

## UK

- PRA updates remuneration policy statement for PRA category 1 and 2 firm
- PRA publishes CP24/17: Solvency II: internal models - modelling of the matching adjustment
- PRA publishes CP23/17: Financial management and planning by insurers
- Wholesale insurance brokers market study launched by the FCA
- The FCA's future approach to consumers
- PRA publishes CP22/17: Solvency II: Supervisory approval for the volatility adjustment
- FCA publishes PS17/24: Handbook changes to reflect the new regulatory framework for insurance-linked securities - feedback to CP16/34 and CP17/3 and near-final rules
- PRA publishes PS26/17: Authorisation and supervision of insurance special purpose vehicles

## INTERNATIONAL

- IAIS publishes application paper on product oversight in inclusive insurance
- PRIIPs KID: Joint Committee of the ESAs updates Q&As
- EIOPA publishes paper on a common European supervisory culture
- FSB not to publish new list of G-SIIs for 2017
- IDD: ECON letter to European Commission about postponement of the application date
- EIOPA publishes report on insurers' investment behaviour
- OECD revised guidelines on insurer governance
- ENISA publishes report on cyber insurance
- IAIS publishes application paper on group corporate governance
- IAIS publishes updated version of ICPs
- IAIS publishes a consultation on ICPs 8, 15 and 16, the ComFrame material integrated with these ICPs, and the proposed definitions of terms related to enterprise risk management for solvency purposes
- IAIS publishes draft revised ICPs for information purposes pending adoption at 2019 AGM
- EU and US bilateral agreement on insurance and reinsurance prudential measures: notice confirming provisional application date published in the Official Journal

- IAIS implementation of ICS version 2.0

## SOLVENCY II

- **Implementing Regulations on reporting and disclosure published in the Official Journal**
- **Commission Implementing Regulation on technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 September 2017 to 30 December 2017 published in the Official Journal**
- **Solvency II Delegated Regulation: EIOPA consults on second set of advice to the European Commission**
- **Solvency II Delegated Regulation: EIOPA first set of advice to the European Commission**

## UK

### **PRA updates remuneration policy statement for PRA category 1 and 2 firms**

On 29 November 2017, the Prudential Regulation Authority (PRA) published an updated [remuneration policy statement](#) (RPS) reporting template for PRA Category 1 and 2 firms to use for the 2017 performance year to demonstrate compliance with the requirements.

All firms within the scope of Solvency II are expected to ensure that their remuneration policies and practices comply with the requirements set out in Article 275 of the Solvency II Delegated Regulation. To record those policies, practices and procedures, and assess their compliance with the rules, category 1 and 2 firms are asked to complete the RPS template, which sets out the principal questions the PRA intends to ask as part of its supervisory assessment. The PRA says it would be good practice for firms to use the template as it provides the PRA's expectation of the level of detail which should be included. It is not compulsory and firms may choose to document their remuneration policies in a different way. However, if a firm chooses not to use this template, the PRA says that it should ensure that it provides all the information that the PRA needs (as indicated by the template) in a clear and structured manner.

The PRA says that its August 2016 [supervisory statement](#) (SS) on Solvency II remuneration requirements (SS10/16) clarifies its expectations on how firms should comply with the in the regulatory requirements and should be read before completing the template.

The completed RPS (or equivalent document) plus relevant supporting documentation should first be reviewed and approved by the firm's Remuneration Committee or the equivalent body in the UK with responsibility for remuneration policies.

Firms should also submit the [Solvency II staff table](#), which should include all Solvency II staff identified at any part of the current performance year, with the template.

### **PRA publishes CP24/17: Solvency II: internal models - modelling of the matching adjustment**

On 10 November 2017, the PRA published a consultation paper, [CP24/17](#), containing a draft supervisory statement setting out its proposed expectations of firms regarding the application of the Solvency II matching adjustment (MA) within the calculation of the solvency capital requirement (SCR). The purpose of the proposals in the consultation paper is to update and consolidate all of the PRA's expectations regarding the modelling of the MA in internal models into a single supervisory statement in order to provide clarity.

