

FINAL REPORT

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on draft Regulatory Technical Standards on  
liquidity risk management plans

EIOPA-BoS-25/386  
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**eiopa**

European Insurance and  
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# 1. EXECUTIVE SUMMARY

## INTRODUCTION

On 1 October 2024, EIOPA launched a public consultation on its proposal for draft Regulatory Technical Standards (RTS) on liquidity risk management plans. This final report sets out the final text of the draft RTS including an impact assessment and a feedback statement on the public consultation.

## CONTENT

The review of the Solvency II Directive introduces the requirement for undertakings and groups to have liquidity risk management plans (LRMPs), covering liquidity analysis over the short term, projecting the incoming and outgoing cash flows in relation to their assets and liabilities. The objective of this new macroprudential tool is to ensure that undertakings maintain adequate liquidity to settle their financial obligations towards policy holders and other counterparties when they fall due, even under stressed conditions. To ensure a consistent application of the LRMP, the draft RTS specifies (i) criteria for defining which undertakings and groups should also include a liquidity analysis over the medium and long term, (ii) the content and frequency of update of the LRMPs, and (iii) the content and frequency of update of the plans at group level. The draft RTS expects undertakings to report on their own assessment of liquidity risk in the LRMP, considering their own risk tolerance limits, to ensure a risk-sensitive and proportionate implementation.

## PUBLIC CONSULTATION

EIOPA conducted a public consultation on its proposal for the draft RTS between 1 October 2024 and 2 January 2025. A stakeholder event was held on 27 November 2024 to discuss the consultation paper. Ten stakeholders, including EIOPA's Insurance and Reinsurance Stakeholder Group (IRSG), provided feedback on the consultation paper. Based on the stakeholder feedback, several modifications were made to the draft RTS to further ensure a risk-based and proportionate approach. The baseline threshold for doing the liquidity analysis over the medium and long term was increased from EUR 12 billion to EUR 20 billion and the default frequency of update of the LRMP was decreased from quarterly to at least annually. Some provisions on the content were removed, most notably the requirements to report on the cash flow projections for specific time horizons and a common liquidity risk indicator. These provisions would have required undertakings and groups to carry out additional calculations, while not contributing significantly to the quality of their liquidity risk management.

## NEXT STEPS

The draft RTS were submitted to the European Commission. In accordance with Articles 10 to 14 of the EIOPA Regulation<sup>1</sup>, the European Commission will decide on the adoption of the RTS.

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<sup>1</sup> Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC, OJ L 331, 15.12.2010, p. 48–83.

## 2. BACKGROUND AND RATIONALE

### 2.1. AMENDMENTS TO THE SOLVENCY II DIRECTIVE

Directive 2009/138/EC<sup>2</sup> (Solvency II Directive) was reviewed.<sup>3</sup> As a result, Directive (EU) 2025/2<sup>4</sup> introduces a new Article 144a that requires insurance and reinsurance undertakings to draw up and keep up to date a liquidity risk management plan. The liquidity risk management plan must cover liquidity analysis over the short term, projecting the incoming and outgoing cash flows in relation to the undertakings' assets and liabilities. When requested by the supervisory authorities, undertakings must extend the liquidity analysis to cover the medium and long term. Insurance and reinsurance undertakings are also required to develop and keep up to date a set of liquidity risk indicators to identify, monitor and address potential liquidity stress.

The purpose of the new macroprudential tool is to ensure that insurance and reinsurance undertakings maintain adequate liquidity to settle their financial obligations towards policy holders and other counterparties when they fall due, even under stressed conditions.

The new Article 246a of the Solvency II Directive requires participating insurance and reinsurance undertakings, insurance holding companies and mixed financial holding companies to draw up and keep up to date a liquidity risk management plan at the level of the group.

Insurance and reinsurance undertakings and groups must submit the liquidity risk management plan to the supervisory authorities as part of the information to be provided for supervisory purposes. This will contribute to the monitoring of the liquidity position of the undertakings and groups by supervisory authorities, also considering the supervisory powers to remedy liquidity vulnerabilities in exceptional circumstances pursuant to Article 144b of the Solvency II Directive.

According to the new Article 144a(4) of the Solvency II Directive, small and non-complex insurance and reinsurance undertakings, and undertakings which have obtained prior approval from the supervisory authorities in accordance with Article 29d of the Solvency II Directive do not have to draw up a liquidity risk management plan. EIOPA submitted technical advice to the European Commission on specifying through a delegated act the conditions for supervisory authorities to take into account in their assessment of the application of undertakings, not classified as small and non-complex undertakings, for the exemption from the liquidity risk management plan.<sup>5</sup>

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<sup>2</sup> Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II), OJ L 335, 17.12.2009, p. 1–155.

<sup>3</sup> European Commission, [Reviewing EU insurance rules: encouraging insurers to invest in Europe's future](#), Press release, 22 September 2021.

<sup>4</sup> Directive (EU) 2025/2 of the European Parliament and of the Council of 27 November 2024 amending Directive 2009/138/EC as regards proportionality, quality of supervision, reporting, long-term guarantee measures, macro-prudential tools, sustainability risks and group and cross-border supervision, and amending Directives 2002/87/EC and 2013/34/EU, OJ L, 2025/2, 8.1.2025.

<sup>5</sup> EIOPA, [Technical advice on the implementation of the new proportionality framework under Solvency II](#), EIOPA-BoS-24-590, 30 January 2025.

## 2.2. MANDATE FOR DRAFT REGULATORY TECHNICAL STANDARDS

The amended Solvency II Directive contains three mandates for EIOPA to develop draft RTS to ensure consistent application of the liquidity risk management plan:

- ▶ on the criteria to be taken into account by supervisory authorities when defining the insurance or reinsurance undertakings and groups which shall be requested to draw up and maintain a liquidity risk management plan covering liquidity analysis over the medium and long term in accordance with Article 144a(2) (Article 144d(1)(c));

The criteria shall be proportionate to the nature, scale, and complexity of the risks, and in particular the composition of the asset and liability portfolios, the nature and variability of insurance and reinsurance obligations and the exposure of assets' expected cash-flows to market fluctuations (Article 144d(4));

- ▶ specifying the content and frequency of update of liquidity risk management plans referred to in Article 144a(2), taking into account possible combination of plans as referred to in paragraph 5<sup>6</sup> of that Article (Article 144d(2));
- ▶ further specifying the content and frequency of update of the liquidity risk management plan at group level in Article 246a (Article 246a(4)).

Since these three RTS are intricately related, EIOPA decided to combine them in one set of draft RTS. This final report sets out the draft RTS which EIOPA had to submit to the European Commission by 29 January 2026.

## 2.3. CURRENT REQUIREMENTS ON LIQUIDITY RISK MANAGEMENT

The Solvency II Directive defines 'liquidity risk' as the risk that insurance and reinsurance undertakings are unable to realise investments and other assets to settle their financial obligations when they fall due (Article 13(34)). The Solvency II Directive already requires insurance and reinsurance undertakings to cover liquidity risk in their risk management system (Article 44(2)). As such, the written policies on risk management approved by the administrative, management or supervisory body (AMSB) should comprise a policy on liquidity risk management (Article 41(3)).

Commission Delegated Regulation (EU) 2015/35 (Delegated Regulation) further specifies that – as part of the risk management system – undertakings need to document the objectives and key principles of their risk management strategy, the approved risk tolerance limits and the assignment of responsibilities across all the activities of the undertaking (Article 259(1)(a) of the Delegated

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<sup>6</sup> Paragraph 5 allows insurance and reinsurance undertakings, where they apply the matching adjustment referred to in Article 77b or the volatility adjustment referred to in Article 77d, to combine the liquidity risk management plan with the liquidity plan projecting the incoming and outgoing cash flows in relation to the assets and liabilities subject to the matching and volatility adjustments, in accordance with Article 44(2) of the Solvency II Directive. According to Article 44(2), where insurance or reinsurance undertakings apply the matching adjustment referred to in Article 77b or the volatility adjustment referred to in Article 77d, they shall set up a liquidity plan projecting the incoming and outgoing cash flows in relation to the assets and liabilities subject to those adjustments. Where insurance or reinsurance undertakings apply the volatility adjustment referred to in Article 77d, their liquidity plans shall take into account the use of the volatility adjustment and assess whether liquidity constraints may arise which are not consistent with the use of the volatility adjustment.

Regulation). Moreover, undertakings must establish, implement and maintain clearly defined procedures on the decision-making process (Article 259(1)(b) of the Delegated Regulation).

The written policies on risk management are meant to implement the undertaking's risk management strategy (Article 259(1)(c) of the Delegated Regulation). These policies effectively ensure the definition and categorisation of the material risks by type to which the undertaking is exposed, and the approved risk tolerance limits for each type of risk.

