress for participations should be based on the economic substance of the participation.</p> <p>It does not seem logical for example to apply a standard equity charge to a participation in a real estate holding when the same assets detained directly would only bear a lesser charge. Similarly we fail to see any justification to apply an equity shock to a</p>	Noted.

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			participation in a servicing company.	
407.			Confidential comments deleted.	
408.	CEA	6.16.	<p>We do not understand why Ceiops is penalising financial participations compared to non-financial non-regulated participations.</p> <p>We agree that non-financial non-regulated participations should be treated as equity investments, with a reduced equity charge that would assure consistency with Article 109 (ja) of the Directive. However, we do not understand why an equity shock approach is not applied to other types of participations. In any case, we also recommend a case-by-case analysis. Some participations are only servicing entities, e.g. to manage claims, SI... These shared center or servicing entities (ancillary service entities in CP60 – Group solvency assessment) should not be charged at all, since there is strictly no risk in them. This kind of “outsourcing” should not lead to an additional charge for the company in comparison with an equity investment.</p>	<p>Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.</p>
409.	CRO Forum	6.16.	<p>CEIOPS suggests in its advice that capital shall be held against non-financial non-regulated participations. However, not all non-financial non-regulated participations should be subjected to capital requirement. For instance, participations in service companies should not be required to hold additional capital.</p> <p>In light of that we agree with CEIOPS that the treatment of the non-financial non-regulated participations should be based the equity shock method, however it should be on a “comply or explain” basis.</p> <p>Moreover, where the equity shock approach is used the following</p>	<p>Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this</p>

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			should be considered; AFR: equity/ fair value in the accounts; SCR: standard equity shock applied to own funds of each solo entity.	risk. The advice has been expanded to provide further explanation.
410.	CRO Forum	6.16.	<p>CEIOPS suggests in its advice that capital shall be held against non-financial non-regulated participations. However, not all non-financial non-regulated participations should be subjected to capital requirement. For instance, participations in service companies should not be required to hold additional capital.</p> <p>In light of that we agree with CEIOPS that the treatment of the non-financial non-regulated participations should be based the equity shock method, however it should be on a “comply or explain” basis.</p> <p>Moreover, where the equity shock approach is used the following should be considered; AFR: equity/ fair value in the accounts; SCR: standard equity shock applied to own funds of each solo entity.</p>	Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.
411.	FFSA	6.16.	Refer to our comment in 5.26	Noted.
412.	GDV	6.16.	<p>We do not understand why CEIOPS is penalising financial participations compared to non-financial non-regulated participations.</p> <p>We agree that non-financial non-regulated participations should be treated as equity investments, with a reduced equity charge that would assure consistency with Article 109 (ja) of the Directive. However, we do not understand why an equity shock approach is not applied to other types of participations. In any case, we also recommend a case-by-case analysis. Some participations are only servicing entities, e.g. to manage claims, SI... These shared center</p>	Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to

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			or servicing entities (ancillary service entities in CP60 – Group solvency assessment) should not be charged at all, since there is strictly no risk in them. This kind of “outsourcing” should not lead to an additional charge for the company in comparison with an equity investment.	participations must address this risk. The advice has been expanded to provide further explanation.
413.	Legal & General Group	6.16.	It is not clear exactly which firms are included in this category. But if a firm can be shown to be held long term, as a provider of facilities to a group it should be possible to include on a look through basis.	Not agreed. The advice has been clarified to explain why the ‘look through’ approach was not recommended by CEIOPS
414.	RSA	6.16.	We fundamentally disagree with this approach and believe in a more economic approach that considers the capital adequacy of the participating entity and its participants in aggregate. We therefore support option 3.	Noted.
415.	UNESPA	6.16.	<p>A reduced equity risk charge approach should be applied</p> <p>We believe that a reduced equity risk charge approach, and not a standard one, should be used since these participations are usually long-term strategic investments and different studies have shown that the higher the longer the holding period the lower is the volatility. There are several studies on the US stock market that back this assertion, e.g.:</p> <p><input type="checkbox"/> From 1945 onwards, if the holding of the investment is 1 year there are periods with negative returns (although there are many more positive investment returns than negative ones), whereas if the holding is ten years there are no instances where the average return has been negative (source: Mr. Campbell R. Harvey of the US stock market).</p> <p><input type="checkbox"/> The annualized real returns on US equities over periods of 10-103 years show that volatility of returns is much higher when the holding period has been less than 20 years than when it has been more than 50 years (source. Mr. Elroy Dimson Ph. D.</p>	Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.