The PRA recognises that the MA requirements were finalised later than other elements of the Solvency II Directive. This presented internal model development challenges for firms seeking to reflect the MA in their models ahead of Solvency II day 1. The PRA is aware that, as a result, a number of firms may wish to make changes to their existing modelling approaches for the MA. There are also likely to be new firms seeking to obtain approval for models that cover the MA. The PRA recognises the complexity involved in modelling the MA for the purposes of calculating the SCR but also the risk management benefits of doing so. The PRA therefore seeks to support firms wishing to develop models in this area by giving more clarity as to its expectations of appropriate practice.

The draft supervisory statement (see appendix 1) sets out the full proposals on which the PRA is consulting. As a consolidated draft supervisory statement it includes an updated chapter 3 from supervisory statement 17/16: "Solvency II: internal models - assessment, model change and the role of non-executive director". Appendix 2 contains the proposed amendments to supervisory statement 17/16.

Comments are requested by 9 March 2018.

### **PRA publishes CP23/17: Financial management and planning by insurers**

On 9 November 2017, the PRA published a consultation paper, [CP23/17](#), which seeks views on a draft supervisory statement on effective financial management and planning by insurance groups and firms.

The consultation paper is relevant to all UK insurance firms, and groups, in scope of the Solvency II Directive, and to the Society of Lloyd's and managing agents.

The purpose of the proposals is to set out how the application of effective risk management and governance may be linked together with the need for insurers to maintain a sound financial condition going forward, by issuing a supervisory statement setting out the PRA's expectations on financial management and planning by insurers. The PRA considers that effective financial management and planning is especially important for those insurers with a high risk appetite, and for those insurers with capital levels that may fluctuate significantly.

The draft supervisory statement, which is set out in the appendix to the consultation paper, sets out the PRA's expectations for financial management and planning by insurers. These include the framework for the development and maintenance of a risk appetite statement by an insurer, the application of this risk appetite to an insurer's business and financial plans, and the assessment of the suitability and sustainability of capital distribution plans in the context of this risk appetite.

The draft supervisory statement confirms that the PRA no longer normally expects insurers (other than those insurers in run-off) to ask for the PRA's non-objection to dividends, provided the insurer is within risk appetite, the proposed dividend leaves its capital position within risk appetite, and likely to remain so, and the insurer's solvency capital requirement coverage ratio is above 100%.

The PRA says that the draft supervisory statement is intended to complement existing policy material, rather than to set any new expectations on governance or risk management for insurers. The PRA considers that most insurers will already be meeting the expectations set out in the draft supervisory statement.

Comments are requested by 9 February 2018.

### **Wholesale insurance brokers market study launched by the FCA**

On 8 November 2017, the Financial Conduct Authority (FCA) [announced](#) the launch of a new market study to assess how competition is working in the wholesale insurance broker sector. The FCA says that it wants to ensure that the sector is working well, and fosters innovation and competition in the interests of its diverse range of clients.

The [terms of reference](#) for the market study have also been published. In the study, the FCA will:

- look at how brokers compete in practice and whether they use their bargaining power to get clients a good deal;
- assess what conflicts of interest exist, how they are managed and how they affect competition and client outcomes;
- examine how broker conduct impacts on competition in the sector.

Views are requested by 19 January 2018. The FCA aims to publish an interim report by autumn 2018, setting out its analysis and preliminary conclusions including, where appropriate, possible remedies to address any concerns identified. This will be followed by a final report.

### **The FCA's future approach to consumers**

On 6 November 2017, the FCA published a [document](#) containing its future approach to regulating for retail consumers. When the FCA published its [Mission 2017](#) document in April 2017, it committed to publishing a series of documents that would explain its approach to regulation in more depth. The approach to consumers is the first document in this series.

The document sets out the FCA's initial views on what good looks like for all retail consumers, and aims to clearly explain how it will work to diagnose and remedy actual and potential harm, giving more certainty about its framework.

In all markets the FCA wants to see:

- consumers are enabled to buy the products and services they need because the environment in which they are sold is clear, fair and not misleading, with a good choice architecture;
- high-quality, good value products and services that meet consumers' changing needs;
- inclusion, where everyone is able to access the financial products they need and the needs of vulnerable consumers are taken into account;
- protection: consumers are appropriately protected from harm.

The FCA's approach to regulating for retail consumers is based around the following core ideas:

- firm and consumer responsibility;
- regulating for vulnerable consumers;
- keeping pace with a changing environment;
- having regard to access and tackling exclusion;
- delivering better outcomes for all consumers.