The risk management system should include reporting procedures and processes which ensure that information on the material risks faced by the undertaking and the effectiveness of the risk management system are actively monitored and analysed and that appropriate modifications to the system are made where necessary (Article 259(1)(d) of the Delegated Regulation). The persons who effectively run the undertaking or have other key functions should take into account the reported information in their decision-making process (Article 259(2) of the Delegated Regulation).

The risk management system should also, where appropriate, include the performance of stress tests and scenario analysis with regard to all relevant risks faced by the undertaking (Article 259(3) of the Delegated Regulation).

More specifically, Article 260(1)(d) of the Delegated Regulation requires that the written policy on liquidity risk management should cover:

- ▶ actions to be taken by the insurance or reinsurance undertaking to take into account both short term and long-term liquidity risk;
- ▶ the appropriateness of the composition of the assets in terms of their nature, duration and liquidity to meet the undertaking's obligations as they fall due; and
- ▶ a plan to deal with changes in expected cash in-flows and out-flows.

#### 2.4. PRINCIPLE-BASED AND PROPORTIONATE APPROACH

The draft RTS uses the existing risk management requirements of insurance and reinsurance undertakings as a basis for the liquidity risk management plans. Although Article 144a of the Solvency II Directive introduces new elements, strengthening liquidity risk management of undertakings, many of the main elements of the liquidity risk management plan already fit well within the current framework, i.e.:

- ▶ The analysis to be included in the liquidity risk management plan involves the projection of incoming and outgoing cash flows in relation to undertakings' assets and liabilities. Such projections are already implied by the requirement in Article 260(1)(d) of the Delegated Regulation that expects undertakings to have "a plan to deal with changes in expected cash in-flows and out-flows";
- ▶ The purpose of the liquidity risk management plan is to ensure that undertakings can settle their financial obligations towards policy holders and other counterparties as they fall due, even under stressed conditions. The latter suggests that undertakings also have to carry out cash flow projections under stressed conditions in line with the current requirement in Article 259(3) of the

Delegated Regulation which prescribes that undertakings, where appropriate, include the performance of stress tests and scenario analysis with regard to all relevant risks faced by the undertaking in their risk management system;

- ▶ The liquidity analysis in the liquidity risk management plan should cover the short term and, when requested by the supervisory authorities, also the medium and long term. Article 260(1)(d) of the Delegated Regulation already requires undertakings to take into account both short-term and long-term liquidity risk;
- ▶ To ensure that undertakings can settle their financial obligations towards policy holders and other counterparties as they fall due, even under stressed conditions, insurance and reinsurance undertakings should “maintain adequate liquidity”. Article 260(1)(d) of the Delegated Regulation provides that the composition of the assets of the undertaking is appropriate in terms of their nature, duration and liquidity to meet the undertakings’ obligations as they fall due. Moreover, undertakings should have a plan to deal with changes in expected cash in-flows and out-flows, which EIOPA expects to include a liquidity buffer.<sup>7</sup> EIOPA also expects that the liquidity risk management policy considers the level and monitoring of liquid assets, including a quantification of potential costs or financial losses arising from an enforced realisation<sup>8</sup> or, put differently, a quantification of haircuts;
- ▶ It is currently not explicitly required for insurance and reinsurance undertakings to develop and keep up to date a set of liquidity risk indicators to identify, monitor and address potential liquidity stress. Still, according to Article 44(1) of the Solvency II Directive, the main goal of the risk management system is “*to identify, measure, monitor, manage and report, on a continuous basis the risks, at an individual and at an aggregated level, to which they are or could be exposed, and their interdependencies.*”

EIOPA took a principle-based approach to the draft RTS, aiming for an appropriate balance between ensuring a consistent application of the liquidity risk management plan, and recognising the heterogeneity of the business models and liquidity risk exposures of insurance and reinsurance undertakings and groups and minimising implementation costs. Rather than a standardised liquidity risk assessment with harmonised assumptions and templates, the liquidity analysis to be reported in the liquidity risk management plan should be consistent with the undertaking’s own assessment of liquidity risk<sup>9</sup>, considering its own approved risk tolerance limits for liquidity risk, in line with the existing Solvency II requirements and the IAIS’ insurance core principles on liquidity risk management.<sup>10</sup>

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<sup>7</sup> Paragraph 1.63(b) of Guideline 26 (‘Liquidity risk management policy’) of EIOPA’s [Guidelines on system of governance](#) requires “an appropriate liquidity buffer to guard against a liquidity shortfall”.

<sup>8</sup> Paragraph 1.63(c) of Guideline 26 (‘Liquidity risk management policy’) of EIOPA’s [Guidelines on system of governance](#).

<sup>9</sup> CRO Forum ([Managing liquidity risk: Industry practices and recommendations for CROs](#), September 2019) presents the results of a survey on current liquidity risk management practices of undertakings.

<sup>10</sup> See ICP 16.9 in IAIS, [Insurance Core Principles and Common Framework for the Supervision of Internationally Active Insurance Groups](#), 15 November 2019.

This ensures a risk-sensitive analysis, taking into account the specificities of undertakings, but also a proportionate implementation of the liquidity risk management plans. Moreover, in accordance with Article 144a(4) of the Solvency II Directive, small and non-complex undertakings and undertakings which have obtained prior approval from the supervisory authorities pursuant to Article 29d are not obliged to draw up a liquidity risk management plan. EIOPA submitted technical advice to the European Commission on specifying through a delegated act the conditions for supervisory authorities to take into account in their assessment of the application of undertakings, not classified as small and non-complex undertakings, for the exemption from the liquidity risk management plan.<sup>11</sup>

## 2.5. DETAILED EXPLANATION OF THE DRAFT RTS

### Definition of short term and medium and long term

Since the draft RTS has to specify the criteria for doing the liquidity analysis over the medium and long term, it is important to also define the time period covered by the medium and long term. The criteria must be risk-based, which means that the time period in which liquidity risks may materialise should be clear. Moreover, it would not be meaningful to specify common criteria for carrying out the liquidity analysis over the medium and long term if undertakings subsequently apply their own definition of what constitutes the liquidity analysis over the short term and the liquidity analysis over the medium and long term.

Article 1 of the draft RTS defines the distinction between the liquidity analysis over the short term and the analysis over the medium and long term by means of the following time periods:

- ▶ up to and including 3 months for the short-term liquidity analysis following the starting date of the projections; and
- ▶ beyond 3 months for the medium- and long-term liquidity analysis following the starting date of the projections.

The short-term time period of 3 months is considerably longer than the short-term horizon used for the liquidity coverage ratio (LCR) for banks. The LCR promotes the short-term resilience of their liquidity risk profile by ensuring that they have sufficient high-quality liquid assets (HQLA) to survive a significant stress scenario lasting 30 calendar days.<sup>12</sup> The IAIS concludes that a longer time horizon “is more in line with the insurer’s liquidity risk profile.”<sup>13</sup> The IAIS’ monitoring of liquidity risk through the insurance liquidity ratio (ILR) is based on a short-term time horizon of 3 months and a longer-term horizon of 1 year.

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<sup>11</sup> EIOPA, [Technical advice on the implementation of the new proportionality framework under Solvency II](#), EIOPA-BoS-24-590, 30 January 2025.

<sup>12</sup> Basel Committee on Banking Supervision, [Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools](#), January 2013.

<sup>13</sup> According to IAIS, [Liquidity metrics as an ancillary indicator](#), Level 2 Document, 18 November 2022, insurers are relatively less vulnerable to liquidity stresses than banks as many of the products require an event to occur prior to any payment, whereas banks tend to have callable deposits, which can be withdrawn over very short time horizons. Some of the largest drivers of insurers’ liquidity needs, such as policyholder surrenders and catastrophe payments, would result in cash flows that are spread over months or years, instead of hours or days.



A time period of a month or less is mostly going to capture liquidity risk linked to margin and collateral calls on derivative instruments, securities financing transactions and other exposures of insurance and reinsurance undertakings. Liquidity risk in relation to surrenders usually takes more than one month to materialise.<sup>14</sup> As such, a projection horizon of one month or lower will exclude an important source of liquidity risk, also considering that Article 144b of the Solvency II Directive empowers supervisory authorities in exceptional circumstances to suspend the redemption rights of life insurance policy holders. The inclusion of surrenders, including redemptions, in the liquidity risk management plan supports supervisory authorities to make an informed decision in this regard. In addition, a considerable proportion of undertakings do not use derivative instruments.<sup>15</sup> This means that a projection period of one month or less may render the short-term analysis less relevant for that type of undertakings (and supervisory authorities), even though they would still have to draw up the liquidity risk management plan.

