



EIOPA-CP-14/047

27 November 2014

Consultation Paper
on
the draft proposal for
Guidelines
on reporting and public disclosure

Table of Contents

RESPONDING TO THIS PAPER.....	3
CONSULTATION PAPER OVERVIEW & NEXT STEPS	4
1. GUIDELINES ON REPORTING AND PUBLIC DISCLOSURE	5
1. ANNEX I: IMPACT ASSESSMENT	44

Responding to this paper

EIOPA welcomes comments on the draft proposal for Guidelines on reporting and public disclosure.

Comments are most helpful if they:

- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA in the provided Template for Comments, by email Consultation_Set2@eiopa.europa.eu, by 2 March 2015.

Contributions not provided in the template for comments, or sent to a different email address, or after the deadline will not be processed.

Publication of responses

Contributions received will be published on EIOPA's public website unless you request otherwise in the respective field in the template for comments. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents and EIOPA's rules on public access to documents¹.

Contributions will be made available at the end of the public consultation period.

Data protection

Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. They will only be used to request clarifications if necessary on the information supplied.

EIOPA, as a European Authority, will process any personal data in line with Regulation (EC) No 45/2001 on the protection of the individuals with regards to the processing of personal data by the Community institutions and bodies and on the free movement of such data. More information on data protection can be found at www.eiopa.europa.eu under the heading 'Legal notice'.

¹[https://eiopa.europa.eu/fileadmin/tx_dam/files/aboutceiops/Public-Access-\(EIOPA-MB-11-051\).pdf](https://eiopa.europa.eu/fileadmin/tx_dam/files/aboutceiops/Public-Access-(EIOPA-MB-11-051).pdf)

Consultation Paper Overview & Next Steps

EIOPA carries out consultations in the case of Guidelines and Recommendations in accordance to Article 16 (2) of the EIOPA Regulation.

This Consultation Paper presents the draft Guidelines and explanatory text.

The analysis of the expected impact from the proposed policy is covered under Annex I Impact Assessment.

Next steps

EIOPA will consider the feedback received and expects to publish a Final Report on the consultation and to submit the Consultation Paper for adoption by the Board of Supervisors.

1. Guidelines on reporting and public disclosure

Introduction

- 1.1. According to Article 16 of Regulation (EU) 1094/2010 of 24 November 2010 (hereafter, EIOPA Regulation or the Regulation)² EIOPA is issuing Guidelines addressed to national competent authorities on reporting and public disclosure.
- 1.2. These Guidelines relate to Articles 35, 51, 53, 54, 55, 254 (2) and 256 of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance³ (hereinafter "Solvency II") and Articles 290 to 298, 305 to 311, 359 and 365 as well as to Annex XX of the Implementing Measures which set out the information that should be provided to the supervisory authorities in the regular supervisory report (RSR) and the information that should be publicly disclosed in the solvency and financial condition report (SFCR).
- 1.3. The Guidelines aim at giving further details as to what supervisory authorities should expect from insurance and reinsurance undertakings, participating insurance and reinsurance undertakings, insurance holdings companies and mixed financial holding companies with regards to:
 - a) the content of the SFCR;
 - b) the content of the RSR;
 - c) validations to be applied to the data submitted to the supervisory authorities using the quantitative reporting templates;
 - d) reporting in the case of predefined events;
 - e) undertaking's processes for public disclosure and supervisory reporting.
- 1.4. The Guidelines on the content of the SFCR and the RSR are aimed at harmonising public disclosure and supervisory reporting, to the extent that further clarification and detail in addition to the Implementing Measures are needed, by specifying the minimum content of selected sections of the reports.
- 1.5. Unless otherwise stated, the Guidelines addressing the individual undertakings apply to individual insurance and reinsurance undertakings, to third country branches, to participating insurance and reinsurance undertakings, insurance holdings companies and mixed financial holding companies.
- 1.6. Where applicable, the Guidelines in both the SFCR and the RSR sections apply to third country branches when producing their RSR.
- 1.7. In addition, the guidelines concerning groups apply to participating insurance and reinsurance undertakings, insurance holdings companies and mixed financial holding companies when producing the group SFCR and group RSR or the single SFCR.

² OJ L 331, 15.12.2010, p. 48-83

³ OJ L 335, 17.12.2009, p. 1-155

- 1.8. Unless otherwise stated, these Guidelines apply to all undertakings regardless of whether they are using the standard formula, an internal model or a partial internal model to calculate the Solvency Capital Requirement.
- 1.9. The Guidelines include a specific guideline about data checks that should be followed by undertakings when submitting their reporting to the supervisoru authorities. Technical Annex 1 specifies the list of these data-checks.
- 1.10. The Guidelines on predefined events, which apply to both individual undertakings and to groups, are aimed at further specifying the requirements set out in Article 35 (2)(a) (ii) and 245(2) of Solvency II.
- 1.11. If not defined in these Guidelines, the terms have the meaning defined in the legal acts referred to in the introduction.
- 1.12. The Guidelines shall apply from 1 January 2016.

Section I -Solvency and Financial Condition Report

Guideline 1 - Business

- 1.13. Under section "Business" (A.1) of Annex XX of the Implementing Measures, insurance and reinsurance undertakings should disclose at least the following information regarding their business:
- a) The name and location of the legal or the natural persons that are direct and indirect holders of qualifying holdings in the undertaking (including the immediate and ultimate parent entity or natural person), the proportion of ownership interest held and, if different, the proportion of voting rights held;
 - b) A list of material related undertakings including the name, legal form, country, proportion of ownership interest and, if different, proportion of voting power held;
 - c) A simplified organisational structure chart.

Guideline 2 - Governance Structure

- 1.14. Under section "General information on the system of governance" (B.1) of Annex XX of the Implementing Measures, insurance and reinsurance undertakings should disclose at least the information explaining how risk management, internal audit, compliance and actuarial functions are integrated into the organisational structure and the decision making processes of the undertaking.
- 1.15. This information should include an explanation of how the functions have the necessary authority, resources, professional qualifications, knowledge, experience and operational independence to carry out their tasks and how they report to and advise the administrative, management or supervisory body of the insurance and reinsurance undertaking (hereinafter "AMSB").

Guideline 3 - Risk management system

- 1.16. Under section "Risk management system including the own risk and solvency assessment" (B.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, when explaining how the risk management function is integrated in their organisational structure and in the decision-making process and when using a partial or a full internal model approved in accordance with Articles 112 and 113 of Solvency II to calculate the Solvency Capital Requirement, disclose at least information addressing the governance of the internal model, including:
- a) Responsible persons and specific committees if any, their main roles, position and scope of responsibilities;
 - b) The way existing committees interact with the AMSB in order for the latter to meet Article 116 of Solvency II;
 - c) Material changes to the internal model governance during the reporting period;
 - d) A description of the validation process of the internal model to monitor its performance and its on-going appropriateness.

Guideline 4 - Underwriting risk

1.17. Under section "Underwriting risk" (C.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, in relation to the use of special purpose vehicles, disclose at least information on whether the special purpose vehicle is authorized under Article 211 of Solvency II, what risks are transferred to it and how the fully funded principle is assessed on an ongoing basis.

Guideline 5 – Assets – Information on aggregation by class

1.18. Under section "Assets" (D.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, when aggregating assets into classes, in order to describe the valuation basis that has been applied to them, aggregate assets into classes based on the nature, function, risk and materiality for solvency purposes of the assets.

1.19. Classes other than those used in the Solvency II balance sheet template should only be used if the undertaking can demonstrate to the supervisory authority that another presentation is clearer and more relevant.

Guideline 6 – Content by material classes of assets and liabilities other than technical provisions

1.20. Under section "Assets" (D.1) of Annex XX of the Implementing Measures, insurance and reinsurance undertakings should, in relation to each material class of asset and liability other than technical provisions, disclose at least quantitative and qualitative information on:

- a) Recognition and valuation basis applied, including methods and inputs used;
- b) Any changes made to the recognition and valuation bases used or on estimations during the period;
- c) Assumptions and judgments including those about the future and other major sources of estimation uncertainty.

Guideline 7 – Valuation of material intangible assets

1.21. Under section "Assets" (D.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose, where they value intangible assets at an amount other than zero and the amount is material, at least the following information:

- a) The nature of the assets;
- b) Information on the evidence and criteria they have used to conclude that an active market exists for those assets.

Guideline 8 – Valuation of material financial assets

1.22. Under section “Assets” (D.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose regarding material financial assets, where relevant:

- a) The criteria used to assess whether markets are active;
- b) If they are inactive, a description of the valuation model used;
- c) Significant changes to valuation models used and to model inputs, including the impact of and reasons for the change.

Guideline 9 – Valuation of material financial and operating leases

1.23. Under section “Assets” (D.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose, separately in relation to material classes of assets subject to financial leases and operating leases, at least a general description of their leasing arrangements, separately disclosing information for financial leases and operating leases.

Guideline 10 – Valuation of material deferred taxes assets and liabilities

1.24. Under section “Assets” (D.1) and “Other liabilities” (D.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose, regarding material deferred taxes assets and liabilities:

- a) The origin of the recognition of deferred tax assets and liabilities;
- b) The amount and expiry date if applicable, of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset and liability is recognised in the balance sheet.

Guideline 11 – Valuation of related undertakings

1.25. Under section “Assets” (D.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose, where related undertakings were not valued using quoted market prices in active markets or the adjusted equity method, an explanation why the use of these methods was not possible or practical.

Guideline 12 – Valuation of technical provisions

1.26. Under section “Technical provisions” (D.2) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose the significant simplified methods used to calculate technical provisions, including deriving the risk margin.