The FCA says that the document is not intended to be its final word on the subject, nor a list of tasks, but to broaden the debate it began with its Mission and set out its views so far. It says that the responses it receives will play an important role in shaping its future views.

Comments are requested by 5 February 2018. The FCA will publish its final approach to consumers in 2018. It says that by engaging and collaborating it hopes to develop a final document which provides clarity, sets clear expectations and explains how it will deliver public value.

The FCA is hosting a consumer approach [conference](#) on 30 November 2017, which will explore some of the key themes and questions outlined in the document.

### **PRA publishes CP22/17: Solvency II: Supervisory approval for the volatility adjustment**

On 3 November 2017, the PRA published a consultation paper, [CP22/17](#), setting out its proposals to clarify its expectations in respect of firms seeking approval to apply a volatility adjustment (VA) to insurance and reinsurance business under the Solvency II Directive.

The proposals clarify the risks that may arise from use of the VA and how firms are expected to consider those risks. The PRA proposes to update its June 2015 Supervisory Statement 23/15 "Solvency II: supervisory approval for the volatility adjustment". The proposed amendments are set out in an appendix to the consultation paper.

In the course of reviewing firms' VA applications the PRA has identified particular areas of prudential risk that may arise from using the VA, and which have had to be addressed in the review process. The aim of the consultation paper is to alert all firms considering applications to use the VA to those risks, and to help them to produce high-quality applications that successfully address those risks.

Comments are requested by 9 February 2018.

### **FCA publishes PS17/24: Handbook changes to reflect the new regulatory framework for insurance-linked securities - feedback to CP16/34 and CP17/3 and near-final rules**

On 1 November 2017, the FCA published a policy statement, [PS17/24](#), setting out the near final rule changes required to the FCA Handbook to incorporate the new regulated activity of insurance risk transformation.

Insurance-linked securities (ILS) are financial instruments where the value of the security is linked to an insurable loss event. ILS are used to transfer risk to the capital markets through insurance special purpose vehicles (ISPVs) as an alternative form of risk mitigation for insurance and reinsurance firms. In November 2016, HM Treasury proposed a new regulated activity of insurance risk transformation, as part of designing a new framework to attract ILS business to the UK.

The FCA has published two consultation papers proposing changes to its rules and setting out its authorisation and supervisory approach in relation to ISPVs. It consulted jointly with the Prudential Regulation Authority (PRA) in November 2016 in [PRA CP42/16 and FCA CP 16/34](#), on the proposed authorisation and supervision regime for ISPVs in the UK. It then consulted separately in January 2017, in [CP17/3](#), on the changes required to the FCA Handbook.

PS17/24 sets out:

- the FCA's response to the feedback received to CP16/34 and a near-final FCA statement on authorising and supervising insurance special purpose vehicles (see chapter 2 and appendix 1);
- the FCA's response to the feedback received to CP17/3 and the near-final rules that incorporate the new regulated activity of insurance risk transformation into the FCA Handbook (see chapter 3 and appendix 2).

The [Risk Transformation Regulations 2017](#) (RTR) were laid before Parliament on 12 October 2017 and have not yet become law. This policy statement therefore contains the FCA's near-final, draft material because its rules must refer to that domestic legislation. The FCA says that it will finalise its rules when the parliamentary process is complete, taking into account any further changes to the RTR.

The FCA received 16 responses to CP16/34 and 6 responses to CP17/3 and says that there was general support for most of its proposals. There are no significant differences between the proposals it consulted on and the near-final rules, except for the rule the FCA had proposed regarding new cell notification for protected cell companies (PCCs). This is no longer required due to a change in the RTR (see paragraphs 3.32 to 3.34 of the policy statement paper for further detail). There is also a minor administrative amendment to Supervision manual (SUP) 11 to reflect the content of the RTR.

The FCA says that firms affected by these changes need to ensure compliance with the new ILS regime when it goes live, which HM Treasury expects to be in 2017.

The FCA will make its final rules when the RTR come into force so that the rules are in place for the start of the new ILS regime.

The FCA has also published the following joint FCA/PRA forms:

- [application form for registration of PCCs](#);
- [notification form for PCCs](#).

The PRA has also published a policy statement and supervisory statement on the authorisation of ISPVs, see below.