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			Professor London Business School).	
416.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	6.17.	All participations included within the scope of group supervision should be treated as equity investments. This provides a harmonised approach.	Noted.
417.	AMICE	6.17.	We also share CEIOPS member view that all participations included within the scope of group supervision should be treated as equity investments and subject to an equity charge.	Noted.
418.	CEA	6.17.	We strongly support the view that all participations included within the scope of group supervision should be treated as equity investments. This is the appropriate approach for the treatment of participations. The advantages of this method are obvious: it is easy fairly easy to apply and all participations are considered in the same way. This provides a harmonised approach.	Noted.
419.	FFSA	6.17.	The CP proposes an alternative method for financial, (re)insurers undertakings (regulated or not), which is the differentiated approach used in QIS4. The reduction in equity shock would be 50%. We are definitely in favour of this approach.	Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this

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				risk. The advice has been expanded to provide further explanation.
420.	GDV	6.17.	<p>We strongly support the view that all participations included within the scope of group supervision should be treated as equity investments.</p> <p>This is the appropriate approach for the treatment of participations. The advantages of this method are obvious: it is easy fairly easy to apply and all participations are considered in the same way. This provides a harmonised approach.</p>	Noted.
421.	PricewaterhouseCoopers LLP	6.17.	The advice should reflect the majority or unanimity view only.	Noted.
422.	RSA	6.17.	We believe that ideally it should be possible to include the value of participations with suitable risk charges but we also believe that there would be practical difficulties in ensuring a consistent valuation approach. We believe that applying a standard risk charge would also be overly simplistic.	Noted.
423.	ACA – ASSOCIATION DES COMPAGNIES D'ASSURANCES DU	6.18.	We share CEA's views in as that "participations are different from other equity investments and a reduced shock should therefore be applied".	Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members

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				believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.
424.	AMICE	6.18.	As mentioned in paragraph 5.31, AMICE members agree with CEIOPS minority view to apply a reduced equity shock in order to take into account the likely reduction in volatility due to its strategic nature and the influence exercised by the participating undertaking. This approach is in line with Article 109 (1) (ja) and 105.5 of the Level 1 text and CEIOPS proposal should not deviate from this. In this regard we support the QIS4 approach.	Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.
425.			Confidential comments deleted.	
426.	CEA	6.18.	We strongly agree with applying a reduced equity shock to participations. Participations are different from other equity investments and a reduced shock should therefore be applied.	Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the

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				majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.
427.	FFSA	6.18.	Cf. 6.17	Noted.
428.	GDV	6.18.	<p>We strongly agree with applying a reduced equity shock to participations.</p> <p>Participations are different from other equity investments and a reduced shock should therefore be applied. However, we might also accept the application of an unadjusted equity shock for some types of participations as indicated in our general comments.</p>	Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.
429.			Confidential comments deleted.	
430.	UNESPA	6.18.	We agree that participations have less risk of volatility than other equity investments and therefore a reduced equity risk shock should be used.	Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment

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				whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.
431.	CEA	6.19.	See comments on 5.32.	Noted.
432.	FFSA	6.19.	Refer to our comment in 5.32	Noted.
433.				
434.			Confidential comments deleted.	
435.	CRO Forum	6.20.	<p>This paragraph states that the solo supervisor can decide to exclude the out-of-scope participations (financial and insurers undertakings) from eligible own funds.</p> <p>In the directive, the out-of-scope is possible under three cases:</p> <p>a. if the undertaking is situated in a third country where there are legal impediments to the transfer of the necessary information, without prejudice to the provisions of Article 227;</p> <p>b. if the undertaking which should be included is of negligible interest with respect to the objectives of group supervision;</p> <p>c. if the inclusion of the undertaking would be inappropriate or misleading with respect to the objectives of the group supervision.</p> <p>Under cases b) and c), there is no reason to eliminate the</p>	Noted.