Guideline 13 – Liabilities other than technical provisions – information on aggregation by class

1.27. Under section “Other liabilities” (D.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, when aggregating other liabilities than technical provisions into classes, in order to describe the

valuation basis that has been applied to them, aggregate these liabilities based on their nature, function, risk and materiality for solvency purposes.

- 1.28. Classes other than those used in the Solvency II balance sheet template should only be used if the undertaking can demonstrate to the supervisory authority that another presentation is clearer and more relevant.

Guideline 14 – Valuation of material lease liabilities

- 1.29. Under section “Other liabilities” (D.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose at least a general description of material liabilities arising as a result of leasing arrangements, separately disclosing information on financial and operating leases.

Guideline 15 – Valuation of material provisions other than technical provisions and contingent liabilities

- 1.30. Under section “Other liabilities” (D.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose at least the following information regarding material contingent liabilities and provisions other than technical provisions, separately:
- a) The nature of the obligation and, if known, expected timing of any outflows of economic benefits;
 - b) An indication of uncertainties surrounding the amount or timing of the outflows of economic benefits and how deviation risk was taken into account in the valuation.

Guideline 16 – Valuation of material employee benefits

- 1.31. Under section “Other liabilities” (D.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose at least the following information regarding material employee benefits:
- a) The nature of the obligations with employee benefits and a breakdown of the amounts by nature of obligations;
 - b) The nature of the defined benefit plan assets, the amount of each class of assets, the percentage of each class of assets of the total defined benefit plan assets, including reimbursement rights.

Guideline 17 - Own funds – Solvency ratio

- 1.32. Under section “Own funds” (E.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose at least their solvency ratio, calculated as eligible own funds as a percentage of the Solvency Capital Requirement.
- 1.33. Where undertakings disclose additional ratios, because they believe that the ratios are relevant to providing an understanding of their solvency position and are compatible with the solvency ratio, undertakings should:

- a) Clearly explain in the SFCR the additional ratio;
- b) Ensure that the additional ratios do not divert attention from the disclosure of the solvency ratio.

Guideline 18 - Own funds – Information on the structure, amount, quality and eligibility of own funds

1.34. Under section "Own funds" (E.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose at least the following information regarding their own funds:

- a) in relation to the information on structure, amount and quality of own funds, the information required in Article 297 (1) of the Implementing Measures should be provided for each own fund item set out in Article 69, Article 72, Article 74, Article 76 and Article 78, as well as for items that received supervisory approval as per Article 79 of the Implementing Measures distinguishing between basic and ancillary own fund items;
- b) for each own fund item, the extent to which it is available, subordinated, as well as its duration and any other features that are relevant for assessing its quality;
- c) an analysis of significant changes to own funds, including the value of own fund items issued during the year, the value of instruments redeemed during the year, and the extent to which the issuance has been used to fund redemption;
- d) in relation to subordinated debt, an explanation of the changes arising from movements in the risk free rate and, if relevant, from fluctuations between the currency in which the subordinated debt is issued and the reporting currency;
- e) when disclosing information on the amount of own funds eligible to cover the Solvency Capital Requirement and Minimum Capital Requirement classified by tier, an explanation of any restrictions to available own funds and the impact of limits on eligible Tier 2 and Tier 3 capital, and on restricted Tier 1 capital;
- f) details of the principal loss absorbency mechanism used to comply with Article 71 (1)(e) of the Implementing Measures, including the trigger point, and its effects so that all providers of own funds items are aware of the potential impact;
- g) an explanation of the key elements of the reconciliation reserve;
- h) for each basic own fund item subject to the transitional arrangements:
 - i. the tier into which each has been classified and why;
 - ii. the date of the next call and the regularity of any subsequent call dates, or the fact that no call dates fall until after the end of the transitional period.
- i) when disclosing information on the description of each material ancillary own fund item, information on the form of arrangement and the nature of the basic own funds items it would become on being called up or satisfied, including the tier, as well as when the item was agreed by the supervisory authority and for how long.
- j) where a method has been used to determine the amount of an ancillary own fund item, undertakings should disclose:
 - i. how the valuation provided by the method has varied over time;

- ii. which inputs to the methodology have been the principal drivers for this movement;
 - iii. the extent to which the method takes account of past experience, including the outcome of past calls, and how the amount calculated is affected.
- k) Regarding items deducted from own funds:
- i. the total excess of assets over liabilities within ring-fenced funds, identifying the amount for which an adjustment is made in determining available own funds;
 - ii. the extent of and reasons for significant restrictions on, deductions from or encumbrances of own funds.

Guideline 19 - Differences between the standard formula and any internal models used

1.35. Under section "Differences between the standard formula and any internal model used" (E.4) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should consider, when disclosing the main differences in methodologies and underlying assumptions used in the standard formula and in the internal model, at least the following:

- a) Structure of the model;
- b) Aggregation methodologies and diversification effects;
- c) Risks not covered by the standard formula but covered by the internal model.

Group SFCR

Guideline 20: Information on the scope of the group

1.36. Under section "Business" (A.1) of Annex XX of the Implementing Measures participating insurance and reinsurance undertakings, insurance holding companies and mixed financial holding companies should disclose an explanation of material differences between the scope of the group used for the financial consolidated accounts and those used for the consolidated data determined in accordance with Article 335 of the Implementing Measures.

Guideline 21 - Information on own funds - groups

1.37. Under section "Own funds" (E.1) of Annex XX of the Implementing Measures, participating insurance and reinsurance undertakings, insurance holding companies and mixed financial holding companies should disclose at least the following information regarding the group's own funds:

- a) The own funds items that have been issued by an undertaking of the group other than the participating insurance and reinsurance undertakings, insurance holding company or mixed financial holding companies;
- b) Where own fund items are denominated at the individual level in a currency other than the local currency, details should be provided identifying those own funds, their issuing undertaking, the currency in which they are denominated, and a reconciliation between the value of the own funds in the two currencies;
- c) Where the own funds are issued by an equivalent third country insurance or reinsurance undertaking included via the Deduction and Aggregation method, if

- the member state allows the use of local rules, the local tiering of those own funds, including information on the tiering structure, criteria and limits;
- d) Where the own funds are issued by an undertaking that is not a insurance or reinsurance undertaking and is subject to tiering requirements other than Solvency II requirements, the source and nature of those tiering requirements, as well as the level of the own funds in each tier;
 - e) How group own funds have been calculated net of any intra-group transactions, including intra-group transactions with entities of other financial sectors;
 - f) The nature of the restrictions to the transferability and fungibility of own funds in the related undertakings, if any.

Section II – Regular Supervisory Reporting

Guideline 22 - Business

- 1.38. Under section “Business” (A.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, when providing information regarding their business, include information on:
- a) the number of full time equivalent employees;
 - b) a list of all subsidiaries, related undertakings and branches;
 - c) information on internal organisational structures, including a detailed organisational structure chart and positions of key function holders;
 - d) distributions made to shareholders.

Guideline 23 - Underwriting performance

- 1.39. Under section “Underwriting performance” (A.2) of the Implementing Measures insurance and reinsurance undertakings should, when providing information on risk mitigation techniques related to underwriting activities, include a description of:
- a) the impact of the mitigation techniques on underwriting performance; and
 - b) the effectiveness of the risk mitigation techniques.

Guideline 24 – Intra-group transactions

- 1.40. Under section “Any other information” (A.5) of Annex XX of the Implementing Measures, insurance and reinsurance undertakings belonging to a group should provide qualitative and quantitative information regarding relevant operations and significant transactions within the group including information on:
- a) The amount of the operations and transactions;
 - b) The amount of outstanding balances, if any;
 - c) Relevant terms and conditions of the operations and transactions.

Guideline 25 - Governance structure – remuneration policies and practices

- 1.41. Under section “General information on the system of governance” (B.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should explain how the undertaking’s remuneration policies and practices are consistent with and promote sound and effective risk management

and do not encourage excessive risk taking. The information should focus on the linkage between remuneration and performance.

Guideline 26 - Risk management system

1.42. Under section "Risk management system including the own risk and solvency assessment" (B.3) of Annex XX of the Implementing Measures of the RSR insurance and reinsurance undertakings should, when providing information on the strategies, objectives, processes and reporting procedures of the undertaking's risk management for each separate category of risk, explain how these are documented, monitored and enforced.

Guideline 27 - Risk profile

1.43. Under section "Risk management system including the own risk and solvency assessment" (B.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, within the information on risk exposure, explain how they ensure that derivatives contribute to the reduction of risks or facilitate efficient portfolio management.

Guideline 28 – Risk mitigation techniques

1.44. Under section "Other material risks" (C.6) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, within the information on the risk mitigation techniques used, where the undertaking selected 'Other' in item "C0140 - Type of underwriting model" in template S.30.03, an explanation of the underwriting model applied.

Guideline 29 - Reinsurance and financial mitigation techniques and future management actions

1.45. Under section "Other material risks" (C.6) of Annex XX of the Implementing Measures , insurance and reinsurance undertakings should include details of any allowance for reinsurance and financial mitigation techniques and future management actions used in the Solvency Capital Requirement calculation and how these have met the criteria for recognition.

Guideline 30 - Any other information

1.46. Under section "Any other information" (C.7) of Annex XX of the Implementing Measures, insurance and reinsurance undertakings should provide at least a description of the risk factors considered when investing in structured products. These should include the factors that may negatively affect the value and return of the structured products, in particular and where applicable:

- a) Existence of principal protection;
- b) Credit risk arising from the structured product, if not mitigated by other instruments;
- c) Lack of liquidity;
- d) Description of the index formula of the option-like component of a structured product.