### **PRA publishes PS26/17: Authorisation and supervision of insurance special purpose vehicles**

On 1 November 2017, the PRA published a policy statement, [PS26/17](#), which provides feedback to responses to its November 2016 joint consultation paper with the FCA, [PRA CP42/16 and FCA CP16/34](#), on authorisation and supervision of insurance special purpose vehicles (ISPVs) and sets out the PRA's final approach and expectations in relation to the authorisation and supervision of ISPVs, subject to the [Risk Transformation Regulations 2017](#) (RTR) being passed through Parliament.

The policy statement includes the following materials:

- a near final [Supervisory Statement SS8/17](#) on the authorisation and supervision of ISPVs (see appendix 1);
- amendments to the Insurance Special Purpose Vehicles Part of the PRA Rulebook in the draft PRA Rulebook: Solvency II Firms: Non Solvency II Firms: Transformer Vehicles Instrument 2017, [PRA 2017/XX](#) (see appendix 2);
- a draft version of a joint FCA/PRA [application form](#) in relation to the authorisation and supervision of ISPVs (see appendix 3); and
- two draft joint FCA/PRA notification forms for multi-arrangement ISPVs (MISPVs): the [MISPV new risk assumption notification form](#) and the [MISPV group of cells notification form](#) (see appendices 4 and 5).

The PRA has also published a [webpage](#) on ISPVs, which among other things, contains details of the five key stages for becoming an authorised ISPV. It also contains details of MISPV/PCC notification requirements and links to rules/regulations, guidance documents, application forms and notification forms.

The PRA says that the rules will be made and the supervisory statement and forms will be formally adopted once the RTR have passed through Parliament. If this does not happen, the rules will not be made and the supervisory statement and forms will not be formally adopted by the PRA. The PRA does not expect there to be changes to the rules, supervisory statement and forms between now and formal adoption. If changes were to occur, the PRA will notify firms through issuing an addendum to this policy statement to explain any such changes.

The PRA received sixteen responses to the consultation paper and chapter 2 of the policy statement summarises the responses, and provides the PRA's feedback and proposed final approach in light of the version of the RTR as laid before Parliament.

The FCA has published a related policy statement, see item above.

## **INTERNATIONAL**

### **IAIS publishes application paper on product oversight in inclusive insurance**

On 24 November 2017, the International Association of Insurance Supervisors (IAIS) published an [application paper](#) on product oversight in inclusive insurance.

The application paper provides guidance to supervisors, regulators and policymakers when considering, designing and implementing regulations and supervisory practices on product oversight in inclusive insurance markets. The paper is structured as follows:

- section 2 explains the concept of product oversight;
- section 3 describes the typical inclusive insurance market and customer and provides the context in which product oversight is applied and needs to be effective to treat the inclusive insurance customer fairly;
- section 4 explains the concept of proportionality, the impact on the implementation and application of the insurance core principles (ICPs);
- section 5 provides application guidance of relevant ICPs in respect of product oversight and addresses the requirements an insurer is expected to meet;
- section 6 provides application guidance of relevant ICPs in respect of product oversight, focusing on the implementation of supervisory oversight in this area;
- section 7 contains a summary and conclusions.

Whilst the primary focus of the application paper is inclusive insurance markets, the IAIS says that some of the considerations and suggested approaches could be of interest to other insurance areas.

### **PRIIPs KID: Joint Committee of the ESAs updates Q&As**

On 20 November 2017, the Joint Committee of the European Supervisory Authorities (ESAs) (that is, the European Banking Authority, the European Insurance and Occupational Pensions Authority and the European Securities and Markets Authority) published an [updated version](#) of its questions and answers document on the key information document (KID) requirements for packaged retail and insurance-based investment products (PRIIPs) as laid down in the European Commission's Delegated Regulation (EU) 2017/653.

The new Q&As are as follows:

- a Q&A on whether a KID is always required when an investment product is listed on a regulated market (see Q&A 2 in general topics);
- a Q&A on the meaning of the terms "biometric risk premium" and "insurance premium" (see Q&A 3 in general topics);
- a Q&A on how credit-linked notes should be treated under the Delegated Regulation (see Q&A 13 in the market risk assessment section);
- a Q&A on the correction for risk neutrality (see Q&A 8 in the MRM class determination section);
- Q&As on how the number of trading periods to use should be calculated under Point 9 of Annex IV of the Delegated Regulation and how the term "rolling" in Point 10(c) of Annex IV should be applied (see Q&As 3 and 4 in the performance scenarios section);
- a Q&A on whether it is possible to alter the prescribed wording in the KID template for OTC derivatives (see Q&A 4 in the derivatives section);
- Q&As on how the information on the underlying options of a multi-option products (MOP) should be provided and, in the case of Article 10(b) of the Delegated Regulation, how information on costs should be reflected in the generic KID (see Q&As 1 and 2 in the MOPs section).

