

Consultation on Set 2: Pillar 2 Guidelines and ITS

IRSG Meeting, 10 February 2015

Summary of Pillar 2 Consultation Papers

Consultation Paper	Owner
CP-14/046 Guidelines on the extension of the recovery period in exceptional adverse situations	Olav Jones
CP-14/051 ITS with regard to the templates and structure of the disclosure of specific information by supervisory authorities (transparency & accountability)	-
CP-14/053 ITS on capital add-ons	Olav Jones
CP-14/054 ITS with regard to the procedures for assessing external credit assessments	-
*CP-14/062 Consultation Paper on the advice to the EC in response to the call for advice on recovery plan, finance scheme and supervisory powers in deteriorating financial conditions (RTS)	Olav Jones

*Olav taking ownership of CP-14/064 (RTS) in Karel's absence

Recap/proposed update of timeline

Proposed timetable for RTS:

- ~~6 February: First draft comments sent out for comment~~
- 10 February: Discussion at IRSG meeting
- 12 February: Deadline for feedback on first draft
- 13 February: Send out first ~~second~~ version in template format for review
- 16 & 17 February: Send out second version for approval
- 18 February: Deadline for submission of the IRSG opinion

Proposed revised timetable for ITS and GLs:

- ~~6 February: Distribute draft opinion to all members of the IRSG~~
- 10 February: IRSG meeting - discussion of key messages
- 13 February: Distribute ~~draft~~ firsts opinion in template format to all members of the IRSG
- 25 February: ~~Final~~ feedback from IRSG
- 27 February: Final version for approval
- 2 March: deadline for submission of the IRSG opinion

Key Messages: Pillar 2 Topics

CP-14/046 GL on extension of the recovery period

- GL 2: Deciding on the duration of the extension
 - Is the proposed conservative supervisory approach resulting in a tight timeframe for the recovery period justified? It might result in decisions affecting the business in an adverse way, for instance, by obliging the undertaking to find new resources at an unfavourable borrowing rate, a forced sale of assets in an unfavourable environment or a need to buy reinsurance capacity in a hard market
 - Proposal: set the timeline in close co-operation with the undertaking concerned
- The need for GL 3, 5, 6, 7 and 8 is questionable because they appear to repeat or go beyond the Directive and Delegated Acts

CP-14/051 ITS on the templates and structure of disclosure of specific information by supervisory authorities

- Stronger link to Annex XXI in Delegated Acts.
- Referencing errors need to be removed from Annexes I and II.
- Annexes should only refer to SFCR templates and not RSR templates.
- Disclosure of specific information by supervisory authorities should not lead to further reporting burdens

CP-14/053 ITS on capital add-ons

- Prior notification of the supervisory's intention to set up a capital add-on should be required in all situations? (Article 1(3) requires change/deletion)
- The lack of harmonisation of the timeframes for undertakings to respond after the notification of a capital add-on may result in an inconsistent treatment of comparable undertakings within groups
- The ITS should make clear that a capital add-on should be the last supervisory measure as set out in the Directive (Recital 27 and Article 37).

CP-14/054 ITS on procedures for assessing external credit assessments

- In practice only few companies will be able to engage the necessary resources to perform an additional credit risk assessment.
- It is therefore important to refer to the proportionality principle in the articles of the ITS and not only in the recitals.

CP-14/062 RTS: Recovery Plan, Finance Scheme and Supervisory Powers in deteriorating financial conditions

- Supervisors' should have an obligation to remove the capital add-on as soon as the company has addressed the issue giving rise to the add-on
- The RTS list extensive requirements, however it should be made that not everyone of these will necessarily apply in every case - there should be sufficient flexibility to ensure that the recovery plan/finance scheme and the supervisory measures taken in deteriorating financial conditions are tailored to the particular company and their specific situation
- The proposal provides leeway for supervisors to request any additional information for any particular period outside of the Solvency II regular reporting requirements – it should make clear that such requests should be focused to what is necessary and take into account the cost and impact during deteriorating financial conditions of providing additional reporting