Guideline 31 – Valuation of deferred tax assets

- 1.47. Under section “Assets” (D.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should explain, when deferred tax assets are recognised, how they assess the probability of future taxable profits, where applicable, and identify the amount and expected time horizons for reversal of temporary differences.
- 1.48. Insurance and reinsurance undertakings should also include an explanation where they were not able to provide a maximum value on any unlimited guarantees they provided in the quantitative reporting templates S.03.03 detailing the list of unlimited guarantees.

Guideline 32 - Technical provisions

- 1.49. Under section “Technical provisions” (D.2) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should provide information on technical provisions including:
- a) Details of the relevant actuarial methodologies and assumptions used in the calculation of the technical provisions including details of any simplifications used (including in calculating the future premiums and risk margin and its allocation to the single lines of business) and including a justification that the method chosen is proportionate to the nature, scale and complexity of the undertaking’s risks including the reasons for any material changes in the use of those methods;
 - b) An explanation of the contract boundaries applied to each different business in the valuation of technical provisions, and details of any contracts that include significant renewals within existing business;
 - c) Details of the key options and guarantees within the calculation of the technical provisions and the significance of each and how they are evolving;
 - d) An overview of any material changes in the level of technical provisions since the last reporting period, including reasons for material changes, especially the rationale of material changes in assumptions.
 - e) Material changes in lapse rates;
 - f) Details of the homogeneous risk groups used to calculate the technical provisions;
 - g) Any recommendations on the implementation of improvements in the internal procedures in relation to data that are considered relevant;
 - h) Information about any significant data deficiencies and adjustments;
 - i) A description of the technical provisions that have been calculated as a whole;
 - j) A description of where unbundling has been used;
 - k) Details of the Economic Scenario Generator, including an explanation of how consistency to the risk free rate has been achieved and which volatility assumptions have been chosen;
 - l) Details of the approach taken to calculate reinsurance recoverables.

Guideline 33 – Off-balance sheet items

1.50. Under section “Any other information” (D.5) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should include a description of the contingent liabilities for which a maximum value cannot be reported in template S.03.01.

Guideline 34 - Any other material information

1.51. Under section “Any other information” (D.5) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, within the description of the nature and appropriateness of the key data used, disclose at least a description of the process in place for checking data quality.

Guideline 35 – Simplified calculation in the standard formula

1.52. Under section “Solvency Capital Requirement and Minimum Capital Requirement” (E.2) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose at least information on how the use of a simplified calculation in the standard formula of the Solvency Capital Requirement is justified by the nature, scale and complexity of the risks faced by the undertaking.

Group RSR

Guideline 36 - Any other material information on business

1.53. Under section “Any other information” (A.5) of Annex XX of the Implementing Measures, participating insurance and reinsurance undertakings, insurance holding companies and mixed financial holding companies should provide information on the terms and conditions of the intra-group operations and transactions including information on:

- a) Commercial rationale for the operation or transaction;
- b) Risks borne by, and rewards available to, each party to the operation or transaction;
- c) Any particular aspects of the operation or transaction that are (or may become) disadvantageous to either party;
- d) Any conflicts of interest that may have arisen in negotiating and executing the operation or transaction, and any potential conflicts of interest that may arise in the future;
- e) If the transaction is linked to other operations or transactions in terms of timing, function and planning, the individual effect of each operation or transaction and the overall net impact of the linked operations and transactions on each party to the operation or transaction and on the group should be reported;
- f) Extent to which the operation or transaction is depending on a winding-up and circumstances in which the operation or transaction can be executed.

Guideline 37 - Risk profile

- 1.54. Under section "Other material risks" (C.6) of Annex XX of the Implementing Measures, participating insurance and reinsurance undertakings, insurance holding companies and mixed financial holding companies should provide qualitative and quantitative information on any significant risk concentration at the level of the group, including:
- a) A description of the risk(s);
 - b) Probability of risks materialising;
 - c) Mitigation actions including an assessment of a worst case scenario in case of default of the exposure;
 - d) Analysis and quantification of the risk concentrations along legal entity lines;
 - e) Consistency with the group's business model, risk appetite and strategy, including compliance with the limits set by the internal control system and risk management processes of the group;
 - f) Whether losses arising from risk concentrations affect not just the overall profitability of the group but also its short-term liquidity;
 - g) Relationship, correlation and interaction between risk factors across the group, and any potential spillover effects from risk concentrations in a particular area;
 - h) Specific information about the group counterparty and the exposure (nature/country of exposure, rating/rating agency, ID code and sector of issuer);
 - i) Quantitative information about the risk concentration and the effect on the undertaking and the group and the effect of reinsurance contracts;
 - j) Whether the item concerned is an asset or a liability or if it is an off-balance sheet item.

Guideline 38 - Any other material information

- 1.55. Under section "Any other information" (D.5) of Annex XX of the Implementing Measures participating insurance and reinsurance undertakings, insurance holding companies and mixed financial holding companies should provide at least information on how the group's consolidated, aggregated or combined data (depending on the method used) that is compliant with Solvency II rules has been prepared as well as the processes in place to prepare it.

Section III - Supervisory reporting following pre-defined events

Guideline 39 - Identification and trigger for reporting of pre-defined events

- 1.56. Insurance and reinsurance undertakings should immediately notify in writing the supervisory authority about the occurrence of any events which could reasonably lead or have already led to material changes in an undertaking's or a group's business and performance, system of governance, risk profile, and solvency and financial position (hereinafter "pre-defined event"). In case of doubt, insurance and reinsurance undertakings should consult with the supervisory authorities on whether a given event would classify as a pre-defined event.

Guideline 40 - Supervisory reporting following pre-defined events – additional ORSA

1.57. Insurance and reinsurance undertakings should also consider as a pre-defined event the decision to perform an additional ORSA in accordance with Article 45(5) of Solvency II on account of a significant change in their risk profile.

Section IV - Public Disclosure and Supervisory Reporting Processes

Guideline 41 - Public disclosure policy

1.58. Insurance and reinsurance undertakings should have a public disclosure policy that complies with Guideline 7 of the Guidelines on System of Governance, and which additionally includes the following:

- a) details of the persons/functions responsible for preparing and reviewing the public disclosures and reports to the supervisory authorities;
- b) the processes for completion of the various disclosure requirements and for review and approval by the AMSB;
- c) information already available in the public domain that the insurance and reinsurance undertaking believe is equivalent in nature and scope to the information requirements in the SFCR;
- d) specific information that the insurance and reinsurance undertaking intends not to disclose under the circumstances set out in Article 53(1) of Solvency II;
- e) additional information that the undertaking has decided to voluntarily disclose under Article 54 (2) of the Directive.

Guideline 42 - SFCR - Non-disclosure of information

1.59. Insurance and reinsurance undertakings should not set up obligations to policyholders or other counterparty relationships binding an insurance and reinsurance undertaking to secrecy or confidentiality in order to avoid disclosure of information in the SFCR.

Guideline 43 - RSR – Format of reporting

1.60. Insurance and reinsurance undertakings should report the data formalised in the quantitative reporting templates and considering the data point modeling as published by EIOPA.

Guideline 44 – Data checks

1.61. Insurance and reinsurance undertakings should ensure that the data submitted to the supervisory authorities complies with the data checks identified in Technical Annex 1.

Guideline 45 - RSR – References to other documents

1.62. When insurance and reinsurance undertakings make references in the RSR to other documents that are subject to reporting to their supervisory authorities,

these should be done through references that lead directly to the information itself and not to a general document.

- 1.63. Insurance and reinsurance undertakings should not use in the RSR references to other documents that are not subject to reporting to their supervisory authorities.

Guideline 46 - Reporting policy

- 1.64. Insurance and reinsurance undertakings should ensure that the reporting policy complies with Guideline 7 of the Guidelines on System of Governance, and additionally:

- a) detail which business unit is responsible for drafting any reporting to the supervisory authorities along with those business units which are responsible for reviewing the reporting;
- b) set out processes and timeline for completion of the various reporting requirements, review and approval; explain the processes and controls for guaranteeing the reliability, completeness and consistency of the data provided.

Guideline 47 – Approval of information to be submitted to the supervisory authorities

- 1.65. Insurance and reinsurance undertakings should have the transitional information, the RSR and the annual quantitative reporting templates approved by the AMSB before submitting them to the supervisory authority concerned.
- 1.66. Insurance and reinsurance undertakings should have the quarterly quantitative templates that are reported to the supervisory authorities, approved either by the AMSB or by persons who effectively run the insurance and reinsurance undertaking before submitting them to the supervisory authority concerned.

Compliance and Reporting Rules

- 1.67. This document contains Guidelines issued under Article 16 of the EIOPA Regulation. In accordance with Article 16(3) of the EIOPA Regulation, Competent Authorities and financial institutions shall make every effort to comply with guidelines and recommendations.
- 1.68. Competent authorities that comply or intend to comply with these Guidelines should incorporate them into their regulatory or supervisory framework in an appropriate manner.
- 1.69. Competent authorities shall confirm to EIOPA whether they comply or intend to comply with these Guidelines, with reasons for non-compliance, within two months after the issuance of the translated versions.
- 1.70. In the absence of a response by this deadline, competent authorities will be considered as non-compliant to the reporting and reported as such.