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			<p>participation from own funds.</p> <p>Under case a), we consider that the fact the solo supervisor cannot get information from the local supervisor should not lead to eliminate the participation.</p> <p>As such, we would like more precisions on how the loss absorbency of the own funds could be affected.</p>	
436.	CRO Forum	6.20.	<p>This paragraph states that the solo supervisor can decide to exclude the out-of-scope participations (financial and insurers undertakings) from eligible own funds.</p> <p>In the directive, the out-of-scope is possible under three cases:</p> <p>a. if the undertaking is situated in a third country where there are legal impediments to the transfer of the necessary information, without prejudice to the provisions of Article 227;</p> <p>b. if the undertaking which should be included is of negligible interest with respect to the objectives of group supervision;</p> <p>c. if the inclusion of the undertaking would be inappropriate or misleading with respect to the objectives of the group supervision.</p> <p>Under cases b) and c), there is no reason to eliminate the participation from own funds.</p> <p>Under case a), we consider that the fact the solo supervisor cannot get information from the local supervisor should not lead to eliminate the participation.</p> <p>As such, we would like more precisions on how the loss absorbency of the own funds could be affected.</p>	Noted.
437.	FFSA	6.22.	Refer to our comment in 5.35	Noted.
438.	ACA – ASSOCIATIO	6.23.	We share CEA’s views in as “a reduced equity shock should apply to non-regulated non-financial participations which are not in the	Noted. An equity risk charge would only be a partial mitigant in respect of participations in

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	N DES COMPAGNIE S D'ASSURAN CES DU		scope of group supervision due to the strategic and long term nature of participations".	insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.
439.			Confidential comments deleted.	
440.	CEA	6.23.	A reduced equity shock should apply to non-regulated non-financial participations which are not in the scope of group supervision. This is due to the strategic and long term nature of participations.	Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.
441.	CRO Forum	6.23.	It indicates that the participations in out-of-scope non financial	Noted. An equity risk charge would only be a partial mitigant in

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			<p>undertakings will be subject to a standard equity charge subject to the criteria in article 109(I), and that the appropriate equity charge has yet to be agreed.</p> <p>We consider that the 50% reduction in equity charge as used in QIS4 could be a good proxy for this.</p>	<p>respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.</p>
442.	CRO Forum	6.23.	<p>It indicates that the participations in out-of-scope non financial undertakings will be subject to a standard equity charge subject to the criteria in article 109(I), and that the appropriate equity charge has yet to be agreed.</p> <p>We consider that the 50% reduction in equity charge as used in QIS4 could be a good proxy for this.</p>	<p>Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.</p>
443.	FFSA	6.23.	<p>Refer to our comment in 5.37</p>	<p>Noted.</p>

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444.	GDV	6.23.	<p>A reduced equity shock should apply to non-regulated non-financial participations which are not in the scope of group supervision.</p> <p>This is due to the strategic and long term nature of participations.</p>	<p>Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.</p>
445.	UNESPA	6.23.	<p>We believe that having been excluded from the scope of group supervision does not necessarily mean that those participations should not be considered strategic. If they are strategic, a reduced equity risk shock should be applied.</p>	<p>Noted. An equity risk charge would only be a partial mitigant in respect of participations in insurers; this is because it is designed to address risk around the valuation of the investment whereas the key prudential concern is in respect of double gearing. For this reason the majority of CEIOPS members believe that the approach to participations must address this risk. The advice has been expanded to provide further explanation.</p>

