Memo for information

To:	Solvency II Working Group
From:	ECOFIN Team
cc:	
Date:	22-11-2018
Reference:	ECO-SLV-18-214

Subject: 19 November EC workshop on fitness check of supervisory reporting requirements - highlights

Summary

The secretariat attended on 19 November an EC workshop on the fitness check of supervisory reporting requirements.

European Commission recently launched a comprehensive assessment of supervisory reporting requirements in financial services legislation, The Fitness Check of supervisory reporting requirements is looking at whether EU-level supervisory reporting requirements are fit-for purpose. In order to gather feedback and evidence for this assessment, the European Commission held a public consultation between December 2017 and March 2018 and organised a conference on 4 June 2018.

Following this consultation, the EC is now undertaking direct discussions with the financial industry in order to build on the information gathered.

Members will find below the highlights from the workshop and the slides presented by Insurance Europe and EIOPA are attached (ECO-SLV-18-208 and ECO-SLV-18-209), as well as the agenda and the questions put forward by the commission (ECO-SLV-18-207)

Highlights

Mario Nava (Director of investment and company reporting at DG FISMA) - introductory speech.

- More than 400 responses were received from stakeholders.
- A conference was organised in June on 'Preparing Supervisory Reporting for the Digital Age'
- The EC is organising 4 workshops on reporting requirements with stakeholders before Christmas.
- The EC not only wants to address a sector's own requirements, but also interaction of national and EU requirements exist, and the EC investigates how these interactions can be made less cumbersome.
- The EC plans to publish a staff working document before summer 2019, after analysing all contributions. The document will identify areas to work on. And it will be up to the next Commission to take initiatives on this.

Presentation from the industry by Olav Jones (see ECO-SLV-18-208)

- The industry expressed support for Insurance Europe's messages
- CFO/CRO Forum representatives reiterated some issues:
  - Timelines for reporting, this is one of the industry's priorities and it is the main factor impacting data quality. Allowing for some more time would reduce other issues in their seriousness.
  - SFCR: from the perspective of a listed company there are overlaps with the annual report and the industry would like to discuss connection between the annual report and the SFCR and also other public information (analyst presentations/remuneration report/analyst report/governance report). The overall picture needs to be streamlined
  - The industry is looking forward to having a constructive dialogue with regulator to understand how they are using these data, as undertakings are producing lot of data, but they do not know if and how they are actually used.

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Session I: Follow-up to the public consultation – content related matters (chaired by Nathalie Berger)

- Introduction by the chair:
  - Nothing should be looked at in isolation, everything is to be looked at in a holistic way.
  - Only 30 out of 400 responses to the consultation came from the insurance sector. However, Insurance Europe represents views from the whole sector.
  - The exchange of views during the workshop should be done, keeping in mind the objectives of the prudential framework:
    - Financial stability
    - Policyholders protection
    - Develop a deep and liquid CMU
  - The EC needs examples, evidence and numbers.
  - The chair noted the tendency to already look at the next stage, namely to think of what could be the changes. But we are not there yet, the EC first needs to understand where the issues really are, they need the evidence for problems/hurdles.
- Stakeholders claimed that the volume of the requirements is the main driver, in this session stakeholders provided the EC with concrete examples:
  - The 184 reporting templates should be reconsidered. The industry will provide the evidence needed.
  - Reporting the same information twice should be avoided, eg ECB/EIOPA data.
  - SFCR: who is the main stakeholder, in case it is the policyholder, the executive summary should be sufficient. In addition, the SFCR contains 5 chapters which are – in particular for listed companies - in many cases a duplication of information already available. For example, the business and performance chapter is slightly different from the same information in the annual report, which is creating artificial complexity and useless, costly effort (millions of Euros for a group). Furthermore, there is very little public interest for this report.
  - EC asked how undertakings are dealing with the requests for very similar but slightly changed information in practice. And the EC enquired for the SFCR whether industry prefers a large unstructured document or a detailed prescribed template. To which the industry responded that producing very similar but slightly changed information it is very burdensome and costly for undertakings, but there is no benefit. In addition, the teams producing this information cannot work on other files.
  - The chair noted that they are using the SFCR for the EC study Drivers of equity investments by insurers and pension funds.
  - The EC asked the industry to follow up with written feedback with examples on excessive detailed requirements, duplicative requirements and anything else that is creating a problem, while keeping in mind the objectives of the prudential framework.