The draft RTS does not specify an absolute end date for the time period of the medium- and long-term analysis, as this will depend on the undertaking's business model and liquidity risk exposures.

### Criteria for covering liquidity analysis over the medium and long term

Article 2 of the draft RTS specifies that undertakings and groups exceeding EUR 20 billion in assets will have to cover the liquidity analysis over the medium and long term in the liquidity risk management plan. However, supervisory authorities should carry out a risk-based assessment whether:

- ▶ undertakings and groups exceeding EUR 20 billion in assets are materially exposed to medium and long-term liquidity risk and, hence, should include the liquidity analysis over the medium and long term;
- ▶ additional undertakings and groups below EUR 20 billion in assets should carry out a liquidity analysis over the medium- and long-term.

The supervisory assessment should take into account the nature, scale, and complexity of the risks, covering at least liquidity risk in relation to exposures to (a) insurable events, (b) policy holder behaviour, (c) structure or composition of assets, (d) counterparty risk and (e) economic and market developments.

The rationale for the asset-size criterion is that the Solvency II Directive considers the liquidity risk management plan to be a macroprudential tool. Larger undertakings and groups will be more relevant for financial stability, e.g. through their impact on financial markets in the event of forced asset sales to obtain liquidity. While based on current risk assessment frameworks (e.g. IAIS Holistic Framework for systemic risk in the insurance sector) the exposure to systemically relevant activities is a key

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<sup>14</sup> Table 3-1 on p. 32 of EIOPA, [Methodological principles of insurance stress testing – liquidity component](#), EIOPA-BoS-20/760, 13 January 2021, provides an overview of sources of liquidity risk and their relevance for the different time horizons.

<sup>15</sup> According to the ESRB ([Enhancing the macroprudential dimension of Solvency II](#), February 2020), in December 2018, roughly 80% of notional amounts for derivatives was concentrated in 30 insurance and reinsurance undertakings. In the EEA, around 80% of insurance and reinsurance undertakings have no derivatives exposure, but the 20% who do account for approximately 85% of the total investments.

determinant for the relevance of an undertaking, size is still considered as a risk amplifier. The threshold of EUR 20 billion in assets is intended to be commonly applied across EIOPA's policy material (i.e. undertakings and groups that have to carry out macroprudential analyses in the ORSA and incorporate macroprudential considerations as part of the prudent person principle) and financial stability tools (e.g. EIOPA Guidelines on reporting for financial stability purposes) and it is defined to strike the right balance between financial stability monitoring and burden reduction. The value is derived from the previously applied threshold of EUR 12 billion in assets, taking into account the inflationary effect on the asset valuation of the headline inflation observed in Europe, and ensuring that a sufficient market coverage is reached both at European and national level. EIOPA will assess the ongoing appropriateness of the threshold in future reviews of the draft RTS. Annex 2 presents detailed calculations on how the threshold impacts different jurisdictions in the EEA.

The rationale for the risk-based supervisory assessment is that while the threshold of EUR 20 billion in assets aims to capture larger undertakings and groups that due to their size are important from a financial stability perspective, qualitative criteria aim to identify further undertakings (i.e. smaller ones not captured by the threshold) that may be exposed to considerable medium- and long-term liquidity risk. In addition, the application of the qualitative criteria aims to assist supervisory authorities to identify undertakings and groups that have been captured by the threshold of EUR 20 billion, but for which the assessment of the nature, scale and complexity of liquidity related risks reveals that these undertakings and groups are not materially vulnerable to medium and long-term liquidity risk, and as such should not be requested to include such analysis in their liquidity risk management plans. Article 144d(4) of Solvency II Directive recognises that the criteria shall be proportionate to the nature, scale, and complexity of the risks, and in particular the composition of the asset and liability portfolios, the nature and variability of insurance and reinsurance obligations and the exposure of assets' expected cash-flows to market fluctuations.

Article 260(1)(d) of the Delegated Regulation already requires all insurance and reinsurance undertakings to take into account both short-term and long-term liquidity risk. The above criteria are only relevant for reporting the medium- and long-term liquidity analysis in the liquidity risk management plan.

## **Content and frequency of update of the liquidity risk management plan**

### **Structure**

Article 3 of the draft RTS provides that undertakings should draw up the liquidity risk management plan following a common structure. According to this structure, the liquidity risk management plan should start with an overall assessment, providing a synthesis of the different elements of the liquidity analysis. Subsequently, the separate elements of the liquidity analysis should be reported: the assumptions underlying the analysis, information on the cash flow projections, the buffers of liquid assets and the liquidity risk indicators.

The structure provides flexibility for undertakings to provide 'any other information'. This section could, for example, include other information on the liquidity analysis in relation to assets and liabilities subject to the matching adjustment or the volatility adjustment, where, in accordance with Article

144a(5) of the Solvency II Directive, undertakings make use of the possibility to combine the liquidity risk management plan with the liquidity plan referred to in Article 44(2) of the Solvency II Directive, and where this other information does not fit in the other sections.

The objective of the draft RTS is to ensure a common application of the liquidity risk management plan, of which a common structure is an essential element. A common structure will enhance the accessibility of the liquidity risk management plan by ensuring continuity and comparability for readers, most notably the undertaking's AMSB and the supervisory authorities.

### **Description of assumptions underlying the projections**

Article 4 of the draft RTS specifies that undertakings should provide information in the liquidity risk management plans on the assumptions underlying the projections of incoming and outgoing cash flows. The information is to contain a description of the assumptions underlying the projections of incoming and outgoing cash flows on an ongoing basis as well as under stressed conditions.

The information on the cash flow projections under stressed conditions should include the material sources of liquidity risk covered in the stress tests and scenario analysis as well as the sizes of the shocks applied. The sources of liquidity risk may include, for example: margin and collateral calls on derivatives, securities financing transactions and other exposures, redemptions by policy holders, natural and man-made catastrophes and a deterioration of the undertaking's own credit standing, which would render it more difficult and expensive for the undertaking to roll over debt or obtain new funding.

The reporting of the assumptions underlying the cash flow projections will enhance the understanding of the liquidity analysis and, hence, the readability of the liquidity risk management plan, but also incentivise undertakings to duly consider these assumptions in their risk assessment.

### **Information on cash flow projections**

Article 5 of the draft RTS specifies that undertakings should provide information in the liquidity risk management plan on the results of the projections of cash flows on an ongoing basis and under stressed conditions.

To ensure that the information is up to date, the starting date of the projections of incoming and outgoing cash flows in relation to their assets and liabilities should not predate the end of the previous quarter relative to the quarter in which the liquidity risk management plan is drawn up or updated. For example, if the liquidity risk management plan is updated in the second quarter, then the starting point of the projections could be assets and liabilities at the end of the first quarter, but not at the end of the previous year.

Undertakings should provide the information on the cash flow projections for at least one time horizon over the short-term time period and, if applicable, for at least one time horizon over the medium- and long-term time period. The definitions of the analyses over the short term (up to and including 3 months) and medium and long term (beyond 3 months) do not imply that undertakings must use a time horizon of exactly 3 months for their projections of incoming and outgoing cash flows. Rather,

undertakings are expected to determine their own time horizons in order to capture material liquidity risks and the timing of liquidity needs. For example, to properly capture exposures to daily margin and collateral calls and surrenders in the short-term liquidity analysis, it could be appropriate for undertakings to make cash flow projections with a time horizon measured in days (margin and collateral calls) as well as projections with a time horizon measures in months (surrenders).

Article 5 of the draft RTS also imposes high-level requirements on the granularity of the cash flow reporting. Liquidity risk on parts of the assets and liabilities may be borne by the policy holders (instead of the undertaking), and parts of the assets and liabilities may not be available to provide liquidity to other parts of the undertaking, e.g. assets and liabilities relating to life insurance obligations with profit participation. Therefore, undertakings must distinguish, where relevant, assets and liabilities in relation to index-linked/unit-linked obligations as well as assets and liabilities within ring-fenced funds and matching adjustment portfolios. Where any liquidity constraints are identified, the liquidity risk management plan should contain an assessment of whether the projections of cash flows on an ongoing basis and under stressed conditions satisfy these constraints.

The article also specifies the cash flow items that should at least be distinguished in the liquidity risk management plan:

- ▶ The main incoming (gross written premiums, reinsurance recoverables, investment income) and outgoing (claims, expenses, reinsurance premiums) cash flows of undertakings, often characterising the inverted product cycle of their business model;
- ▶ The outgoing cash flows (surrenders, dividend distributions to shareholders and other subordinated creditors, other payments to shareholders and other subordinated creditors, share buy-backs and repayment or redemption of own fund items, bonuses and other variable remuneration) that can be restricted or suspended by supervisory authorities in accordance with Article 144b;
- ▶ Intragroup cash inflows and outflows, where the undertaking belongs to a group;
- ▶ Other financial incoming cash flows (sales of assets other than those designated liquid assets, unsecured funding) and outgoing cash flows (purchases of assets and margin and collateral calls).