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446.	CEA	Annex	<p>We have several problems with the alternative treatment proposed. We do not understand the rationale for the f factor and therefore disagree with this.</p> <p>We have a problem with the methodology proposed. Let us take the example of a subsidiary of which eligible own funds are composed of 5% of equity capital (all of it coming from the mother) and 95% of subordinated debts on the market. With this method, the parent undertaking will take 100% of the subsidiary SCR, which could represent a tremendous amount for the parent. Therefore either we recommend that the x% factor represents the percentage of detention of the eligible own funds of the subsidiaries or that the 95% of the debt of the subsidiaries can be used at the parent level to cover its SCR.</p>	Noted.
447.	CRO Forum	Annex	<p>Annex: We do not agree with the proposed approach. The approach outlined in Annex A misuse the equity risk sub-module to arrive at something similar to the accounting consolidation-based method. The factor f has effectively to be calibrated by conducting something similar to the accounting consolidation-based method. Unfortunately, the proposed approach is not elaborated in detail but rather ideas are presented by examples. Furthermore, no diversification is allowed for multiple related undertakings according to A.10 which is not justified.</p>	Noted.
448.	CRO Forum	Annex	<p>Annex: We do not agree with the proposed approach. The approach outlined in Annex A misuse the equity risk sub-module to arrive at something similar to the accounting consolidation-based method. The factor f has effectively to be calibrated by conducting something similar to the accounting consolidation-based method. Unfortunately, the proposed approach is not elaborated in detail but rather ideas are presented by examples. Furthermore, no</p>	Noted.

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			diversification is allowed for multiple related undertakings according to A.10 which is not justified.	
449.	FFSA	Annex	<p>We have a problem with this proposition.</p> <p>First we understand that this would apply if there is no other restriction on the participation as the 6.19 says "if there is no deduction of the market value of the participation". Is this correct ?</p> <p>Second, we don't understand the rationale for the f factor and are therefore against it.</p> <p>Then, with the methodology. We have a problem here. Let's take the example of a subsidiary eligible own funds are composed of 5% of equity capital (all of it coming from the mother) and 95% of subordinated debts on the market. With this method, the parent undertaking will take 100% of the subsidiary SCR, which could represent a tremendous amount for the mother.</p> <p>Therefore either we recommend that the x% factor represents the percentage of detention of the eligible own funds of the subsidiaries or that the 95% of the debt of the subsidiaries can be used at the mother level to cover its SCR.</p>	Noted.
450.	GDV	Annex	<p>We have several problems with the alternative treatment proposed.</p> <p>We do not understand the rationale for the f factor and therefore disagree with this.</p> <p>We have a problem with the methodology proposed. Let us take the example of a subsidiary of which eligible own funds are composed of 5% of equity capital (all of it coming from the mother) and 95% of subordinated debts on the market. With this method, the parent undertaking will take 100% of the subsidiary SCR, which could</p>	Noted.

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			represent a tremendous amount for the parent. Therefore either we recommend that the x% factor represents the percentage of detention of the eligible own funds of the subsidiaries or that the 95% of the debt of the subsidiaries can be used at the parent level to cover its SCR.	
451.	Munich Re	Annex	The approach outlined in Annex A misuses the equity risk sub-module to arrive at something similar to the accounting consolidation-based method. The factor f has effectively to be calibrated by using something similar to the accounting consolidation-based method. Unfortunately, the proposed approach is not elaborated in detail but rather ideas are presented by means of examples. Furthermore, no diversification is allowed for multiple related undertakings according to A.10, which is not justified.	Noted.
452.	PricewaterhouseCoopers LLP	Annex	The example confirms that look-through is possibly the best option to prevent regulatory arbitrage that can be achieved by aptly moving risks among participated entities.	Noted.
453.	CEA	Annex	Only the minority position mentioned in paragraph B.21 provides for a differentiated equity stress that is the approach that is envisaged, to a different extent, by all the options foreseen by the Commission for the Impact Assessment.	Noted.
454.	GDV	Annex	Only the minority position mentioned in paragraph B.21 provides for a differentiated equity stress, that is the approach that is envisaged, to a different extent, by all the options foreseen by the Commission for the Impact Assessment.	Noted.
455.	CEA	B.21.	See our comments to Annex B.	Noted.
456.	GDV	B.21.	See our comments to Annex B.	Noted.

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457.	FFSA	Deadline 24.11.2009 12.00 CE	Name of Company:	Noted.
458.	FFSA	Deadline 24.11.2009 12.00 CE	Name of Company:	
459.	FFSA	Deadline 24.11.2009 12.00 CE	Name of Company:	
460.	FFSA	Deadline 24.11.2009 12.00 CE	Name of Company:	
461.				