

RTS ON APPLICABILITY CRITERIA FOR MACROPRUDENTIAL ANALYSIS IN OWN RISK AND SOLVENCY ASSESSMENT AND PRUDENT PERSON PRINCIPLE

Workshop on new technical standards

27 November 2024

RTS ON APPLICABILITY CRITERIA FOR MACROPRUDENTIAL ANALYSIS IN ORSA AND PRUDENT PERSON PRINCIPLE

Changes to the Solvency II Directive

- The Solvency II review empowers national supervisors to request insurance and reinsurance undertakings and groups to consider in the own risk and solvency assessment (ORSA) and in the application of the prudent person principle (PPP):
 - (i) macroprudential concerns that affect the undertaking/group and
 - (ii) activities of the undertaking/group that may affect macroeconomic developments.

Mandate for technical standards

- The RTS should define criteria that national supervisors should take into account when defining the undertakings/groups from which that macroprudential analysis is requested.

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Consultation proposal for technical standards

➤ Quantitative based criterion

- Undertakings and groups with assets exceeding EUR 12 bn. The same threshold applies for the identifications of entities subject to the financial stability reporting.

➤ Risk-based criteria

- Supervisory authorities shall assess if additional insurance and reinsurance undertakings and groups shall be included or, on the contrary, some should be excluded based, on the following criteria:
 - **interconnectedness** with other financial institutions as referred to in Article 5(2) of IRRD, where material,
 - existence of material **activities related to systemically relevant exposures**,
 - **substitutability** as referred to in Article 5(2) of IRRD,
 - material exposure to **liquidity risk and**,
 - **insufficient information available in the ORSA and in the application of the prudent person principle at group level**, which triggers macroprudential analysis to be carried out at entity level.

In addition, for the PPP only, **duration mismatch, use of synthetic leverage and the approach to valuations of illiquid/difficult to value asset classes** shall be considered.

THANK YOU!