

GUIDELINES ON SUPERVISORY POWERS TO REMEDY LIQUIDITY VULNERABILITIES

Event: Workshop with stakeholders on Solvency II consultation papers

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MANDATE

MANDATE FOR EIOPA TO DEVELOP GUIDELINES

- Under Article 144b(8) of the Solvency II Directive, EIOPA is mandated with developing Guidelines, after consulting the ESRB, to ensure consistent application of Article 144b.
- The Guidelines should further specify:
 - a) **Measures and Powers for Deficiencies:** The measures to address deficiencies in liquidity risk management and the form, activation and calibration of powers that supervisory authorities may exercise to reinforce the liquidity position of undertakings where liquidity risks are identified and not adequately remedied by those undertakings.
 - b) **Exceptional Circumstances for Redemption Rights Suspension:** Exceptional circumstances that justify the temporary suspension of redemption rights.
 - c) **Conditions for Consistent Application and Aspects for Policyholders Protection:** Conditions for ensuring the consistent application of the temporary suspension of redemption rights as a last resort measure across the Union and the aspects to consider for equally and adequately protecting policyholders in all home and host jurisdictions.

Structure and content
GUIDELINES

GUIDING PRINCIPLES

- In line with Article 144b of the Solvency II Directive, the Guidelines recognize an escalation of supervisory measures to address liquidity vulnerabilities.

Undertakings are expected to implement timely remedial actions and communicate those to supervisory authorities.

Supervisory authorities then follow up to monitor the progress of the implementation. If remedial actions are insufficient, supervisory authorities may impose measures to safeguard the undertaking's liquidity position.

When undertakings face material liquidity risks that may cause an imminent threat to the protection of policyholders or the stability of the financial system, then measures of Article 144b(3) of Solvency II Directive may be exercised.

In exceptional circumstances: temporary suspension of redemption rights.

STRUCTURE AND CONTENT OF THE GUIDELINES – PART (A)

Guideline	Details
Guideline 1: Supervisory Measures to address deficiencies in liquidity risk management	<ul style="list-style-type: none"> • Undertakings must provide formal written remedial actions with timelines and the expected impact when material liquidity risks are identified. • Supervisors monitor implementation. • If actions are considered insufficient, supervisors may require: <ul style="list-style-type: none"> • Strengthening governance and internal controls; • Improving liquidity plans, indicators and escalation procedures; • Enhancing stress testing; • Activating relevant actions, including escalation procedures; • Restoring liquidity buffers.
Guideline 2: Form and calibration of supervisory powers to reinforce the liquidity position	<ul style="list-style-type: none"> • Measures must be time-bound, timely, and proportionate. • Forward-looking assessment using ORSA, liquidity indicators, and risk management plans. • Calibration reflects severity of potential liquidity shortfall and effectiveness of prior actions. • Supervisors ensure: <ul style="list-style-type: none"> • Deadlines aligned with urgency; • Adequate protection of policyholders; • Consideration of financial stability. • Regular reviews ensure measures remain appropriate and effective in addressing underlying vulnerabilities.
Guideline 3: Activation of supervisory powers to reinforce the liquidity position	<ul style="list-style-type: none"> • Measures are activated when material liquidity risks persist despite remedial actions. • Indicators include liquidity stress signals, breaches of risk tolerance limits, inadequate liquidity buffers, cash-flow mismatches, failures to follow liquidity plans, weak stress tests, recovery plan triggers, or lack of intra-group support.

STRUCTURE AND CONTENT OF GUIDELINES – PARTS (B) AND (C)

Guideline	Details
<p>Guideline 4: Exceptional circumstances that justify the temporary suspension of redemption rights</p>	<ul style="list-style-type: none"> • Assessment of circumstances that may justify the temporary suspension of redemption rights. • Guidelines provide for a non-exhaustive list of triggers, linked to: <ul style="list-style-type: none"> • Market and economic developments; • Undertaking’s specific conditions. • Supervisory authorities should assess whether the application of any other measure, or a combination of measures, can remedy the situation. • Exceptional circumstances are confirmed when the suspension of redemption rights is the last resort measure and where that is in the collective interest of policyholders and beneficiaries.
<p>Guideline 5: Protection of policyholders in all home and host jurisdictions and consistent application of the temporary suspension of redemption rights</p>	<ul style="list-style-type: none"> • Assessment of cross-border implications from the temporary suspension of redemption rights. • From home to host, <i>ex-ante</i> information to be provided. • Minimum information detailed in the Guidelines: <ul style="list-style-type: none"> • Intention to temporarily suspend the redemption rights; • Underlying reasons; • Intended application date and duration of the measure. • Timeframe for the provision of this <i>ex-ante</i> communication. • Information exchange and cooperation to continue throughout the duration of the measure. • From host to home, details on the market developments in the host jurisdiction that are important for the assessment of existence of exception circumstances. • <i>Ex-post</i> assessment of the exercise of the measure: <ul style="list-style-type: none"> • Impact / efficiency; • Lessons learnt to be shared with EIOPA.

THANK YOU!

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