The Q&As promote common supervisory approaches and practices in the implementation of the KID.

### **EIOPA publishes paper on a common European supervisory culture**

On 22 November 2017, the European Insurance and Occupational Pensions Authority (EIOPA) published a [paper](#) describing the basis of a common European supervisory culture. EIOPA says a common supervisory culture will underpin convergence of supervisory practices, including a common

interpretation of the laws and regulations, without prejudice to the application of the proportionality principle.

EIOPA says that the approach described in the paper should be read considering the broader framework of the supervisory review process, including all relevant provisions of the Solvency II Directive, which has embedded principles that should be considered at each step of the supervisory review process and in the implementation of each of the key characteristics identified in the paper.

Among other things, the paper discusses:

- principles and key characteristics of high-quality and effective supervision;
- governance of the supervisory review process; and
- the basic tools which need to be available to any national competent authority.

EIOPA has also published a related [infographic](#) and a [speech](#) given by its Chairman, Gabriel Bernadino, at EIOPA's Annual Conference, which discusses EIOPA's strategic priorities. These include the building up of a common European supervisory culture.

### **FSB not to publish new list of G-SIIs for 2017**

On 21 November 2017, the Financial Stability Board (FSB) [announced](#) that, in consultation with the International Association of Insurance Supervisors (IAIS) and national authorities, it has decided not to publish a new list of global systemically important insurers (G-SIIs) for 2017.

The policy measures set out in the FSB's [2016 communication](#) on G-SIIs, as updated in February 2017 as concerns the higher loss absorbency standard, will continue to apply to the firms listed in the 2016 communication.

The FSB says that it welcomes and encourages the work being undertaken by the IAIS to develop an activities-based approach to systemic risk in the insurance sector and notes that an activities-based approach, once developed, may have significant implications for the assessment of systemic risk in the insurance sector and hence for the identification of G-SIIs and for G-SII policy measures.

In November 2018, the FSB will review the situation based on the progress made by the IAIS in developing the activities-based approach at that time. In the meantime, the IAIS will continue to collect data for the G-SII identification process and to support the development of the activities-based approach to systemic risk in the insurance sector and to allow for further improvements to its G-SII assessment methodology.

### **IDD: ECON letter to European Commission about postponement of the application date**

On 16 November 2017, the European Parliament's Committee on Economic and Monetary Affairs (ECON) published the [text](#) of a letter it has sent to the European Commission in regard to the Parliament's 25 October 2017 recommendation that the Commission should adopt a legislative proposal to postpone the application date of the Insurance Distribution Directive (IDD) to 1 October 2018.

On 25 October 2017, the Parliament adopted decisions to raise no objections to two Commission Delegated Regulations made under the IDD:

- a [decision](#) to raise no objections to Delegated Regulation supplementing the IDD with regard to product oversight and governance requirements for insurance undertakings and insurance distributors;
- a [decision](#) to raise no objections to Delegated Regulation supplementing the IDD with regard to information requirements and conduct of business rules applicable to the distribution of insurance-based investment products.

These decisions both said that the Parliament considers that the deadline for transposition of the IDD should remain 23 February 2018, but asked the Commission to adopt a legislative proposal setting the application date at 1 October 2018.

In its letter ECON:

- says that a legislative proposal is needed swiftly in order to enhance legal certainty concerning the provisions applicable and to allow for the necessary organisational and technical changes needed to comply with the provisions introduced by the two Commission Delegated Regulations;
- draws the Commission's attention to the fact that the Delegated Regulations are based on the European Insurance and Occupational Pensions Authority's February 2017 advice and the final versions were not adopted until 21 September 2017;
- says that, contrary to the regular proceedings where a request arises from the Commission by way of a letter, ECON decided at its own initiative to launch the procedure for the two early non-objections.

ECON says that it understands that the Council of the European Union is preparing a letter in line with these concerns but ECON has not yet received any feedback from either the Commission or Commission services.