The cash flow items will have to be reported for the projections on an ongoing basis. Not all items will necessarily have to change in value in the projection(s) under stressed condition compared to the projection on an ongoing basis. Therefore, for the projections under stressed condition, undertakings only have to report the cash flow items where they materially change in value.

The main objective of the minimum list of cash flow items is to provide the readers of the liquidity risk management plan, including the supervisory authorities, insight in the drivers of the outcomes of the liquidity analysis. The minimum list of cash flow items also forces undertakings to consider potentially imminent sources of liquidity risk, such as margin and collateral calls on derivatives, securities financing transactions and other exposures.<sup>16</sup> The reporting of the outgoing cash flow items that can be restricted

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<sup>16</sup> See FSB, [Liquidity Preparedness for Margin and Collateral Calls, Final report](#), 10 December 2024.

or suspended in accordance with Article 144b will provide supervisory authorities with valuable information on whether restriction or suspension of these items can materially contribute to remedying liquidity vulnerabilities in exceptional circumstances. Finally, some of the incoming cash flow items aim to shed light on the reliance on sources of liquidity (intragroup cash inflows, sales of assets not included in the buffer of liquid assets and unsecured funding) that are not related to the buffer of liquid assets.

Article 5 of the draft RTS provides that the net balance between incoming and outgoing cash flows, including the inflows in relation to the transformation of liquid assets into liquidity, should be shown separately. Moreover, a breakdown of the difference between the net and gross balance of incoming and outgoing cash flows should be reported, at least distinguishing, where material, sales of liquid assets, funding secured by liquid assets and the posting of liquid assets as collateral. The reason for making the distinction between gross and net balances of incoming and outgoing cash flows is that the net balance by itself is not very informative from a risk management perspective. The net balance would normally be non-negative if the undertaking has sufficient buffers of liquid assets to cover a gross liquidity shortfall. Rather the purpose of the liquidity risk management plan is to assess whether the undertaking has sufficient liquid assets to cover a liquidity shortfall.

#### **Information on buffers of liquid assets and other sources of liquidity**

According to Article 144a(1) and (2) of the Solvency II Directive, the purpose of the liquidity risk management plan is to ensure that insurance and reinsurance undertakings maintain adequate liquidity to settle their financial obligations towards policy holders and other counterparties when they fall due, even under stressed conditions. Liquidity will consist of buffers of liquid assets, but may also include other sources of liquidity, not related to the buffers of liquid assets, such as unsecured funding and intragroup liquidity arrangements, including cash pooling.

Article 6 of the draft RTS specifies that undertakings should provide qualitative and quantitative information on their buffers of liquid assets corresponding to the time horizon of the liquidity needs.

EIOPA and IAIS<sup>17</sup> prescribe templates in their liquidity monitoring with a breakdown of liquid assets, including the haircuts to be applied at the 3 month and 1 year horizon. In line with the principle-based approach, the draft RTS does not specify such a template. However, undertakings should report a breakdown of the types of liquid assets, before and after the application of their assumed haircuts. The haircuts are defined as the loss in value when transforming the assets into liquidity under stressed conditions within the relevant time horizon, including the potential costs and financial losses arising from the outright sale of the assets.

The fact that undertakings have liquid assets or other sources of liquidity does not mean that liquidity is readily available in practice. Article 6 of the draft RTS requires undertakings to provide the results of assessments showing that:

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<sup>17</sup> IAIS, [Liquidity metrics as an ancillary indicator](#), Level 2 Document, 18 November 2022.

- ▶ the assets are unencumbered, of high credit quality and readily marketable;
- ▶ the undertaking has the operational capacity to transform the assets into liquidity; and
- ▶ where the undertaking relies on any arrangements with counterparties to transform liquid assets into liquidity or to provide other sources of liquidity, these arrangements continue to be available, in particular under stressed conditions.

### **Information on liquidity risk indicators**

According to Article 144a(2) of the Solvency II Directive, insurance and reinsurance undertakings should develop and keep up to date a set of liquidity risk indicators to identify, monitor and address potential liquidity stress. Article 7 of the draft RTS specifies that undertakings provide quantitative and qualitative information on these indicators.

Although undertakings should report their own liquidity risk indicators, reflecting the specificities and risk profile of the undertaking, the draft RTS imposes some conditions on the indicators to ensure that they are informative for the target audience, including the undertaking's AMSB and its supervisory authority. In particular, the reported indicators should include indicators that signal the extent to which liquidity risk exposures are within the established risk tolerance limits and compare liquidity resources and liquidity needs under normal and stressed conditions. Commonly used examples of such indicators are:

- ▶ the liquidity coverage ratio, which can be defined as the ratio of liquid assets to net (stressed) cash outflows;
- ▶ the excess liquidity metric, which can be defined as the difference between liquid assets and net (stressed) cash outflows.

As part of the qualitative information on the liquidity risk indicators, undertakings should provide a description, and explanation of the appropriateness, of the liquidity risk indicators to identify, monitor and address potential liquidity stress.

### **Overall assessment of liquidity risk**

Article 8 of the draft RTS specifies the elements that should be contained in the overall assessment of liquidity risk, which should include an assessment of:

- ▶ whether the undertaking meets its own, approved risk tolerance limits for liquidity risk;
- ▶ whether the undertaking has adequate liquidity to settle its financial obligations towards policy holders and other counterparties when they fall due, even under stressed conditions;
- ▶ any significant changes to the liquidity risk profile since the previous liquidity risk management plan, also to facilitate the consideration of the liquidity risk management report by internal users (e.g. AMSB) and the supervisory authority; and
- ▶ vulnerabilities in the liquidity risk profile and liquidity risk management system and actions undertaken by the undertaking to remedy the situation.

## Frequency of update of the liquidity risk management plan

Article 9 of the draft RTS prescribes that the liquidity risk management plan should be updated at least every year. A higher frequency enables undertakings to capture any significant fluctuations in liquidity risk exposures throughout the year. Article 9 also requires that the liquidity risk management plan is updated without delay following any significant change in the liquidity risk profile of the undertaking or any major external development affecting significantly the relevance of the content of the liquidity risk management plan.

The fact that undertakings must update the liquidity risk management plan following any significant change in the liquidity risk profile implies that it is insufficient for undertakings to assess liquidity risk just once a year. Moreover, carrying out a short-term liquidity analysis with a 3-month time period once every year would leave gaps in the projections for the remaining three quarters of the year. Indeed, Article 44(1) ('Risk management') of the Solvency II Directive already specifies that insurance and reinsurance undertakings should identify, measure, manage, and report liquidity risks on a continuous basis.

The draft RTS only specifies the frequency of update of the liquidity risk management plan and not the frequency of submitting the liquidity risk management plan to the supervisory authority. Article 144a(3) of the Solvency II Directive provides that undertakings should submit the liquidity risk management plan to the supervisory authorities as part of the information referred to in Article 35(1) ('Information to be provided for supervisory purposes') of the Solvency II Directive. Article 35(9) empowers the European Commission to further specify the information to be provided for supervisory purposes.

## Content and frequency of update of the liquidity risk management plan at group level

Article 10 of the draft RTS specifies that the requirements on the structure (Article 3 of the draft RTS) and on the content of the liquidity risk management plan (Articles 4 to 8 of the draft RTS) at solo level also apply at group level. This is consistent with Article 246a of the Solvency II Directive which provides that the requirements relating to liquidity risk management plans at solo level apply "mutatis mutandis" to groups.

Article 10 also specifies that the frequency of update at group level should be the same as the frequency of update at the solo level (Article 9 of the draft RTS). This does not imply that the liquidity risk management reports at group level should be submitted at the same point in time as the liquidity risk management report at solo level.

Articles 10 and 11 of the draft RTS specify the additional information that should be reported at group level, mostly relating to intra-group liquidity flows and transactions and risk concentrations:

- ▶ a description of the mechanism by which the liquidity is managed, as well as an explanation of the mechanisms to transfer liquidity to the different undertakings of the group;
- ▶ a description of the impacts of intragroup transactions and risk concentrations on liquidity needs and resources;

- ▶ an assessment of the consistency of the treatment of the intragroup transactions; and
- ▶ an assessment of restrictions on liquidity transferability that could limit or delay the use of intra-group transactions.