Final Provision on Reviews

1.71. The present Guidelines shall be subject to a review by EIOPA.

2. Explanatory text

Section I -Solvency and Financial Condition Report

Guideline 1 - Business

Under section "Business" (A.1) of Annex XX of the Implementing Measures, insurance and reinsurance undertakings should disclose at least the following information regarding their business:

- a) The name and location of the legal or the natural persons that are direct and indirect holders of qualifying holdings in the undertaking (including the immediate and ultimate parent entity or natural person), the proportion of ownership interest held and, if different, the proportion of voting rights held;**
 - b) A list of material related undertakings including the name, legal form, country, proportion of ownership interest and, if different, proportion of voting power held;**
 - c) A simplified organisational structure chart.**
- 2.1. Where undertakings form part of a financial conglomerate, information on the name and contact details of the supervisory authority responsible for financial supervision of the undertaking and, where applicable, the name and contact details of the supervisor of the group to which the undertaking belongs, refers not only to the identification of the group supervisor (at insurance group level), but also to the coordinator appointed from amongst the competent authorities involved in the supervision of the financial conglomerate.
- 2.2. The simplified structure chart explains the ownership and legal links between the undertaking and, on the one hand, its parent and ultimate parent entity and, on the other hand, its material subsidiaries and significant investments in joint controlled entities and associates.
- 2.3. Information on any significant business or other events that have occurred over the reporting period that have had a material impact on the undertaking includes information on new lines of business, business combinations, portfolio transfers, changes in ownership interest, loss of control over subsidiaries, significant restrictions over subsidiaries (e.g. ability to transfer funds) and other events which may have a material impact on the undertaking in terms of risks or management.

Underwriting performance

- 2.4. When referring to section A.2 of the SFCR undertakings are expected to always refer to Solvency II lines of business, in line with the content of template S.05.01.

Guideline 2 - Governance Structure

Under section "General information on the system of governance" (B.1) of Annex XX of the Implementing Measures, insurance and reinsurance undertakings should disclose at least the information explaining how risk management, internal audit, compliance and actuarial functions are integrated into the organisational structure and the decision making processes of the undertaking.

The information should include an explanation of how the functions have the necessary authority, resources, professional qualifications, knowledge, experience and operational independence to carry out their tasks and how they report to and advise the administrative, management or supervisory body of the insurance and reinsurance undertaking (hereinafter "AMSB").

- 2.5. By including the general information on how the four functions are implemented and integrated into the organisational structure and decision-making processes of the undertaking, the undertaking also explicitly discloses information that allows understanding of the status and resources of the four functions within the undertaking.

Guideline 3 - Risk management system

Under section "Risk management system including the own risk and solvency assessment" (B.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, when explaining how the risk management function is integrated in their organisational structure and in the decision-making process and when using a partial or a full internal model approved in accordance with Articles 112 and 113 of Solvency II to calculate the Solvency Capital Requirement, disclose at least information addressing the governance of the internal model, including:

- a) Responsible persons and specific committees if any, their main roles, position and scope of responsibilities;**
- b) The way existing committees interact with the AMSB in order for the latter to meet Article 116 of Solvency II;**
- c) Material changes to the internal model governance during the reporting period; and**
- d) A description of the validation process of the internal model to monitor its performance and its on-going appropriateness.**

- 2.6. Without a description of the internal model governance a knowledgeable person will not achieve a reasonably good understanding of the design, the use and the reliability of the internal model. Whereas there is no specific requirement for undertakings to have committees in the governance of their internal model, EIOPA expects that this may be the case for many undertakings intending to use an internal model to calculate the SCR.

- 2.7. Processes for accepting changes to the internal model: this a key feature of the internal model governance which ensures that internal models continuously reflect the risk profile of undertakings, incorporate better risk management practices and comply with the internal model requirements.

- 2.8. Validation system is by definition a set of tools that increase the confidence in internal models and the primary source to test their robustness, stability and to identify potential weaknesses or circumstances where internal models may not perform effectively. A rigorous, independent set of validation tools will increase stakeholders confidence in the reliability of the internal model; public disclosure of all validation tools will increase validation standards across the market.

Guideline 4 - Underwriting risk

Under section “Underwriting risk” (C.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, in relation to the use of special purpose vehicles, disclose at least information on whether the special purpose vehicle is authorized under Article 211 of Solvency II, what risks are transferred to it and how the fully funded principle is assessed on an ongoing basis.

- 2.9. The information disclosed allows an understanding of the possible transfer of risks to any kind of Special Purpose Vehicle (SPV) (i.e. including SPVs which are established in the EEA, or in a non-EEA country, whether or not the supervisory regime of this non-EEA country has been found equivalent to the European regime).

Guideline 5 – Assets – Information on aggregation by class

Under section “Assets” (D.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, when aggregating assets into classes, in order to describe the valuation basis that has been applied to them, aggregate assets into classes based on the nature, function, risk and materiality for solvency purposes of the assets.

Classes other than those used in the Solvency II balance sheet template should only be used if the undertaking can demonstrate to the supervisory authority that another presentation is clearer and more relevant.

- 2.10. Using the classes contained on the Solvency II balance sheet template has the advantage of ensuring consistency between the narrative and quantitative information disclosed, aiding transparency and comparability between the methods used and the amounts.
- 2.11. If undertakings use a different asset aggregation they need to explain the rationale and ensure that the information is understandable and reconcilable.

Guideline 6 – Content by material classes of assets and liabilities other than technical provisions

Under section “Assets” (D.1) of Annex XX of the Implementing Measures, insurance and reinsurance undertakings should, in relation to each material class of asset and liability other than technical provisions, disclose at least quantitative and qualitative information on:

- a) **Recognition and valuation basis applied, including methods and inputs used;**
 - b) **Any changes made to the recognition and valuation bases used or on estimations during the period;**
 - c) **Assumptions and judgments including those about the future and other major sources of estimation uncertainty.**
- 2.12. Undertakings describe, by asset classes, the recognition and measurement basis chosen in the Solvency II balance sheet as a good representation of economic value (e.g. fair value, revaluation model, equity method) in line with the Directive. In doing so undertakings also describe the judgements made, other than estimations, which could materially affect the amounts recognised (e.g. investment objectives, substance of the relationship with a SPV).
- 2.13. Undertakings have to disclose the methodology used to estimate the effects of uncertain future events on assets (e.g. risk adjustment to cash-flows or discount rates) in the Solvency II balance sheet.
- 2.14. Where the recognition and/or valuation basis of assets in the Solvency II balance sheet has changed during the period, undertakings describe the nature and reasons for these changes, the amount of the adjustment for the current and prior period, and how these changes affect the asset valuation.

Property

- 2.15. In cases where the IFRS revaluation model is used as a good representation of the economic value, undertakings clearly disclose that.
- 2.16. Information about methods and significant assumptions applied in determining the economic value states whether the valuation is supported by market evidence or if it is more heavily based on other facts. If the latter, these facts are described including the rationale.

Inventories

- 2.17. When undertakings included the net realisable value in the Solvency II balance sheet because they consider where the differences between the net realisable value (calculated in accordance with IAS 2) and fair value to be immaterial, this is clearly identified.

Guideline 7 – Valuation of material intangible assets

Under section “Assets” (D.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose, where they value intangible assets at an amount other than zero and the amount is material, at least the following information:

- a) **The nature of the assets;**
- b) **Information on the evidence and criteria they have used to conclude that an active market exists for those assets.**

- 2.18. The undertaking's assessment that the intangibles can be sold separately.
- 2.19. Where an economic value is ascribed to intangible assets the undertaking indicates how this value is supported by quoted market prices from an active market for the same or similar assets.
- 2.20. Intangibles and goodwill valued at zero do not need to be described unless the undertaking or supervisory authority considers it necessary to achieve a faithful representation of the effect of the relevant transactions or other events.

Guideline 8 – Valuation of material financial assets

Under section "Assets" (D.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose regarding material financial assets, where relevant:

- a) **The criteria used to assess whether markets are active;**
 - b) **If they are inactive, a description of the valuation model used;**
 - c) **Significant changes to valuation models used and to model inputs, including the impact of and reasons for the change.**
- 2.21. Undertakings disclose information about methods and assumptions applied in determining the economic value including a clear identification of which assets were valued according to the following approaches:
 - quoted prices in active markets for identical assets;
 - quoted prices in active markets for similar assets;
 - inputs other than quoted prices in active markets for identical or similar assets, that are observable for the asset directly (i.e. as prices) or indirectly (i.e. derived from prices);
 - inputs not based on observable market data.
 - 2.22. Where inputs used are not based on observable market data, undertakings need to provide a narrative description of the sensitivity of the value to changes in unobservable inputs if a change might result in a significantly higher or lower value, and a narrative description of the possible interrelationships between those inputs and other unobservable inputs and of how they might magnify or mitigate the effect of changes in unobservable inputs using a fair value measurement approach.
 - 2.23. Disclosure of the impact of significant changes in valuation inputs includes a sensitivity analysis showing how those changes affect the asset valuation and basic own funds.

Guideline 9 – Valuation of material financial and operating leases

Under section "Assets" (D.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose, separately in relation to material classes of assets subject to financial leases and operating leases, at least a general description of their leasing arrangements, separately disclosing information for financial leases and operating leases.

- 2.24. The information on lease assets is separately disclosed under the subheadings of lessors and lessees.
- 2.25. Undertakings may disclose the information on lease assets and liabilities together if they wish.

Guideline 10 – Valuation of material deferred taxes assets and liabilities

Under section “Assets” (D.1) and “Other liabilities” (D.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose, regarding material deferred taxes assets and liabilities:

- a) The origin of the recognition of deferred tax assets and liabilities;**
- b) The amount and expiry date if applicable, of deductible temporary differences, unused tax losses and unused tax credits for which no deferred tax asset and liability is recognised in the balance sheet.**

- 2.26. Undertakings disclose information regarding deferred tax assets including the following:
- The nature of the evidence supporting the recognition of deferred tax assets;
 - Whether utilisation of deferred tax assets depends on projected future taxable profits in excess of those profits arising from the reversal of existing taxable temporary differences;
 - Actual tax losses suffered by the undertaking in either the current or preceding period in the tax jurisdiction to which the deferred taxes assets relate.
- 2.27. Where applicable tax rates have changed since the previous period, undertakings explain the changes and their effect on the deferred taxes.
- 2.28. The information provided covers in particular closing procedures for providing Solvency II figures.