The letter also says that ECON trusts that the Commission appreciates the urgency of addressing this matter. It adds that any postponement of the application date of the IDD should remain of an exceptional nature and should, together with the postponement of the application date of the Regulation on key information documents for packaged retail and insurance-based investment products, only serve the purpose of a lesson of timeliness.

### **EIOPA publishes report on insurers' investment behaviour**

On 16 November 2017, as part of its supervisory response to the ongoing low yield environment, EIOPA published a [report](#) containing survey results analysing trends in the investment behaviour of European insurers over the past five years.

The survey was conducted during the first quarter of 2017, and is focused on the asset side of the balance sheet of large insurance groups. The results are based on submissions from 87 large insurance groups and 4 solo undertakings across 16 EU Member States.

The survey revealed trends that could be associated with a search-for-yield behaviour in the insurance industry such as increased exposures towards lower credit rating quality fixed income securities and more illiquid investments such as non-listed equities and loans. Additionally, the average maturity of the bond portfolios increased while equity allocation remained largely unchanged. Large insurance groups appear to invest more into non-traditional asset classes such as infrastructure, mortgages, loans and real estate.

### **OECD revised guidelines on insurer governance**

On 16 November 2017, the Organisation for Economic Co-operation and Development (OECD) published the 2017 edition of its [guidelines on insurer governance](#).

The guidelines, which are non-binding, provide guidance and serve as a reference point for insurers, governmental authorities, and other relevant stakeholders in OECD and non-OECD countries. The guidelines have been revised and expanded for the second time since they were first adopted in 2005 to reflect evolving market practices and updates to international guidance following the financial crisis.

The revision process involved a comprehensive stocktake of existing international guidance on corporate governance, in particular the 2015 G20/OECD principles on corporate governance and a July 2016 consultation. Key updates include:

- related party transactions at the group level;
- disclosure of policies relating to ethics, business conduct, conflicts of interest, and public policy including environment and social issues;
- disclosure on the roles of the chair and chief executive officer;
- recognition of employee representation;
- promotion of diversity on boards.

### **ENISA publishes report on cyber insurance**

On 15 November 2017, the European Network and Information Security Agency (ENISA) published a [report](#) on the commonality of risk assessment language in cyber insurance.

ENISA says that while several risk assessment languages and frameworks exist in cyber-insurance, the industry has yet to take steps in the direction of harmonisation. This report aims at further investigating this issue by identifying the incentives and barriers for adopting a common framework and to propose recommendations towards the cyber insurance industry and EU policy makers to promote this harmonisation.

### **IAIS publishes application paper on group corporate governance**

On 9 November 2017, the International Association of Insurance Supervisors (IAIS) published an [application paper](#) on group corporate governance.

The application paper aims to provide good supervisory practices and examples to address challenges specific to the governance of insurance groups. It is also intended to create a common understanding among supervisors on how to assess or evaluate the governance frameworks of insurance groups. The application paper provides material for the practical application of existing principles, standards and guidance on group governance. However, it does not set new standards.

The IAIS says that the application paper is relevant for all groups, but is particularly useful for the supervisors of insurance groups with more complex structures that may require heightened co-ordination between involved supervisors. As groups pose specific challenges to supervision, this application paper aims to contribute to the effective supervision of group governance by providing guidance on how supervisors can deal with these challenges.

The application paper provides good practices related to group governance relevant to:

- the supervision of the corporate governance framework, board composition and the allocation of responsibilities between the board at the head of the group and boards at the level of the insurance legal entities (insurance core principle (ICP) 7);
- the supervision of the risk management system and the reporting lines between control functions within the insurance group (ICP 8);
- the allocation of responsibilities between the group-wide supervisors and other involved supervisors (ICP 23);
- co-operation and co-ordination between involved supervisors with regard to groups (ICP 25).

### **IAIS publishes updated version of ICPs**

On 8 November 2017, IAIS published an [updated version](#) of the insurance core principles (ICPs) document.

The document has been updated to reflect amendments made to ICPs 13 (reinsurance and other forms of risk transfer), 18 (intermediaries) and 19 (conduct of business) in November 2017.

