| | Comments Template on Consultation Paper on the proposal for implementing technical standards on internal models approval processes | Deadline 30 June 2014 23:59 CET |
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| Name of Company: | Insurance and Reinsurance Stakeholder Group | |
| Disclosure of comments: | Please indicate if your comments should be treated as confidential: | Public |
| | Please follow the following instructions for filling in the template:<br>⇨ Do **not** change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool<br>⇨ Leave the last column empty.<br>⇨ Please fill in your comment in the relevant row. If you have no comment on a paragraph or a cell, keep the row empty.<br>⇨ Our IT tool does not allow processing of comments which do not refer to the specific numbers below.<br>**Please send the completed template, in Word Format, to CP-14-005@eiopa.europa.eu. Our IT tool does not allow processing of any other formats.**<br>The numbering of the paragraphs refers to Consultation Paper on the proposal for implementing technical standards with regard to the procedures to be used for granting supervisory approval for the use of ancillary own-fund items. | |
| **Reference** | **Comment** | |
| General Comments | • The CP has a process focus, which is justified by the already highly detailed nature of Level 1 and Level 2.<br>• The CP contributes to the objective of harmonization and consistency through laying down the ground rules for an approval process applicable in al MS.<br>• For a first approval of an internal model, six months seems to be a reasonable period of time. However, for subsequent approvals related to eg model changes, faster processes would be feasible (unless the model has changed dramatically).<br>• No response from the supervisory authority within the deadline should not be considered | |

lack of approval. There is no justification to leave an undertaking in a situation of uncertainty when the application is complete and receipt of submission has been received.

  - When the timeline for approval has elapsed, the undertaking should be able to consider that the item has been approved and be allowed to use it.
  - The approval process should be clearly defined and certainly not be perceived as a never ending process.

- From a legal perspective it is not assured whether the undertakings that are using the group internal model for the calculation of their individual SCR (Art. 231) should include in the application package the documents required for individual internal model as described in this ITS.
- More information is needed about the policy for changing the model and the changes to this policy, in particular in the case when the internal model is a group internal model (Art. 231).
- A temporary approval on major changes may be needed to avoid situations where no approved model exists.
- Some elements do create some uncertainty, as supervisory authorities are granted a certain level of discretion in their decision-making process (e.g. as signaled by the terms 'recommendations', 'adjustments', 'terms and conditions' etc.). We acknowledge it may be impossible to define hard and fast rules which would apply for all conceivable applications, however, clearer guidance would be advisable and beneficial to both undertakings as well as supervisory authorities.
- Question: The CP seems to deal with approval of internal models for solo purposes – will there be a separate ITS on approval of group internal models? If not the specific issues relating to an application for using a group internal model should be included. The guidance should require the relevant supervisors to agree on the key components of the IM application and related interpretation of requirements (e. g. whether valuation

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| | methodologies are part of the IMAP or not). If no agreement can be reached, the issue should be directly addressed to EIOPA to ensure EU wide consistent interpretation.<br>• | |
| Recital (1) | | |
| Recital (2) | | |
| Recital (3) | | |
| Recital (4) | | |
| Recital (5) | | |
| Recital (6) | ○ *"During the approval process supervisory authorities should be able to give recommendations on the need of adjustments to the internal model or for a transitional plan […]"* – The term 'recommendation' is not defined within the scope of the ITS, resulting in uncertainty as to the nature, scope, and required response to recommendations.<br>○ In general the possibility for supervisors to require adjustments is seen positive as the previous binary decision on model approval is softened. On the flipside this also means that the approval process might require more documentation and model adjustments therefore also taking more time (a corresponding suspension of the approval period is possible, c.f. Art. 4(9)). | |
| Recital (7) | | |
| Recital (8) | | |
| Recital (9) | | |
| Recital (10) | | |
| Article 1 | | |
| Article 2 (1) | | |
| Article 2 (2) | | |

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| Article 2 (3) | *"[…] an estimation of the Solvency Capital Requirement at the most granular level according to the insurance or reinsurance undertaking risk categorization, calculated with the internal model and with the standard formula for the last point in time […]"* – It may be questioned whether the provision of such SCR data at the most granular level would actually be beneficial to the decision-making process. | |
| Article 2 (4) | | |
| Article 2 (5) | | |
| Article 3 | | |
| Article 4 (1) | | |
| Article 4 (2) | | |
| Article 4 (3) | | |
| Article 4 (4) | | |
| Article 4 (5) | | |
| Article 4 (6) | | |
| Article 4 (7) | *"[…] adjustments to the internal model […]"* – Preferably there would be some additional language on what basis adjustments can or may be requested, in order to ensure harmonization and consistency. | |
| Article 4 (8) | *"[…] adjustments to the internal model […]"* – Preferably there would be some additional language on what basis adjustments can or may be requested, in order to ensure harmonization and consistency. | |
| Article 4 (9) | | |
| Article 5 | | |
| Article 6 (1) | • It seems questionable if the criteria mentioned here for a rejection of the internal model by the national supervisory authorities are sufficient when taking local jurisdiction into account. E.g. the BaFin must be able to provide evidence at an administration cost that the acceptance of an application was not possible (given the relevant provisions). | |
| Article 6 (2) | | |
| Article 6 (3) | | |

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| Article 6 (4) | | |
| Article 6 (5) | | |
| Article 6 (6) | | |
| Article 7 (1) | | |
| Article 7 (2) | *"The transitional plan shall be approved by the administrative, management or supervisory body […]"* – Given the technical nature of transitional plans required by supervisors to extend the scope of partial internal models it should be sufficient to have the transitional plan approved by appropriate Risk Committees rather than administrative, management or supervisory body. | |
| Article 7 (3) | | |
| Article 8 (1) | | |
| Article 8 (2) | | |
| Article 8 (3) | Article 8.3 includes the following sentence: "*Minor changes to the internal model shall be communicated in a summarised report that describes both the quantitative and qualitative impacts of changes and the cumulative quantitative and qualitative effects of the changes on the approved internal model.*"<br>To be able to report the cumulative quantitative effects of minor changes exactly would require the management of more than one version of the internal model – it would require that the latest version of the model approved by the regulator, without minor changes made thereafter, would be kept "alive". That unnecessarily increases complexity and costs. This can be avoided by allowing such cumulative effects to be reported approximately. That allows the cumulative effect to be computed as the sum of effects from changes of successive versions of the internal model, rather than as the cumulative effect from the latest version of the internal model that was approved by the supervisory authority.<br><br>**Proposal**: Insert "approximate" in the said sentence as follows: *"…and the approximate cumulative quantitative and qualitative effects …*" | |
| Article 9 (1) | | |
| Article 9 (2) | | |

| Article 10 | | |
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| Annex I | | |