Guideline 11 – Valuation of related undertakings

Under section “Assets” (D.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose, where related undertakings were not valued using quoted market prices in active markets or the adjusted equity method, an explanation why the use of these methods was not possible or practical.

- 2.29. Undertakings are expected to be able to exercise sufficient control over subsidiaries to allow them to obtain the information necessary to apply the adjusted equity method. Therefore, if neither market price nor adjusted equity method have been used in the valuation of any subsidiary, then the undertaking explains (if it has not already been covered in the SFCR) why not.

Guideline 13 – Liabilities other than technical provisions – Information on aggregation by class

Under section “Other liabilities” (D.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, when aggregating other liabilities than technical provisions into classes, in order to describe the valuation basis that has been applied to them, aggregate these liabilities based on their nature, function, risk and materiality for solvency purposes.

Classes other than those used in the Solvency II balance sheet template should only be used if the undertaking can demonstrate to the supervisory authority that another presentation is clearer and more relevant.

2.30. The Explanatory text of Guideline 5 is applicable to the aggregation of liabilities into classes.

Financial liabilities

2.31. When explaining the differences between the values on the Solvency II balance sheet and the general purpose financial statements, undertakings outline, where applicable, the impact of (changes in) its own credit risk.

2.32. Undertakings explain how they determine the spread of credit when financial liabilities were originated and the risk free rate used for valuation purposes.

Guideline 14 – Valuation of material lease liabilities

Under section “Other liabilities” (D.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose at least a general description of material liabilities arising as a result of leasing arrangements, separately disclosing information on financial and operating leases.

2.33. The information on lease liabilities is separately disclosed under the subheadings of lessors and lessees.

2.34. Undertakings explain how the valuation in accordance with IFRS has been adjusted to reflect market consistent rates of interest and the need to take into account changes in its own credit standing.

2.35. Undertakings may disclose the information on lease assets and liabilities together if they wish.

Guideline 15 – Valuation of material provisions other than technical provisions and contingent liabilities

Under section “Other liabilities” (D.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose at least the following information regarding material contingent liabilities and provisions other than technical provisions, separately:

a) The nature of the obligation and, if known, expected timing of any outflows of economic benefits;

b) An indication of uncertainties surrounding the amount or timing of the outflows of economic benefits and how deviation risk was taken into account in the valuation.

- 2.36. Undertakings disclose cases where no amount is recognised either in the general purpose financial statements or Solvency II balance sheet because no reliable estimate is possible.
- 2.37. Undertakings disclose cases where market value of liabilities have not been adjusted for changes in an entity's own credit risk and explain the reason for this.
- 2.38. Undertakings also disclose information about interest rate used, risk adjustment (including risk premium) and other major assumptions made concerning future events.

Guideline 16 – Valuation of material employee benefits

Under section “Other liabilities” (D.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose at least the following information regarding material employee benefits:

- a) The nature of the obligations with employee benefits and a breakdown of the amounts by nature of obligations;**
- b) The nature of the defined benefit plan assets, the amount of each class of assets, the percentage of each class of assets of the total defined benefit plan assets, including reimbursement rights.**

- 2.39. Undertakings clearly identify which obligations have the nature of short-term obligations, post-employment benefits (distinguishing defined contribution plans and defined benefit plans), other long-term employee benefits and termination benefits following either IAS 19 definitions or local GAAP definitions.
- 2.40. When explaining the differences between the general purposes of financial statements and the Solvency II balance sheet, undertakings explain differences resulting from the prohibition under Solvency II for deferred recognition of actuarial gains and losses.

- 2.41. Undertakings disclose information about the methodologies and inputs used to determine the economic value. This requires a description of the actuarial valuation method, including the internal valuation model (where applicable), and the actuarial assumptions used (e.g. demographic assumptions such as mortality, rates of employee turnover, disability and early retirement, proportion of dependants eligible for benefits, claim rates under medical plans and financial assumptions such as discount rate, future salary and benefit levels, medical cost trend rates, the expected rate of return on plan assets). Disclosure is also required in cases where the overall expected rate of return of the assets is used, including the effect on the major classes of the plan assets.
- 2.42. A higher level of disclosure is expected in particular with regard to post-employment benefits based on defined benefit plans where the risk is borne by the undertaking. Undertakings disclose information about the plan assets, to allow for an assessment of the level of risk inherent in the plan to be made.. In cases where the plan assets correspond to insurance policies, the issuer of those policies is clearly identified

Guideline 17 - Own funds – Solvency ratio

Under section “Own funds” (E.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose at least their solvency ratio, calculated as eligible own funds as a percentage of the Solvency Capital Requirement.

Where undertakings disclose additional ratios, because they believe that the ratios are relevant to providing an understanding of their solvency position and are compatible with the solvency ratio, undertakings should:

- a) Clearly explain in the SFCR the additional ratio;**
- b) Ensure that the additional ratios do not divert attention from the disclosure of the solvency ratio.**

- 2.43. A standardised solvency ratio will achieve comparability of solvency ratios and ensure that users of solvency ratios disclosed by undertakings are not misled. The solvency ratio is the ratio of eligible own funds as a percentage of the SCR.
- 2.44. The eligible own funds / SCR ratio is easy to calculate and reveals whether or not an undertaking is meeting the SCR. While no single solvency ratio can deliver all the solvency information users might find relevant, the chosen ratio is considered the most useful ratio.
- 2.45. Undertakings may believe that disclosure of additional ratios, for example providing more granularity of information or focusing on a particular quality of capital, would provide a better understanding of their solvency position. In that case undertakings are allowed to disclose them, so long as those

additional ratios are compatible with the ratio of eligible own funds to SCR and do not divert attention from that ratio.

Guideline 18 - Own funds – Information on the structure, amount, quality and eligibility of own funds

Under section “Own funds” (E.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should disclose at least the following information regarding their own funds:

- a) in relation to the information on structure, amount and quality of own funds, the information required in Article 297 (1) of the Implementing Measures should be provided for each own fund item set out in Article 69, Article 72, Article 74, Article 76 and Article 78, as well as for items that received supervisory approval as per Article 79 of the Implementing Measures distinguishing between basic and ancillary own fund items;**
- b) for each own fund item, the extent to which it is available, subordinated, as well as its duration and any other features that are relevant for assessing its quality;**
- c) an analysis of significant changes to own funds, including the value of own fund items issued during the year, the value of instruments redeemed during the year, and the extent to which the issuance has been used to fund redemption;**
- d) in relation to subordinated debt, an explanation of the changes arising from movements in the risk free rate and, if relevant, from fluctuations between the currency in which the subordinated debt is issued and the reporting currency;**
- e) when disclosing information on the amount of own funds eligible to cover the Solvency Capital Requirement and Minimum Capital Requirement classified by tier, an explanation of any restrictions to available own funds and the impact of limits on eligible Tier 2 and Tier 3 capital, and on restricted Tier 1 capital;**
- f) details of the principal loss absorbency mechanism used to comply with Article 71 (1)(e) of the Implementing Measures, including the trigger point, and its effects so that all providers of own funds items are aware of the potential impact;**
- g) an explanation of the key elements of the reconciliation reserve;**
- h) for each basic own fund item subject to the transitional arrangements:
 - i. the tier into which each has been classified and why;**
 - ii. the date of the next call and the regularity of any subsequent call dates, or the fact that no call dates fall until after the end of the transitional period.****
- i) when disclosing information on the description of each material ancillary own fund item, information on the form of arrangement and the nature of the basic own funds items it would become on being called up or satisfied, including the tier, as well as when the item was agreed by the supervisory authority and for how long.**
- j) where a method has been used to determine the amount of an ancillary own fund item, undertakings should disclose:
 - i. how the valuation provided by the method has varied over time;**
 - ii. which inputs to the methodology have been the principal drivers for this movement;****

- iii. **the extent to which the method takes account of past experience, including the outcome of past calls, and how the amount calculated is affected.**

k) Regarding items deducted from own funds:

- i. **the total excess of assets over liabilities within ring-fenced funds, identifying the amount for which an adjustment is made in determining available own funds;**
- ii. **the extent of and reasons for significant restrictions on, deductions from or encumbrances of own funds.**

2.46. Member States have different accounting practices, and the specific circumstances of individual undertakings within a Member State will also vary. Both these facts will affect the nature and extent of the explanations provided by individual undertakings.

2.47. The mechanism to be used, including the trigger point, is clearly defined in the terms of the contractual arrangement governing the own-fund item and legally certain. Details of the mechanism and its effects are included in public disclosure so that all providers of own funds items are aware of the potential impact.

2.48. Disclosure of items which reduce the reconciliation reserve such as foreseeable dividends and own shares held is always considered appropriate.

Guideline 19 - Differences between the standard formula and any internal models used

Under section "Differences between the standard formula and any internal model used" (E.4) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should consider, when disclosing the main differences in methodologies and underlying assumptions used in the standard formula and in the internal model, at least the following:

- a) Structure of the model,**
- b) Aggregation methodologies and diversification effects,**
- c) Risks not covered by the standard formula but covered by the internal model.**

2.49. Undertakings accompany quantitative information by a description of the main feature of the internal model in order not to mislead readers of the quantitative reporting templates and to ensure a better understanding.

2.50. It is impossible *a priori* to assess whether the methodologies used in an internal model will be close or similar to the one used in the standard formula. Nevertheless, undertakings may have chosen in their internal model to use terminologies that are close to the one used in the standard formula.

2.51. In particular, it is avoided to base comparisons between the quantitative outputs of two different undertakings that would have used the same name for some modules although:

- they may cover different risks;

- they may use totally different approaches.