### 3. DRAFT TECHNICAL STANDARDS



EUROPEAN COMMISSION

Brussels, dd.mm.yyyy  
C(20..) yyy final

**COMMISSION DELEGATED REGULATION (EU) .../..**

**of [ ]**

**COMMISSION DELEGATED REGULATION (EU) .../...**  
**supplementing Directive 2009/138/EC of the European Parliament and of the Council with  
regard to regulatory technical standards on liquidity risk management plans**

of [ ]

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)<sup>18</sup>, and in particular Article 144d(1), third subparagraph, Article 144d(2), second subparagraph and Article 246a(4), second subparagraph thereof,

Whereas:

- (1) To ensure a proportionate and risk-based implementation of the liquidity risk management plan referred to in Articles 144a(2) and 246a(1) of Directive 2009/138/EC, insurance or reinsurance undertakings and groups should provide the results of their own liquidity analysis in the liquidity risk management plan, in accordance with the system of governance and risk management requirements in Directive 2009/138/EC and the implementing and delegated acts adopted thereunder, including in particular Article 259 and Article 260(1), point (d), of Commission Delegated Regulation (EU) 2015/35<sup>19</sup>, and with the insurance core principles on liquidity risk management of the International Association of Insurance Supervisors.<sup>20</sup>
- (2) The specification of the criteria for requesting insurance or reinsurance undertakings and groups to also cover liquidity analysis over the medium and long term in the liquidity risk management plan requires a common understanding of the timeframes over which short-, medium- and long-term liquidity risks may materialise. To recognise the specific business model of insurance or reinsurance undertakings and groups compared to other financial institutions, the liquidity analysis over the short term should span a period of up to and including three months, whereas the liquidity analysis over the medium and long term should cover a period beyond three months.
- (3) The criteria to be taken into account when identifying the insurance or reinsurance undertakings and groups that are to be requested to extend the liquidity risk management plan to cover also liquidity analysis over the medium and long-term should be both quantitative and qualitative,

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<sup>18</sup> OJ L 335, 17.12.2009, p. 1–155.

<sup>19</sup> Commission Delegated Regulation (EU) 2015/35 of 10 October 2014 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II) (OJ L 12, 17.1.2015, p. 1, ELI: [http://data.europa.eu/eli/reg\\_del/2015/35/oj](http://data.europa.eu/eli/reg_del/2015/35/oj)).

<sup>20</sup> Insurance Core Principle 16.8 and 16.9 in International Association of Insurance Supervisors, Insurance Core Principles and Common Framework for the Supervision of Internationally Active Insurance Groups, December 2024.

and they should be proportionate to the nature, scale, and complexity of the risks and support supervisory convergence.

- (4) To identify insurance or reinsurance undertakings and groups that due to their size are more important from a financial stability perspective, quantitative criteria should be used. While based on current risk assessment frameworks (e.g. the Holistic Framework for Systemic Risk in the Insurance Sector of the International Association of Insurance Supervisors) the exposure to systemically relevant activities is a key determinant for the relevance of an undertaking or group, size is still considered to be a risk amplifier. To strike a balance between the needs of financial stability monitoring and burden reduction, the quantitative criteria should be based on a threshold for total assets of EUR 20 000 000 000, which ensures sufficient market coverage both at European and national level.
- (5) To identify additional insurance or reinsurance undertakings and groups that have not been captured by the application of quantitative criteria, but which due to their risk profile may be prone to liquidity risks over the medium and long term, qualitative criteria should be used. Such qualitative criteria should build on European and international methodological principles covering the assessment of liquidity risk. The application of the qualitative criteria should also enable the supervisory authorities to identify insurance or reinsurance undertakings and groups that have been captured by the application of the quantitative criteria, but for which the assessment of the nature, scale, and complexity of liquidity related risks reveals that they are not materially vulnerable to medium and long-term liquidity risk and as such should not to be requested to include medium to long-term liquidity analysis in their liquidity risk management plans.
- (6) The requirement of liquidity risk management plan over the medium and long term at group level should not systematically imply the need for a liquidity risk management plan over the medium and long term for the related insurance and reinsurance undertakings of the group and reciprocally. Supervisory authorities should assess the criteria considering the nature, scale, and complexity of the risks to which groups and individual insurance and reinsurance undertakings are vulnerable as the exposure to liquidity risk is not necessarily similar.
- (7) The liquidity risk management plans should be easily accessible and comparable and should therefore follow a common structure. Insurance and reinsurance undertakings, applying the matching adjustment or the volatility adjustment, have the possibility, in accordance with Article 144a(5) of Directive 2009/138/EC, to combine the liquidity risk management plan with the liquidity plan in relation to the assets and liabilities subject to these adjustments, and therefore the common structure should be sufficiently flexible. To provide its audience, including the supervisory authority, with a synthesis of the different components of the liquidity analysis, the liquidity risk management plan should start with an overall assessment of the adequacy of liquidity to settle obligations when they fall due.
- (8) A description of the assumptions, including the stresses to material sources of liquidity risk, enhances the readers' insights in the risk profile of insurance and reinsurance undertakings and contributes to the understanding of the liquidity risk management plan. Therefore, insurance and reinsurance undertakings should provide information on the assumptions used for their projections of incoming and outgoing cash flows, both on an ongoing basis and under stressed conditions. The liquidity risk management plan should describe the sources of liquidity risk

considered, which may include margin and collateral calls on derivatives, securities financing transactions and other exposures, redemptions by policy holders, potential natural and man-made catastrophes and a deterioration of the insurance and reinsurance undertakings' credit standing, and specify the size of the shocks assumed in the stress tests and scenario analysis.

- (9) Since insurance and reinsurance undertakings should use time horizons in the projections of incoming and outgoing cash flows that effectively capture their liquidity risk profile and the timing of their liquidity needs, which may include horizons expressed in days for daily margin and collateral calls, they should provide in the liquidity risk management plan the results of the cash flow projections for one or more time horizons within the short term and, where applicable, the medium and long term.
- (10) Liquidity risk on parts of the assets and liabilities may be borne by the policyholders and parts of the assets and liabilities may be ring-fenced, including in funds with life insurance obligations with profit participation, so that these assets are not available to provide liquidity to other parts of the insurance or reinsurance undertaking. Therefore, in the liquidity risk management plan, insurance and reinsurance undertakings should present the results of the cash flow projections separately for assets and liabilities relating to index-linked and unit-linked obligations and ring-fenced funds, including matching adjustment portfolios. Insurance and reinsurance undertakings should also identify any internal liquidity restrictions and provide an assessment of whether these internal liquidity restrictions are complied with.
- (11) The results of the cash flow projections should provide the audience of the liquidity risk management plans, including the supervisory authorities, insight in the main drivers of the development of incoming and outgoing cash flows, the reliance on the buffers of liquid assets and other sources of liquidity to absorb any shortfalls and the effectiveness of potential supervisory measures to restore the liquidity position of insurance and reinsurance undertakings. The liquidity risk management plan should therefore contain a breakdown of the projections of incoming and outgoing cash flows on an ongoing basis and under stressed conditions. The cash flow items to be distinguished should cover the main cash inflows and outflows of insurance and reinsurance undertakings, cash outflows that constitute important sources of liquidity risk, including margin and collateral calls, cash inflows originating from the buffers of liquid assets and other sources of liquidity, including unsecured funding, and the outgoing cash flows that supervisory authorities can temporarily restrict or suspend to remedy liquidity vulnerabilities in exceptional circumstances, in accordance with Article 144b(3) of Directive 2009/138/EC. To ensure a proportionate and risk-based approach, insurance and reinsurance undertakings should provide the prescribed cash flow items for the projections on an ongoing basis, and only where these items change materially, for the projections under stressed conditions
- (12) Insurance and reinsurance undertakings should maintain adequate liquidity to settle their financial obligations towards policyholders and other counterparties when they fall due, even under stressed conditions. The liquidity risk management plan should therefore contain a breakdown of the buffers of liquid assets and of the assumed haircuts, which should correspond to the loss in the value of the assets when the assets are transformed into liquidity under stressed conditions within the timeframe corresponding to the liquidity needs. That breakdown should be accompanied by an assessment of the reliability of the assets in providing liquidity, of the operational capacity of the insurance or reinsurance undertaking to convert assets into liquidity,

and of the availability of arrangements with counterparties, also in stressed circumstances to transform liquid assets into liquidity and to provide other sources of liquidity.