## **IAIS publishes a consultation on ICPs 8, 15 and 16, the ComFrame material integrated with these ICPs, and the proposed definitions of terms related to enterprise risk management for solvency purposes**

On 8 November 2017, IAIS published [consultation papers](#) on draft revisions of insurance core principles (ICPs) 8 (risk management and internal controls), 15 (investments) and 16 (enterprise risk management for solvency purposes), together with the ComFrame material integrated with these ICPs, and the proposed definitions of terms related to enterprise risk management for solvency risk management to add to the IAIS glossary.

The IAIS has also published a [comparison table](#) to enable respondents to the consultation to better understand the changes that have been made since the IAIS published a first draft of ComFrame in 2014.

The original deadline for responses was 8 January 2018. However, on 24 November 2017, the IAIS [announced](#) that, in response to requests from stakeholders, the deadline has been extended until 15 January 2018, for the consultation on the revised ICP 8 and additional ComFrame material integrated with ICP 8 and until 31 January 2018, for the consultations on the revised ICPs 15 and 16, the ComFrame material integrated with these two ICPs; and the proposed definitions of enterprise risk management-related terms.

## **IAIS publishes draft revised ICPs for information purposes pending adoption at 2019 AGM**

On 8 November 2017, IAIS published draft versions of insurance core principles (ICPs) 1, 2, 3, 9, 10, 12 and 25 for information purposes. The draft ICPs are available on this IAIS [webpage](#).

The IAIS says that the draft revised ICPs have been endorsed by its executive committee, but are subject to further changes before being presented for adoption by the general membership at the IAIS' 2019 annual general meeting.

## **EU and US bilateral agreement on insurance and reinsurance prudential measures: notice confirming provisional application date published in the Official Journal**

On 7 November 2017, a [notice](#) confirming the provisional application date (7 November 2017) of the bilateral agreement between the EU and the US on prudential measures regarding insurance and reinsurance was published in the Official Journal of the European Union.

The [final text](#) of the agreement was published in the Official Journal on 6 October 2017, following the 22 September 2017 publication of a [joint statement](#) announcing the signing of the agreement.

## **IAIS implementation of ICS version 2.0**

On 2 November 2017, IAIS [announced](#) that it has [agreed](#) the implementation of insurance capital standard (ICS) version 2.0. On 21 July 2017, the IAIS had [announced](#) the release of a [report](#) (zip file) containing version 1.0 of the ICS for extended field testing. The IAIS said that this represented an important step towards the development of ICS version 2.0 by late-2019.

The IAIS has agreed that implementation of ICS version 2.0 will be conducted in two phases:

- in the first phase, referred to as the “monitoring period”, ICS version 2.0 will be used for confidential reporting to group-wide supervisors and discussion in supervisory colleges. The ICS will not be used as a prescribed capital requirement (PCR) in this phase (that is, the ICS results will not be used as a basis to trigger supervisory action). This will allow group-wide supervisors and host supervisors to discuss and assess the ICS in comparison with existing group capital standards or calculations that are in development. The monitoring period will last for five years;

- the second phase will be “implementation of the ICS as a group-wide PCR”.

Implementation of ICS version 2.0 will have two equally important components:

- mandatory confidential reporting by all internationally active insurance groups (IAIGs) of a reference ICS which is based on market-adjusted valuation, the standard method for capital requirements and converged criteria for qualifying capital resources; and
- additional reporting, at the option of the group-wide supervisor, of the ICS based on generally accepted accounting principles (GAAP) Plus valuation and/or an internal model-based capital requirement calculation.

The IAIS document also gives the information that the US National Association of Insurance Commissioners and the Federal Reserve Board are both developing an aggregation method to a group capital calculation, with the support of the Federal Insurance Office. Although this is not part of ICS version 2.0, the IAIS appreciates the significance of this development, and it will, therefore, collect data from interested jurisdictions that will aid in the development of the aggregation method. Through this approach, the IAIS aims to be in a position by the end of the monitoring period to assess whether the aggregation method provides comparable, that is, substantially the same outcomes to the ICS. If so, it will be considered an outcome-equivalent approach for implementation of the ICS as a PCR.

Overall, the IAIS believes that this approach will enable a collective response to the ultimate goal of providing comparable outcomes for the group-wide supervision of IAIGs across the world.