- 2.52. This is why undertakings provide a description of the model.
- 2.53. This description needs to include a comparison (of the effects) of the main differences in methodologies and underlying assumptions used in the standard formula and in the internal model.
- 2.54. Because some risks that are material to an undertaking may not be explicitly included in the standard formula. Nevertheless, in order to meet article 121(4) of the Directive 2009/138/EC, they would have included these risks in their internal model. This information seems to be of the utmost importance in order to analyse properly the reported quantitative information.

Section II – Regular Supervisory Reporting

Guideline 22 - Business

Under section “Business” (A.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, when providing information regarding their business, include information on:

- a) the number of full time equivalent employees;**
- b) a list of all subsidiaries, related undertakings and branches;**
- c) information on internal organisational structures, including a detailed organisational structure chart and positions of key function holders;**
- d) distributions made to shareholders.**

- 2.55. Information on the number of employees, subsidiaries, and insurance as well as non-insurance, and distribution to shareholders enable the supervisor to better understand how the undertaking positions itself with regards to its external environment.
- 2.56. The information on internal organizational structures allows good understanding of departments or divisions, management hierarchy, task forces or committees at least.
- 2.57. The organisational chart helps identifying clearly the positions of key function holders within the organisational structure of the undertaking.
- 2.58. Information on the distribution to shareholders includes the amount of dividends distributed during the period, the amounts of dividends proposed or declared but not yet recognised as a distribution and the amount of any cumulative preference dividends not yet recognised.
- 2.59. The detailed structure chart explains the ownership and legal links between the undertaking and, on the one hand, its parent and ultimate parent entity and, on the other hand, all its subsidiaries, branches and significant investments in joint controlled entities and associates.

2.60. The information includes forward-looking information, explaining the assumptions that were applied, and any material factors that could cause results to differ.

Guideline 23 - Underwriting Performance

Under section "Underwriting performance" (A.2) of the Implementing Measures insurance and reinsurance undertakings should, when providing information on risk mitigation techniques related to underwriting activities, include a description of:

- a) the impact of the mitigation techniques on underwriting performance; and**
- b) the effectiveness of the risk mitigation techniques.**

2.61. When referring to section A.2 of the RSR undertakings are expected to always refer to Solvency II lines of business, in line with the content of the template S.05.01.

2.62. When indicating the effectiveness of risk mitigation techniques, undertakings need to also describe the methods and processes used to assess effectiveness as well as the consequences in cases of ineffectiveness.

Guideline 24 – Intra-group transactions

Under section "Any other information" (A.5) of Annex XX of the Implementing Measures, insurance and reinsurance undertakings belonging to a group should provide qualitative and quantitative information regarding relevant operations and significant transactions within the group including information on:

- a) The amount of the operations and transactions;**
- b) The amount of outstanding balances, if any;**
- c) Relevant terms and conditions of the operations and transactions.**

2.63. Operations and transactions within the group relevant within the undertaking's financial performance are paramount for the supervisor to understand whether the performance stems from intra-group transactions or from business outside the group. Also gives relevant information about the level of support provided by entities in the group.

2.64. The amount of the transactions to be disclosed includes transactions without an outstanding balance at year end.

2.65. Terms and conditions to be disclosed include information about for example guarantees given or received and whether the transaction is linked to another in terms of time, function and planning.

Guideline 25 - Governance structure – Remuneration policies and practices

Under section “General information on the system of governance” (B.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should explain how the undertaking’s remuneration policies and practices are consistent with and promote sound and effective risk management and do not encourage excessive risk taking. The information should focus on the linkage between remuneration and performance.

2.66. The information provided on the integration of the remuneration policy and practices into the risk management system are not limited to the elements provided in the SFCR, i.e. fixed/variable components and performance criteria, but encompass any incentive mechanism that could induce excessive risk taking that exceeds the risk tolerance limits of the undertaking.

Guideline 26 - Risk management system

Under section “Risk management system including the own risk and solvency assessment” (B.3) of Annex XX of the Implementing Measures of the RSR insurance and reinsurance undertakings should, when providing information on the strategies, objectives, processes and reporting procedures of the undertaking’s risk management for each separate category of risk, explain how these are documented, monitored and enforced.

2.67. This includes, for instance, information on elements such as pricing rules, underwriting policies, investment policies, or claims processing procedures.

Guideline 27 - Risk Profile

Under section “Risk management system including the own risk and solvency assessment” (B.3) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, within the information on risk exposure, explain how they ensure that derivatives contribute to the reduction of risks or facilitate efficient portfolio management.

2.68. This is to ensure that derivatives are used in accordance with the prudent person principle as defined in Article 132 (4) of the Directive, since derivatives are financial instruments which can lead to very specific and complex risks.

Guideline 29 - Reinsurance and financial mitigation techniques and future management actions

Under section C.6 of the RSR as defined in the Implementing Measures, insurance and reinsurance undertakings should include details of any allowance for reinsurance and financial mitigation techniques and future management actions used in the SCR calculation and how these have met the criteria for recognition.

2.69. The description is sufficiently detailed to allow supervisory authorities to assess if the undertaking has met the criteria for recognition.

Guideline 31 – Valuation of deferred tax assets

Under section “Assets” (D.1) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should explain, when deferred tax assets are recognised, how they assess the probability of future taxable profits, where applicable, and identify the amount and expected time horizons for reversal of temporary differences.

Insurance and reinsurance undertakings should also include an explanation where they were not able to provide a maximum value on any unlimited guarantees they provided in the quantitative reporting templates S.03.03 detailing the list of unlimited guarantees.

2.70. Undertakings need to report sufficient information to demonstrate the probability that future taxable profit will be available against which the deferred tax asset can be utilised. This information includes the parameters within that profit projection which are subject to expert judgement.

Guideline 32 - Technical Provisions

Under section “Technical provisions” (D.2) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should provide information on technical provisions including:

- a) Details of the relevant actuarial methodologies and assumptions used in the calculation of the technical provisions including details of any simplifications used (including in calculating the future premiums and risk margin and its allocation to the single lines of business) and including a justification that the method chosen is proportionate to the nature, scale and complexity of the undertaking’s risks including the reasons for any material changes in the use of those methods;**
- b) An explanation of the contract boundaries applied to each different business in the valuation of technical provisions, and details of any contracts that include significant renewals within existing business;**
- c) Details of the key options and guarantees within the calculation of the technical provisions and the significance of each and how they are evolving;**
- d) An overview of any material changes in the level of technical provisions since the last reporting period, including reasons for material changes, especially the rationale of material changes in assumptions.**
- e) Material changes in lapse rates;**
- f) Details of the homogeneous risk groups used to calculate the technical provisions;**
- g) Any recommendations on the implementation of improvements in the internal procedures in relation to data that are considered relevant;**
- h) Information about any significant data deficiencies and adjustments;**
- i) A description of the technical provisions that have been calculated as a whole;**
- j) A description of where unbundling has been used;**
- k) Details of the Economic Scenario Generator, including an explanation of how consistency to the risk free rate has been achieved and which volatility assumptions have been chosen;**
- l) Details of the approach taken to calculate reinsurance recoverables.**

- 2.71. When providing details of the approach taken to calculate reinsurance recoverable, undertakings are required to explain how the material changes of the reinsurance programs have been reflected in the calculation of reinsurance recoverables.
- 2.72. Reasons for material changes include at least a description of material changes in the development patterns of existing claims, new material claims that have emerged over the year, those material claims settled during the year and any increase in new business.

Guideline 34 - Any other material information

Under section "Any other information" (D.5) of Annex XX of the Implementing Measures insurance and reinsurance undertakings should, within the description of the nature and appropriateness of the key data used, disclose at least a description of the process in place for checking data quality.

- 2.73. The process of validating data is as important as the data itself, disclosure of this information will greatly improve public confidence in internal models. Without this information a knowledgeable person will not achieve a reasonably good understanding of the reliability of the internal model.

Guideline 36 – Any other material information on business

Under section "Any other information" (A.5) of Annex XX of the Implementing Measures, participating insurance and reinsurance undertakings, insurance holding companies and mixed financial holding companies should provide information on the terms and conditions of the intra-group operations and transactions including information on:

- a) Commercial rationale for the operation or transaction;**
 - b) Risks borne by, and rewards available to, each party to the operation or transaction;**
 - c) Any particular aspects of the operation or transaction that are (or may become) disadvantageous to either party;**
 - d) Any conflicts of interest that may have arisen in negotiating and executing the operation or transaction, and any potential conflicts of interest that may arise in the future;**
 - e) If the transaction is linked to other operations or transactions in terms of timing, function and planning, the individual effect of each operation or transaction and the overall net impact of the linked operations and transactions on each party to the operation or transaction and on the group should be reported;**
 - f) Extent to which the operation or transaction is depending on a winding-up and circumstances in which the operation or transaction can be executed.**
- 2.74. The assessment of the relevance of the intra-group transactions cannot be based on a higher threshold than the threshold confirmed by the group supervisor and used on the quantitative reported templates.

- 2.75. Examples of possible conflicts of interest that may have arisen in negotiating and executing an intra-group transaction or that may arise in the future can be the deterioration of the financial position of one of the parties involved in the transaction or the shareholders' interests or those of policyholders.
- 2.76. If relevant for obtaining a complete understanding of a transaction, undertakings may consider appropriate to include specific contracts and other agreements within the RSR for adequacy of information.