- (13) The liquidity risk management plan should contain the latest values of the insurance and reinsurance undertakings' liquidity risk indicators, together with a description and explanation of their appropriateness. Although the liquidity risk indicators should be the insurance and reinsurance undertakings' own indicators, reflecting their specificities and liquidity risk profile, it is important to ensure that the indicators convey relevant information on the insurance and reinsurance undertakings' liquidity position. Therefore, the liquidity risk management plan should include indicators that signal whether liquidity exposures are within the insurance and reinsurance undertakings' approved risk tolerance limits and that compare liquidity resources and needs under normal and stressed conditions, such as the commonly used liquidity coverage ratio and the excess liquidity metric.
- (14) The updating of the liquidity risk management plan ensures that the plan contains current and relevant information, but disproportionate costs of updating the content too frequently should be avoided. Therefore, the liquidity risk management plan should be updated annually, or more frequently to capture any significant fluctuations in liquidity risk exposures throughout the year. The liquidity risk management plan should be also updated following a significant change in the liquidity risk profile of the undertaking, or any major external development affecting significantly the relevance of the content of the liquidity risk management plan.
- (15) To mitigate any threats to the liquidity position of the group, participating insurance and reinsurance undertakings, insurance holding companies and mixed financial holding companies should describe in the liquidity risk management plan at group level the impacts of all significant intra-group transactions and risk concentrations.
- (16) Liquidity is not always freely transferable within a group when needed, therefore participating insurance and reinsurance undertakings, insurance holding companies or mixed financial holding companies should ensure that the impacts described in the liquidity risk management plan at group level include any restrictions of transfer of liquidity within the group on an ongoing basis and under stressed conditions.
- (17) Since the empowerments provided for in Article 144d(1), point (c), Article 144d(2) and Article 246a(4) of Directive 2009/138/EC all relate to liquidity risk management plans, it is appropriate to include the draft regulatory technical standards concerned into a single Regulation.
- (18) This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Insurance and Occupational Pensions Authority.
- (19) The European Insurance and Occupational Pensions Authority has conducted open public consultations on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Insurance and

Reinsurance Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council<sup>21</sup>.

HAS ADOPTED THIS REGULATION:

*Article 1*

**Definitions**

For the purposes of this Regulation, the following definitions shall apply:

1. 'short term' means the period of up to and including three months following the starting date of the projections;
2. 'medium and long term' means the period beyond three months from the starting date of the projections.

*Article 2*

**Criteria for liquidity analysis over the medium and long term**

1. When defining which insurance or reinsurance undertakings and groups shall be requested to draw up and keep up to date a liquidity risk management plan also covering liquidity analysis over the medium and long term, supervisory authorities shall take into account the following criteria:
  - (a) groups with total assets, valued in accordance with Article 75 of Directive 2009/138/EC, that exceed EUR 20 000 000 000; and
  - (b) insurance and reinsurance undertakings with total assets, valued in accordance with Article 75 of Directive 2009/138/EC, that exceed EUR 20 000 000 000 and that are not exempted in accordance with Article 246a(2) of Directive 2009/138/EC.
2. Supervisory authorities shall consider whether additional insurance or reinsurance undertakings and groups, other than those defined pursuant to paragraph 1, shall be requested to draw up and maintain a liquidity risk management plan also covering liquidity analysis over the medium and long term based on their exposures and vulnerabilities to liquidity risk over the medium and long term, taking into account the following criteria:
  - (a) liquidity risk stemming from exposure to insurable events;
  - (b) liquidity risk stemming from policy holder behaviour;
  - (c) liquidity risk arising from the structure or composition of assets;
  - (d) liquidity risk stemming from counterparty risk;
  - (e) liquidity risk stemming from economic or market developments with impact on funding.

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<sup>21</sup> Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC (OJ L 331, 15.12.2010, p. 48, ELI: <http://data.europa.eu/eli/reg/2010/1094/oj>).

3. By way of derogation from paragraph 1, supervisory authorities may decide to not request insurance or reinsurance undertakings and groups to also cover liquidity analysis over the medium and long term in their liquidity risk management plans where that is justified by the nature, scale and complexity of the risks and on the basis of the criteria set out in paragraph 2.

#### *Article 3*

### **Content and structure of the liquidity risk management plan**

The liquidity risk management plan shall include the information referred to in Articles 4 to 8 and have the following structure:

- (a) Overall assessment;
- (b) Assumptions underlying the projections;
- (c) Cash flow projections;
- (d) Buffers of liquid assets;
- (e) Liquidity risk indicators;
- (f) Any other information.

#### *Article 4*

### **Description of the assumptions underlying the projections of incoming and outgoing cash flows**

1. In the liquidity risk management plan, insurance and reinsurance undertakings shall describe the assumptions on which the projections of incoming and outgoing cash flows are based, for both of the following:

- (a) projections on an ongoing basis;
- (b) projections under stressed conditions based on the stress tests and scenario analysis referred to in Article 259(3) of Commission Delegated Regulation (EU) 2015/35.

2. The description of the assumptions used for the projections under stressed conditions referred to in the first paragraph, point (b), shall specify separately:

- (a) the material sources of liquidity risk to which the insurance or reinsurance undertaking is exposed;
- (b) the size of the shocks applied in relation to the material sources of liquidity risk.

#### *Article 5*

### **Information on the results of the cash flow projections**

1. In the liquidity risk management plan, insurance and reinsurance undertakings shall provide information on the results of the projections of incoming and outgoing cash flows referred to in Article 144a(2) of Directive 2009/138/EC.

2. The projections of the incoming and outgoing cash flows shall be in relation to all assets and liabilities of the insurance or reinsurance undertaking, including exposures arising from off-balance sheet positions and the transfer of risk to special purpose vehicles.

3. The starting date of the projections of incoming and outgoing cash flows in relation to the assets and liabilities shall not predate the end of the quarter preceding the quarter in which the liquidity risk management plan has been drawn up or updated.

4. In the liquidity risk management plan, insurance and reinsurance undertakings shall provide the information on the results of the incoming and outgoing cash flows for the projections on an ongoing basis and under stressed conditions.

5. In the liquidity risk management plan, insurance and reinsurance undertakings shall provide the information on the results of the projections of incoming and outgoing cash flows for one or more time horizons, for both of the following analyses:

- (a) the liquidity analysis over the short term;
- (b) where applicable, the liquidity analysis over the medium and long term.

The time horizons referred to in the first subparagraph shall capture the material liquidity risk exposures and the timing of liquidity needs of the undertaking over the short term and, where applicable, the medium and long term.

6. In the liquidity risk management plan, insurance and reinsurance undertakings shall:

- (a) identify any liquidity constraints within the insurance or reinsurance undertaking;
- (b) provide an assessment of whether the projections of cash flows satisfy those liquidity constraints.

7. Insurance and reinsurance undertakings shall provide the information on the results of the projections of incoming and outgoing cash flows separately for the following assets and liabilities, where applicable:

- (a) the assets and liabilities in relation to index-linked and unit-linked life insurance obligations;
- (b) the assets and liabilities in relation to each ring-fenced fund and matching adjustment portfolio.

8. The information on the results of the projections of incoming cash flows shall contain the total of all incoming cash flows, listing separately the results for the following items:

- (a) gross written premiums;
- (b) reinsurance cash inflows;
- (c) cash inflows from intra-group transactions;
- (d) investment income;
- (e) sales of assets, other than the liquid assets referred to in Article 6;
- (f) unsecured funding, excluding intragroup borrowing.

The information on the incoming cash flows shall be gross, without including cash flows in relation to the transformation of the assets included in one or more buffers of liquid assets into liquidity.

Insurance and reinsurance undertakings shall provide the incoming cash flow items in points (a) to (f) for the projections on an ongoing basis and, where the cash flow items change materially, for the



projections under stressed conditions.

9. The information on the results of the projections of outgoing cash flows shall contain the total of all outgoing cash flows, listing separately the results for the following items:

- (a) claims and other technical outflows, excluding surrenders;
- (b) surrenders;
- (c) expenses, excluding bonuses and other variable remuneration;
- (d) reinsurance cash outflows;
- (e) cash outflows from intra-group transactions;
- (f) purchases of assets;
- (g) margin and collateral calls;
- (h) dividend distributions to shareholders and other subordinated creditors;
- (i) other payments to shareholders and other subordinated creditors;
- (j) share buy-backs and repayment or redemption of own fund items;
- (k) bonuses and other variable remuneration.

Insurance and reinsurance undertakings shall provide the outgoing cash flow items in points (a) to (k) for the projections on an ongoing basis and, where the values of these items change materially, for the projections under stressed conditions.

10. The liquidity risk management plan shall show the net balance between incoming and outgoing cash flows separately, and contain a breakdown of the difference between the net and gross balance of incoming and outgoing cash flows, listing separately the results of the projections for the following items, where material:

- (a) sales of liquid assets;
- (b) funding secured by liquid assets;
- (c) posting of liquid assets as collateral.