## SOLVENCY II

### **Implementing Regulations on reporting and disclosure published in the Official Journal**

On 25 November 2017, the texts of the following two European Commission Implementing Regulations were published in the Official Journal of the European Union:

- [Commission Implementing Regulation \(EU\) 2017/2189](#) of 24 November 2017 amending and correcting Implementing Regulation (EU) 2015/2450 laying down implementing technical standards (ITS) with regard to the templates for the submission of information to the supervisory authorities under the Solvency II Directive;
- [Commission Implementing Regulation \(EU\) 2017/2190](#) of 24 November 2017 amending and correcting Implementing Regulation (EU) 2015/2452 laying down ITS with regard to the procedures, formats and templates of the solvency and financial condition report according to the Solvency II Directive.

The Implementing Regulations will enter into force on the twentieth day following that of their publication in the Official Journal.

### **Commission Implementing Regulation on technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 September 2017 to 30 December 2017 published in the Official Journal**

On 14 November 2017, the [text](#) of Commission Implementing Regulation (EU) 2017/2015 of 9 November 2017 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 30 September 2017 to 30 December 2017 under the Solvency II Directive was published in the Official Journal of the European Union.

In order to ensure uniform conditions for the calculation of technical provisions and basic own funds by insurance and reinsurance undertakings, the Solvency II Directive requires that technical information

on relevant risk-free interest rate term structures, fundamental spreads for the calculation of the matching adjustment and volatility adjustments must be laid down for every reference date.

Insurance and reinsurance undertakings should use the technical information, which is based on market data related to the end of the last month preceding the first reporting reference date to which the Implementing Regulation applies. On 6 October 2017, the European Insurance and Occupational Pensions Authority provided the Commission with the technical information related to end of September 2017 market data. That information was published on 6 October 2017 in accordance with Article 77e(1) of the Solvency II Directive.

The Implementing Regulation enters into force on the day following that of its publication in the Official Journal. It applies from 30 September 2017.

### **Solvency II Delegated Regulation: EIOPA consults on second set of advice to the European Commission**

On 6 November 2017, EIOPA published a [consultation paper](#) on a second set of advice to the European Commission on specific items in the [Solvency II Delegated Regulation](#). This consultation focuses on the remaining elements in the review of the solvency capital requirement (SCR) standard formula not covered by the [advice](#) submitted to the Commission on 30 October 2017 (see below).

EIOPA is consulting on overarching aspects of the SCR standard formula and soliciting stakeholder feedback on key sub-modules such as:

- recalibration of standard parameters of premium and reserve risks;
- mortality, longevity, health catastrophe, man-made catastrophe, natural catastrophe and interest rate risks;
- market risk concentration;
- unrated debt and unrated equity;
- treatment of exposures to central counterparties under the Regulation on over-the-counter derivatives, central counterparties and trade repositories (known as EMIR);
- loss-absorbing capacity of deferred taxes;
- capital instruments only eligible as tier 1 up to 20% of total tier 1.

EIOPA's proposed advice is highlighted in a blue box towards the end of each chapter in the consultation paper.

Comments are requested by 5 January 2018. The outcome of the consultation will result in the second set of advice to be submitted to the Commission by the end of February 2018.

### **Solvency II Delegated Regulation: EIOPA first set of advice to the European Commission**

On 30 October 2017, EIOPA submitted its [first set of advice](#) to the European Commission on the review of specific items in the [Solvency II Delegated Regulation](#). The Commission had [requested](#) the advice in July 2016.

The advice relates to the following areas:

- simplified calculations;
- reducing reliance on external credit ratings;
- exposures guaranteed and exposures to regional governments and local authorities;
- risk-mitigation techniques;
- undertaking specific parameters;
- look-through for investment related undertakings;

- loss-absorbing capacity of deferred taxes: factual information only. This topic will be addressed further in EIOPA's second set of advice.

EIOPA published a [discussion paper](#) on the advice in December 2016 and a [consultation paper](#) in July 2017. It has published a [report](#) on the consultation and a [summary of comments](#) received showing where it has modified its advice in the light of these.

EIOPA is providing its advice in two sets. The second set will be sent to the Commission by the end of February 2018. The second set of advice will address the remaining items of the Commission call for technical advice, such as policy proposals on loss-absorbing capacity of deferred taxes to increase supervisory convergence, risk margin, catastrophe risks, non-life and life underwriting risks, non-proportional reinsurance covers, unrated debt and unlisted equity and own funds.

EIOPA says that the advice in the first set is in specified places subject to further update by the end of February 2018. Where this is not specified, the advice by EIOPA is final.

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