Guideline 37 - Risk Profile

Under section "Other material risks" (C.6) of Annex XX of the Implementing Measures, participating insurance and reinsurance undertakings, insurance holding companies and mixed financial holding companies should provide qualitative and quantitative information on any significant risk concentration at the level of the group, including:

- a) A description of the risk(s);**
 - b) Probability of risks materialising;**
 - c) Mitigation actions including an assessment of a worst case scenario in case of default of the exposure;**
 - d) Analysis and quantification of the risk concentrations along legal entity lines;**
 - e) Consistency with the group's business model, risk appetite and strategy, including compliance with the limits set by the internal control system and risk management processes of the group;**
 - f) Whether losses arising from risk concentrations affect not just the overall profitability of the group but also its short-term liquidity;**
 - g) Relationship, correlation and interaction between risk factors across the group, and any potential spillover effects from risk concentrations in a particular area;**
 - h) Specific information about the group counterparty and the exposure (nature/country of exposure, rating/rating agency, ID code and sector of issuer);**
 - i) Quantitative information about the risk concentration and the effect on the undertaking and the group and the effect of reinsurance contracts;**
 - j) Whether the item concerned is an asset or a liability or if it is an off-balance sheet item.**
- 2.77. The information regarding the possibility of risks materialising into losses is expected to be captured by stress testing and scenario analysis.

Section III - Supervisory reporting following pre-defined events

Guideline 39 - Identification and trigger for reporting of pre-defined events

Insurance and reinsurance undertakings should immediately notify in writing the supervisory authority about the occurrence of any events which could reasonably lead or have already led to material changes in an undertaking's or a group's business and performance, system of governance, risk profile, and solvency and financial position (hereinafter "pre-defined event"). In case of doubt, insurance and reinsurance undertakings should consult with

the supervisory authorities on whether a given event would classify as a pre-defined event.

2.78. Pre-defined events include any specific reporting specifically provided for by the Directive, including:

- a) Article 102 (1) of the Directive explicitly states that if the risk profile of an insurance or reinsurance undertaking deviates significantly from the assumptions underlying the last reported SCR, the undertaking concerned shall recalculate the SCR without delay and report it to the supervisory authorities.
- b) Article 129 (4) requires undertakings to calculate the MCR at least quarterly and report the results of that calculation to supervisory authorities.
- c) Article 138 requires undertakings to immediately inform the supervisory authority as soon as they observe that the SCR is no longer complied with, or where there is a risk of non-compliance in the following three months.
- d) In accordance with Article 245, groups subject to group supervision under Solvency II are required to report to the group supervisor on very significant intra-group transactions as soon as practicable.

2.79. Pre-defined events also include any specific reporting specifically provided for by the Implementing Measures, including:

- a) Article 62 requires undertakings to report to the supervisory authorities each time the SCR is calculated whether there have been any changes that may reduce loss-absorbency of the approved ancillary own-fund item. It also requires undertakings to immediately report to the supervisory authorities whenever a material change occurs in the loss-absorbency of the approved ancillary own-fund item.
- b) Article 191 requires undertakings to report to the supervisory authority data on losses stemming from mortgage loans, in particular losses stemming from loans that have been classified as type 2 exposures according with Article 189(3) in any given year and overall losses in any given year. .
- c) In relation to securitisations, Article 257(1) requires undertakings to inform the supervisory authority as soon as they observe that the requirements set out in Article 256(2) and (3) are not being complied with.
- d) Article 299 bis requires undertakings to inform the supervisory authorities as soon as the reason for any permitted non-disclosure pursuant to Article 53(1) of Directive 2009/138/EC ceases to exist.

2.80. Pre-defined events and the associated information that supervisory authorities would expect to be submitted along with any notification by an undertaking, could also include, for example:

- a) *changes in an undertaking's business strategy, including delays to implementing strategies of which supervisory authorities are already aware* – information could be provided on the reasons for the change or delay in implementing strategy and any material effects that it has had or is likely to have on other aspects of an undertaking's business (e.g. business performance, risk profile, etc);
- b) *Relevant mergers, takeovers and acquisitions* – information could be provided on the implications on the undertaking's business, system of governance, risk profile and solvency and financial position. This would be provided irrespective of whether the event involves an insurer, or whether it is conducted with parties based in the EEA;
- c) *internal organisational restructure or changes in the group structure* - information could be provided on the details of any significant reorganisation and the reasons for such a change, including any material effects in other areas of an undertaking's or group's business;
- d) *significant lawsuits or claims that have a reasonable chance of success being brought against the undertaking* - information could be provided on the nature of the lawsuit and any legal opinion received by the undertaking, as well as the potential impact of the lawsuit on the undertaking and any potential mitigation or management actions that could be enacted in the event that the lawsuit ruling were to decide against the undertaking;
- e) *material changes in own funds levels, MCR, SCR, technical provisions and/or other balance sheet items* - information submitted by the undertaking could include the amount and reason for change and a consideration of any potential or actual consequence of changes. In relation to technical provisions, information submitted by an undertaking could include details on the emergence of any future material claims that had not been present in the previously reported technical provisions;
- f) *new, emerging or crystallised internal or external risks of a material nature* – information could include details of emerging or crystallised risks and information on their actual or potential impact, as well as identifying mitigation plans (whether planned or already in place). Such pre-defined event could also include ratings' downgrade for rating sensitive companies;
- g) *significant governance failures* – information could include details of the governance failure, the impact of failure on the undertaking and the action taken in response to it;
- h) *significant operational failures* – information could include details of the operational failures such as business interruptions, IT-breakdowns, internal frauds, etc., the impact of the failure on the undertaking and the action taken in response to it;
- i) *when an undertaking has reason to call into question the fitness and/or propriety of a person who effectively runs the undertaking or undertakes other key functions.* Information could include details on the circumstances leading to a reassessment of that person's fitness and/or propriety, any internal and/or external investigations procedures resulting from this and the eventual decision on that person's fitness and/or propriety. Such reporting to supervisory authorities is not limited to situations such as that

mandated in Article 42(3) of the Directive Guidelines on Governance , but also includes all situations where reasonable doubt over a person's fitness and propriety exists;

- j) *when an undertaking has provided in its SFCR or RSR information from financial statements which were finally not approved by the general assembly meeting or not signed-off by external auditors*, undertakings report again to the supervisor their SFCR or RSR if material differences in financial statements appear; this is without prejudice to the possible need of publicly disclosing a modified SFCR according to other requirements;
- k) *Very significant intra-group transactions and intra-group transactions to be reported in all circumstances as soon as practicable* - Intra-group transactions that will or possibly will weaken the solvency and financial condition of the group or any solo undertakings in the group or if they negatively affect the group.

- 2.81. Undertakings notify supervisory authorities as soon as they become aware of circumstances that would give rise to the occurrence of a pre-defined event. This notification is made at the earliest opportunity. However, the notification of the occurrence of a pre-defined event is different from the reporting of information related to that pre-defined event: after notification of the pre-defined event, the delay to submit the information related to that pre-defined event can be discussed with supervisory authorities on a case-by-case basis.
- 2.82. This does not preclude earlier dialogue between supervisory authorities and undertakings on potential events. For example, in the instance of a merger, it would be sensible to engage with the supervisor when an undertaking is scoping the work.
- 2.83. The information provided under pre-defined events includes relevant information as illustrated above, including updates of sections of the narrative SFCR (but solely for the use of the supervisor because pre-defined event information is not public) and RSR, and/or updates of the annual or quarterly templates.
- 2.84. To avoid unnecessary duplication of information and to respect the principle of proportionality, undertakings are not be required to report information that has already been provided to the same supervisory authority as part of the approvals, permissions or authorisations process it is subject to with regards to these pre-defined events.
- 2.85. Depending on the nature of the event, supervisory authorities may also ask for undertakings to report information related to that pre-defined event on a regular basis over a period of time in order to monitor the situation of the undertaking. This is determined on a case-by-case basis. It has to be distinguished from internal information that may be reported regularly to supervisory authorities for any undertaking (and not just for pre-defined events).

Guideline 40 - Supervisory reporting following pre-defined events – additional ORSA

Insurance and reinsurance undertakings should also consider as a pre-defined event the decision to perform an additional ORSA in accordance with Article 45(5) of Solvency II on account of a significant change in their risk profile.

2.86. The undertaking reports without delay the following additional information: reasons and description of the change in risk profile that triggered the performance of the additional ORSA, qualitative and quantitative comparison with the methods and outcome of the previous ORSA, including the specific effect of the change in risk profile, and any proposed management actions considered necessary and any planned capital measures.

Section IV - Public Disclosure and Supervisory Reporting Processes

Guideline 41 - Public disclosure policy

Insurance and reinsurance undertakings should have a public disclosure policy that complies with Guideline 7 of the Guidelines on System of Governance, and which additionally includes the following:

- a) details of the persons/functions responsible for preparing and reviewing the public disclosures and reports to the supervisory authorities;**
- b) the processes for completion of the various disclosure requirements and for review and approval by the AMSB;**
- c) information already available in the public domain that the insurance and reinsurance undertaking believe is equivalent in nature and scope to the information requirements in the SFCR;**
- d) specific information that the insurance and reinsurance undertaking intends not to disclose under the circumstances set out in Article 53(1) of Solvency II;**
- e) additional information that the undertaking has decided to voluntarily disclose under Article 54 (2) of the Directive.**

2.87. The undertakings' disclosure policy to be developed under Article 55 (1) of the Directive follows the Guidelines for written policies established under the Guidelines on Governance, but some specific elements need to be developed for the disclosure policy, especially with regards to given possibilities or requirements existing for the SFCR in order to know if and how they are applied by the undertaking, such as: non-disclosure of information, reference to other documents or additional voluntary disclosures.

Guideline 43 - RSR – Format of reporting

Insurance and reinsurance undertakings should report the data formalised in the quantitative reporting templates and considering the data point modeling as published by EIOPA.

- 2.88. Data Point Model (DPM) is a structured representation of the data, identifying all the business concepts and its relations, as well as validation rules. DPM contains all the relevant technical specifications necessary for developing an IT reporting solution (independent from the technical format).
- 2.89. The use of the DPM will enhance data quality and consistency between data reported by undertakings within one single Member State and also across Member States.