#### *Article 6*

##### **Information on buffers of liquid assets and other sources of liquidity**

1. In the liquidity risk management plan, insurance and reinsurance undertakings shall provide quantitative and qualitative information on the buffers of liquid assets of the insurance or reinsurance undertaking to cover any shortfall of incoming cash flows compared to outgoing cash flows over the time horizons that correspond to the timing of liquidity needs referred to in Article 5(5).

2. The quantitative information shall contain a breakdown of the buffers according to the types of liquid asset, covering the following information for the total of liquid assets and separately for each type of liquid asset:

- (a) the market value of the liquid assets at the starting date of the cash flow projections;
- (b) the haircut applied to the liquid assets;
- (c) the value of the liquid assets after the application of the haircut referred to in point (b).

3. For the purposes of paragraph 2, point (b), the haircuts shall correspond to the loss in value when transforming the assets concerned into liquidity under stressed conditions within the time horizon that corresponds to the timing of liquidity needs, including the potential costs and financial losses arising from the sale of the assets.

4. The qualitative information shall contain the result of the following assessments:

- (a) whether the assets are sufficiently reliable to cover liquidity shortfalls under stressed conditions within the time horizons that correspond to the timing of liquidity needs, taking into account any encumbrances, the credit quality of the assets and marketability of the assets;
- (b) whether the insurance or reinsurance undertaking has the operational capacity to transform the liquid assets into liquidity within the time horizons that correspond to the timing of liquidity needs;
- (c) whether any arrangements with counterparties to transform liquid assets into liquidity or to provide other sources of liquidity continue to be available, even under stressed conditions, including the identification of those counterparties.

#### *Article 7*

### **Information on liquidity risk indicators**

1. The liquidity risk management plan shall contain quantitative and qualitative information on the liquidity risk indicators used by the insurance or reinsurance undertaking to identify, monitor and address potential liquidity stress.

2. The liquidity risk indicators shall reflect the specificities and risk profile of the undertaking and include indicators that signal whether liquidity risk exposures are within the established risk tolerance limits and that compare liquidity resources and needs under normal and stressed conditions over the time horizons that correspond to the timing of liquidity needs referred to in Article 5(5).

3. The qualitative information referred to in the first paragraph shall describe and explain why the liquidity risk indicators used by the insurance or reinsurance undertaking are appropriate to identify, monitor and address potential liquidity stress.

#### *Article 8*

### **Overall assessment of liquidity risk**

The liquidity risk management plan shall contain the results of the following assessments:

- (a) whether the insurance or reinsurance undertaking complies with the risk tolerance limits for liquidity risk;
- (b) whether the insurance or reinsurance undertaking has adequate liquidity to settle its financial obligations towards policy holders and other counterparties when they fall due, even under

stressed conditions;

- (c) whether there are any significant changes to the liquidity risk profile since the previous update of the liquidity risk management plan;
- (d) whether there are any vulnerabilities in the liquidity risk profile and liquidity risk management system of the insurance or reinsurance undertaking, and whether any actions have been undertaken to remedy those vulnerabilities.

#### *Article 9*

#### **Frequency of update of the liquidity risk management plan**

Insurance and reinsurance undertakings shall update the liquidity risk management plan at least annually, and without delay following any significant change in the liquidity risk profile of the undertaking or any major external development affecting significantly the relevance of the content of the liquidity risk management plan.

#### *Article 10*

#### **Content and frequency of update of liquidity risk management plans at group level**

1. Articles 3 and 9 shall apply *mutatis mutandis* to the liquidity risk management plans at group level.
2. Participating insurance and reinsurance undertakings, insurance holding companies and mixed financial holding companies shall include in the liquidity risk management plan at the level of the group a description of the mechanism for managing liquidity and for identifying and addressing liquidity needs at group level, both on an ongoing basis and under stressed conditions including a description of the availability and transferability of liquidity also in case of simultaneous liquidity needs within the group.
3. The information provided in the liquidity risk management plan at group level shall reflect any transferability restrictions imposed under applicable laws, regulations or supervisory requirements.

#### *Article 11*

#### **Risk concentration and intra-group transactions**

1. Participating insurance and reinsurance undertakings, insurance holding companies and mixed financial holding companies shall in the liquidity risk management plan at group level describe the impacts of significant risk concentrations and intra-group transactions as defined in Articles 376(1) and 377(1) of Delegated Regulation (EU) 2015/35 on the liquidity management, the liquidity needs and resources of the group.

They shall describe those impacts on an ongoing basis and under stressed conditions, including all restrictions on liquidity transferability that could limit or delay the use of intragroup transactions.

2. Participating insurance and reinsurance undertakings, insurance holding companies and mixed financial holding companies shall in their liquidity risk management plan assess the plausibility and consistency of the assumptions as regards intra-group transactions.

*Article 12*

**Entry into force**

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels,

*[For the Commission  
The President]*

*[For the Commission  
On behalf of the President]*

*[Position]*

## ANNEX 1: IMPACT ASSESSMENT

### OBJECTIVES

In accordance with Article 10 of the EIOPA Regulation<sup>22</sup>, EIOPA is required to analyse the potential costs and benefits during the policy development process. The analysis of costs and benefits is undertaken according to an impact assessment methodology.

This impact assessment covers the criteria for the identification of undertakings and groups that will be requested to extend their liquidity risk management plans (LRMP) to also cover the liquidity analysis over the medium and long term (policy issue A) and the content of the LRMP (policy issue B). It is based on a qualitative assessment done by EIOPA.

In drafting these draft RTS, EIOPA takes the general objectives of the Solvency II Directive, as agreed by the legislators in 2009, as a starting point. These general objectives are:

- ▶ adequate protection of policyholders and beneficiaries, being the main objective of supervision;
- ▶ financial stability;
- ▶ proper functioning of the internal market.

In view of the specific purpose of these draft RTS, the following more specific objectives were identified:

- ▶ promoting good risk management;
- ▶ discouraging excessive levels of direct and indirect exposure concentration;
- ▶ discouraging risky behaviour;
- ▶ discouraging excessive involvement in products and activities with greater potential to pose systemic risk;
- ▶ improving transparency and better comparability.

### POLICY ISSUES

#### POLICY ISSUE A: CRITERIA FOR MEDIUM AND LONG-TERM LIQUIDITY ANALYSIS

This policy issue considers the establishment of application criteria based both on quantitative metrics but also leveraging on qualitative aspects which could help supervisory authorities further refine the

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<sup>22</sup> Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Insurance and Occupational Pensions Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/79/EC; OJ L 331, 15.12.2010, p. 48–83.

set of undertakings and groups that are requested to also cover liquidity analysis over the medium and long term in their LRMP. This approach should ideally lead to identifying efficiently the undertakings and groups that might face liquidity issues over the medium and long term.

## **POLICY ISSUE B: CONTENT OF THE LIQUIDITY RISK MANAGEMENT PLAN**

EIOPA is empowered to develop draft regulatory technical standards specifying the content of the LRMPs to ensure consistent application. This policy issue considers the nature of the content.

## **POLICY OPTIONS**

### **POLICY ISSUE A: CRITERIA FOR MEDIUM AND LONG-TERM LIQUIDITY ANALYSIS**

#### **Policy option A.0: No change**

This policy option leverages on an approach that keeps the status quo and relies on the sole principles of the Solvency II Directive and on already existing provisions set out at Directive level. If assumed that introducing criteria for medium to long-term analysis covered in LRMPs can work effectively, failing to identify a relevant set of undertakings in scope of the draft RTS may result in less protection for policyholders and higher risk to financial stability. Furthermore, from a supervisory point of view, supervisory authorities would not be able to make use of an instrument that will enable them to identify undertakings that are relevant from a financial stability perspective, and which may be facing liquidity vulnerabilities over the medium and long term.

This option is not considered to be a viable option given the specific mandate to EIOPA in the context of Article 144d of the Solvency II Directive.

#### **Policy option A.1: Application criteria based on both qualitative and quantitative information**

From a financial stability perspective, expanding the requirement of LRMPs to cover also liquidity analysis over the medium and long term is crucial to anticipate and withstand market shocks, maintain confidence and trust, comply with regulatory requirements, preserve stability, and ensure business continuity in the financial sector. It could help mitigating main sources of liquidity risk which could potentially generate indirect macroprudential challenges.

In relation to the possible impact of the implementation of this draft RTS on undertakings' behaviour, the major impact foreseen is related to raising awareness with respect to macroprudential outcomes and the impact that undertakings themselves can generate with their risk assessment and investment behaviour. Identifying the most relevant set of undertakings which are deemed to have an indirect macroprudential impact is key to make the new tool useful for both supervisory authorities and the undertakings.