Session II: Follow-up to the public consultation – process related matters (chaired by Nathalie Berger)

- Introduction by the chair: EC was made aware of two other types of issues, gold plating and inconsistencies in requirements.
- Insurance Europe noted it provided the EC with a list of examples of gold plating in 2016, this list still stands as an example.
- The EC enquired after inconsistencies between Solvency II and FICOD.
- Insurance Europe provided the following examples:
  - A group was asked initially by the banking supervisor to "construct" a group in which the group's largest CRD-entity would be the parent. And as such all requirements of the CRD IV/CRR were applicable. This would result in big deficits because all capital of the insurers had to be subtracted and no grandfathering of capital instruments would apply. Ultimately, the supervisor agreed that it would be allowed to deduct the NAV from the available own funds while maintaining all risk management and other requirements.
    Going further, in order to avoid this type of situations, a solution could be to include that the dominant prudential regime would supersede any group requirements of the less dominant regime. Thus, if you are as insurance led financial conglomerate, the Solvency II consolidation rules would

apply. As such, there would be no need to restructure the group. The same reasoning would apply for banking led conglomerates.
    - Reporting on the value of options: in this case there is a requirement to apply IFRS, this has an impact on specific portfolios, implies a lot of work. This is in particular the case for undertakings not applying IFRS, as they have to apply it. As a consequence, it introduces own company adjustments, and 2 sides of the same deal do not report the same amount. A possible simplification could be that both parties would apply the same data.
    - There are also examples with respect to EMIR:
        - where insurers have to report on their derivatives exposure to supervisors under Solvency II and to trade repositories under EMIR – this overlap with EMIR reporting has been known about for some time. The reporting requirements under the two frameworks are not aligned, which increases the burden for insurers and the likelihood of inconsistencies in the data.
        - Current requirements for double-sided reporting under EMIR create unnecessary burdens, complications and costs, indeed the dual-side reporting obligation of EMIR is cumbersome, risks duplication, and results in significant avoidable expense.
- The EC noted it would be useful to have the countries in which the gold plating is applicable, in order to be able to address these issues.
- On the issue of timelines, the question was asked whether the EC is open to change level 1, to which the chair responded they need more information. EIOPA commented they have no concrete ideas to change the deadlines.

Session III: Streamlining supervisory reporting requirements (chaired by Nathalie Stefanowicz)

- The industry reiterated its key priorities:
    - SFCR, timelines, overlap, no need to wait for 2020 to remove redundancies, more thresholds should be introduced.
    - Insurance Europe highlighted that proportionality is a generic principle. To make this tangible, for example, companies with only a small exposure, which is not driving their business should be able to approximate that. The EC noted it would be more useful in the context of pillar 1, currently exemptions and thresholds with respect to reporting and applying proportionality exist.
    - The industry also enquired on the impact of sustainable work in the area of reporting. The EC noted this will not be addressed in the context of the fitness check, which takes into consideration only legislation applicable on 1 January 2016.
- The Commission asked whether there were any short-term fixes the industry could propose.
    - The issue of timing should be addressed as soon as possible. This is a legal problem, however, a project could be planned, eg a forbearance process, where undertakings would no longer be compliant, but NSAs/EIOPA would accept later submissions;
    - Increase the application of the legally foreseen limitations/waivers.
    - Turning off data would be easy, and would ease the validations, it is rather changing content and format of that would be costly.
    - EIOPA could identify information that is not used
    - Thresholds could be introduced
    - The removal of the obligation of having to report information that is already available in the public domain.
    - If simplifications are introduced, a long and detailed justification process should be avoided.

EIOPA's views

- For details see presentation (ECO-SLV-18-209)
- On templates that are not used, EIOPA noted that the template on variable annuities is not often used and EIOPA does not rely on this data.
- EIOPA intends to publish more data
- EIOPA agrees the SFCR approach needs re-thinking

Next steps

- The industry was asked to follow up with a formal response to the questions before end of January 2019.
- The staff working document will be available before the summer of 2019, it will be an analysis and it will not contain recommendations.
- Further steps may be taken by the next Commission, after summer 2019, and possible recommendations will follow