Guideline 45 - RSR – References to other documents

When insurance and reinsurance undertakings make references in the RSR to other documents that are subject to reporting to their supervisory authorities, these should be done through references that lead directly to the information itself and not to a general document.

Insurance and reinsurance undertakings should not use in the RSR references to other documents that are not subject to reporting to their supervisory authorities.

- 2.90. The RSR is a stand-alone document, which does not contain any reference to other documents not subject to supervisory reporting. Elements from disclosures or internal reporting may of course be used, but is included either in full or by means of references to the documents also reported to the supervisory authority.
- 2.91. Besides, in addition to the RSR, supervisory authorities may require on a regular basis a copy of the internal narrative or quantitative reports of the undertaking, as they deem necessary for the purposes of supervision. As stated in article 35 (3) of the Directive, data from internal sources can also be part of regular reporting. Such reporting requirements are assessed on a case-by-case basis taking into account the principle of proportionality and the intensity of the Supervisory Review Process. They may concern for instance internal audit reports, risk reports, reinsurance reporting or any regular management information.

Guideline 46 - Reporting policy

Insurance and reinsurance undertakings should ensure that the reporting policy complies with Guideline 7 of the Guidelines on System of Governance, and additionally:

- a) detail which business unit is responsible for drafting any reporting to the supervisory authorities along with those business units which are responsible for reviewing the reporting;**
- b) set out processes and timeline for completion of the various reporting requirements, review and approval; explain the processes and controls for guaranteeing the reliability, completeness and consistency of the data provided.**

2.92. The undertakings' reporting policy to be developed under Article 35 (5) of the Directive follows the Guidelines for written policies established in the implementing measures and Guidelines on Governance, but some specific elements need to be developed for the reporting policy, especially with regards to the timeline for completion, and the processes and controls implemented to guarantee accuracy and consistency of the data (for instance, back-testing in case approximations based on estimated data have been used).

2.93. This aims to ensure that the administrative, management and supervisory body of the undertakings takes responsibility and to ensure the correctness and completeness for the entire content of the regular information provided to the supervisor by putting in place the necessary controls, as this is a major Pillar 3 requirement and the basis of the Supervisory Review Process.

1. Annex I: Impact Assessment

Procedural issues and consultation of interested parties

- 1.1. According to Article 16 of the EIOPA Regulation, EIOPA conducts analysis of costs and benefits in the policy development process. The analysis of costs and benefits is undertaken according to an Impact Assessment methodology.
- 1.2. For the last 4 years EIOPA has been working on the disclosure requirements together with the reporting requirements with the aim to establish a comparable, effective and efficient disclosure system in the European Economic Area (EEA).
- 1.3. The proposed guidelines and the impact assessment are based and build on the detailed analysis of all comments received during all consultations and pre-consultations.
 - Pre-consultation with stakeholders;
 - CP09/2011⁴: “Draft proposal on Quantitative Reporting Templates and Draft proposal for Guidelines on Narrative Public Disclosure & Supervisory Reporting, Predefined Events and Processes for Reporting & Disclosure”.

Problem definition

- 1.4. Traditionally the disclosure regime follows the accounting disclosure requirements. With Solvency I, this was possible due to the link between Solvency I and accounting. This led to non-comparable information being disclosed and mainly very different levels of disclosure from Member State to Member State. The resulting lack of harmonisation undermines the proper functioning of the Single Market and does not ensure a level playing field for all EEA undertakings.
- 1.5. Regulatory measures have addressed this problem in the Solvency II directive and the Implementing Measures, with the definition of a new report to be disclosed – the Solvency and Financial Condition Report (SFCR). It is important to guarantee that undertakings disclose the appropriate level of information in the SFCR.
- 1.6. Under Solvency II the SFCR and RSR will be two crucial pieces of supervisory information. It is important that insurance and reinsurance undertakings understand what NSA expect to receive under those reports.
- 1.7. It is also important to harmonise the interpretation of the Solvency II Directive in relation to reporting in the case of predefined events and undertakings’ processes for public disclosure and supervisory reporting.

⁴ <https://eiopa.europa.eu/consultations/consultation-papers/2011-closed-consultations/november-2011/draft-proposal-on-quantitative-reporting-templates-and-draft-proposal-for-guidelines-on-narrative-public-disclosure-supervisory-reporting-predefined-events-and-processes-for-reporting-disclosure/index.html>

1.8. The approach of these guidelines is intended to be proportionate, avoiding duplication of supervisory requirements and also supportive for undertakings when elaborating the supervisory reports. It allows as well to achieve the main objective of Solvency II, namely the adequate protection of policyholders and beneficiaries.

1.9. The draft Guidelines cover:

- a) the content of the Solvency and Financial Condition Report (SFCR);
- b) the content of the Regular Supervisory Report (RSR);
- c) validations to be applied to the data submitted to the supervisory authorities using the quantitative reporting templates;
- d) reporting in the case of predefined events;
- e) undertaking's processes for public disclosure and supervisory reporting.

Objectives Pursued

1.10. The objective of these guidelines is harmonising public disclosure and supervisory reporting, by providing a common framework amongst NSAs about the information to be provided by undertakings in their solvency and financial condition report and their regular supervisory report.

Policy Options

Narrative report – SFCR and RSR

1.11. With regard to narrative reporting, EIOPA elaborated on three policy options which were considered and debated during the development of this paper:

- **Option 1:** Not to have Guidelines on narrative reports
- **Option 2:** Have Guidelines only on some items of the structure of the reports as defined in Solvency II Directive and Regulation XX/2014 where deemed necessary
- **Option 3:** Have Guidelines which detail every item of the structure of the reports as defined in Solvency II Directive and Regulation XX/2014

Analysis of Impacts

1.12. This chapter describes the analysis of impact conducted by EIOPA in order to identify the best options. For each option, the impact on Policyholders, the industry (comprising both regulated insurance undertakings and non-EEA insurers with EEA branches), and national supervisory authorities (NSAs) were considered.

1.13. The conclusions from the analysis of impacts and the preferred options are outlined in the next chapter: Comparison of Options.

1.14. It should be noted that the proposed guidelines build on other policy requiring industry to generate the SFCR and RSR. Therefore the impact of having

guidelines explaining the content that supervisors expect to see in those reports in terms of costs was considered as not material.

- 1.15. EIOPA has outlined below the main impacts foreseen from these guidelines, and would like to further build on our understanding of the potential effects from the guidelines on the basis of the feedback from the consultation with stakeholders.

Option 1: Not to have Guidelines on narrative reports

Pros (+):

- It might be considered that Regulation XX requires enough information on major topics; therefore, not having these guidelines would ensure that the narrative reporting requirements would not become too prescriptive or repeat the Solvency II Directive and the Regulation xx/2014;
- It could be confusing for undertakings to have detailed guidelines only on some topics, it would thus be better to have no guidelines at all than to have them on only some items.

Cons (-):

- Even if Regulation XX is very detailed on some subjects, it is not the case for all the topics (for instance: valuation of assets & liabilities for individual undertakings, intra-group transactions, disclosure policy in the SFCR and undertaking's reporting policy for the RSR), which do need further guidance on what is expected to be included;
- Having guidelines enable a better understanding of the requirements, thus undertakings will provide supervisors and the market a better quality reporting/disclosure.

Option 2: Have Guidelines only on some items of the structure of the reports as defined in Solvency II Directive and Regulation XX/2014 where deemed necessary

Pros (+):

- It will allow undertakings enough flexibility, thus will reflect each undertaking's risk profile;
- It will help undertakings to complete narrative reporting requirements; some content for instance need additional granularity (for instance: valuation of assets & liabilities for solo undertakings, intergroup transactions, disclosure policy in the SFCR and undertaking's reporting policy for the RSR), and at the same time would not be too prescriptive;
- It will help comparability between undertakings if they provide the same detailed information for the identified issues considered to be relevant;

- It will promote the harmonisation of the reporting and disclosure framework and contribute to enhance supervision and market transparency and foster also convergence of practices among undertakings.

Cons (-):

- It could be confusing for undertakings to have some items being specified in the guidelines and others not.
- It could still contribute to a "tick-the-box" exercise without the undertaking actually considering additional information that would be appropriate to disclose/ report.

Option 3: Have Guidelines which detail every item of the structure of the reports as defined in Solvency II Directive and Regulation XX/2014

Pros (+):

- It will help comparability between undertakings if they provide the same detailed information;
- Having a detailed level enables a better understanding of the requirements which are for some part too general, thus undertakings will provide supervisors and the market a better quality reporting/disclosure;
- It will promote the harmonisation of the reporting and disclosure framework and contribute to enhance supervision and market transparency and foster also convergence of practices among undertakings.

Cons (-):

- It is not necessary to have such a detailed framework as requirements in Regulation XX are already enough on major topics (it may lead to repetition of requirements);
- It could be too much restrictive for undertakings and could lead to "narrow reports" in terms of content (idea of being too prescriptive);
- It could contribute to a "tick-the-box" exercise without the undertaking actually considering additional information that would be appropriate to disclose/ report.

Comparing the options

1.16. For policyholders it is about striking the right balance between very detailed information and relevant information to make decisions.

1.17. For the industry the impact is more related to the type of information that would be made public. However the increase on market discipline and transparency is a cornerstone of Solvency II.

- 1.18. For supervisors it is important to guarantee that the information disclosed is accurate, comparable and meaningful and that the RSR includes all relevant information needed for supervision.
- 1.19. These guidelines adopt the approach described in **Option 2** (to have Guidelines only on some items of the structure of the reports as defined in Solvency II Directive and Regulation XX/2014 where deemed necessary). This is considered the most effective and efficient approach which achieves the objectives set out above.