The aim of the new macroprudential tool is to ensure that undertakings and groups maintain adequate liquidity to settle their financial obligations towards policyholders and other counterparties when they fall due, even under stressed conditions.

Regarding the impact of the implementation of the draft RTS, undertakings and groups must extend their LRMP to also cover liquidity analysis over the medium and long term. This information is submitted to the supervisory authorities as part of the information to be provided for supervisory purposes. This will contribute to the monitoring of the liquidity position of the undertakings and groups by supervisory authorities considering the supervisory powers to remedy liquidity vulnerabilities in exceptional circumstances in Article 144b of the Solvency II Directive.

Small and non-complex insurance and reinsurance undertakings, and undertakings which have obtained prior approval from the supervisory authority in accordance with Article 29d of the Solvency II Directive do not have to draw up a LRMP covering liquidity analysis over the short term.

The quantitative criterion established in the draft RTS takes the form of a threshold expressed in total assets, and which has been increased since the public consultation from EUR 12 billion to EUR 20 billion, valued according to Article 75 of the Solvency II Directive. This quantitative threshold aims at capturing insurance groups and solo entities that due to their size are considered relevant by a financial stability perspective. While based on current risk assessment frameworks (e.g. IAIS Holistic Framework for Systemic Risk in the Insurance Sector) the exposure to systemically relevant activities is a key determinant for the relevance of an undertaking, size is still considered as a risk amplifier. The threshold of EUR 20 billion is envisaged to be commonly applied across EIOPA's policy material and macroprudential tools and it is perceived to strike the right balance between financial stability monitoring and burden reduction. The value is derived from the previously applied threshold for financial stability reporting purposes, i.e., EUR 12 billion in assets, taking into account the inflationary effect on the asset valuation of the headline inflation observed in Europe, and ensuring that a sufficient market coverage is reached both at European and National level. Annex 2 presents detailed calculations on how the threshold impacts different jurisdictions in the EEA.

Regarding the qualitative criteria, supervisory authorities, considering the nature, scale, and complexity of the risks to which the insurance or reinsurance undertakings and groups are exposed, shall assess at a minimum:

- ▶ liquidity risk stemming from exposure to insurable events;
- ▶ liquidity risk stemming from policyholder behaviour;
- ▶ liquidity risk arising from the structure or composition of assets;
- ▶ liquidity risk stemming from counterparty risk;
- ▶ liquidity risk stemming from economic or market developments with impact on funding.

## **Policy option A.2: Application criteria based on both qualitative and quantitative information also including undertakings which apply the matching adjustment or the volatility adjustment or long-term equity**

From a financial stability perspective, requesting LRMPs to cover also liquidity analysis over the medium and long term is crucial to anticipate and withstand market shocks, maintain confidence and trust, comply with regulatory requirements, preserve stability, and ensure business continuity in the financial sector. It could help mitigating main sources of liquidity risk which could potentially generate indirect macroprudential challenges.

In relation to the possible impact of the implementation of the draft RTS on undertakings' behaviour, the major impact foreseen is related to the raising awareness with respect to macroprudential outcomes and the impact that undertakings themselves can generate with their risk assessment and investment behaviour. Identifying the most relevant set of undertakings which are deemed to have an indirect macroprudential impact is key to make the new tool useful for both national supervisory authorities and the undertakings.

The aim of the new macroprudential tool is to ensure that undertakings and groups maintain adequate liquidity to settle their financial obligations towards policyholders and other counterparties when they fall due, even under stressed conditions.

Regarding the impact of the implementation of the draft RTS, undertakings and groups must extend their LRMP to also cover liquidity analysis over the medium and long term. This information is submitted to the supervisory authorities as part of the information to be provided for supervisory purposes. This will contribute to the monitoring of the liquidity position of the undertakings and groups by supervisory authorities considering the supervisory powers to remedy liquidity vulnerabilities in exceptional circumstances in Article 144b of Solvency II Directive.

The quantitative application criteria rely on a double layer threshold based on:

- ▶ A threshold, which that has been increased since the public consultation from EUR 12 billion to EUR 20 billion in total assets, valued according to Article 75 of Directive 2009/138/EC (reference in policy option A.1);
- ▶ Supervisory authorities shall require insurance and reinsurance undertakings which apply the matching adjustment (MA) referred to in Article 77b or the volatility adjustment (VA) referred to in Article 77d of the Solvency II Directive or treat a sub-set of equity investments as long-term equity investments in accordance with Article 105a of Directive 2009/138/EC to draw up and maintain up to date a LRMP covering liquidity analysis over the medium and long term.

Regarding the qualitative criteria, supervisory authorities, considering the nature, scale, and complexity of the risks to which the insurance and reinsurance undertakings and groups are exposed, shall assess at a minimum:

- ▶ the exposure to liquidity risk stemming from exposure to insurable events;
- ▶ liquidity risk stemming from policyholder behaviour;



- ▶ liquidity risk arising from the structure or composition of assets;
- ▶ liquidity risk stemming from counterparty risk;
- ▶ liquidity risk stemming from economic or market developments with impact on funding.

Regarding the second quantitative criteria, according to the quarterly information on solo undertakings in Q4 2023, there are 13 undertakings using the MA and 623 the VA. According to the quarterly information on groups in Q3 2023, there are 8 groups using the MA and 135 groups using the VA. This means that the sample of companies required to extend their LRMP to cover also liquidity analysis over the medium and long term according to this criterion will increase substantially.

This policy option, although very much aligned with policy option A.1 differs in the extent of application of strict metrics to define the applicability criteria. This option includes another quantitative criterion regarding the inclusion of all undertakings and groups which apply the MA or the VA or treat a sub-set of equity investments as long-term equity investments. This approach significantly increases the sample of the entities that would need to extend their LRMPs covering also liquidity analysis over the medium- to long-term focusing more on the hard criteria and less on the risk exposure or the macroprudential implications. This approach will assume the inclusion of smaller entities as well.

## POLICY ISSUE B: CONTENT OF THE LIQUIDITY RISK MANAGEMENT PLAN

### Policy option B.0: No change

This policy option keeps the status quo and relies on the (liquidity) risk management requirements in the Solvency II Directive and the Delegated Regulation. This option is not considered to be a viable option given the specific mandate given to EIOPA through Article 144d of the Solvency II Directive.

### Policy option B.1: Structure with high-level specification of content

Under this policy option, the draft RTS prescribes the structure of the LRMPs and imposes a high-level specification of its contents. There would be no definition to distinguish the liquidity analysis over the short term and the analysis over the medium and long term. Moreover, the draft RTS would not specify the time horizons to be used in the cash flow projections of the undertaking.

The high-level specification of the contents for the five main sections of the LRMP would be limited to:

- ▶ Section on assumptions underlying the projections – description on the assumptions underlying the projections of incoming and outgoing cash flows on an ongoing basis and under stressed conditions;
- ▶ Section on cash flow projections – information on the results of the projections of incoming and outgoing cash flows on an ongoing basis and under stressed conditions;
- ▶ Section on liquid assets – quantitative and qualitative information on the buffers of liquid assets;
- ▶ Section on liquidity risk indicators – quantitative and qualitative information on the liquidity risk indicators used by the undertaking to identify, monitor and address potential liquidity stress;

- ▶ Section on overall assessment – assessment of compliance with risk tolerance limits for liquidity risk, assessment of adequacy of liquidity to settle financial obligations towards policyholders and other counterparties when they fall due, even under stressed conditions, material changes to the liquidity risk profile since the previous update and any vulnerabilities in the liquidity risk profile and management system and actions undertaken by the undertaking to remedy these vulnerabilities.

### **Policy option B.2: Structure with high-level specification of content and more detailed specification of content in sections on assumptions, cash flow projections, liquid assets and liquidity indicators, including own time horizons**

This policy option is the same as policy option B.1, but further specification of the content is introduced in the following sections of the LRMP:

- ▶ Section on assumptions underlying the projections – reporting of the main assumptions underlying the projections on an ongoing basis as well as description of the stress tests and scenario analysis performed, covering the material sources of liquidity risk and the shock sizes applied;
- ▶ Section on cash flow projections – reporting of the information on the results of the projections should:
  - distinguish one or more time horizons over the short term and, where applicable, over the medium and long term, corresponding to the material liquidity risk exposures and the timing of liquidity needs of the undertaking;
  - include an assessment of satisfying any internal liquidity constraints;
  - provide granular information, distinguishing assets and liabilities where liquidity risks are borne by policyholders or which are subject to liquidity constraints;
  - distinguish between gross and net cash flows, i.e. without and with cash flows linked to the transformation of liquid assets into liquidity.
- ▶ Section on buffers of liquid assets – reporting of the quantitative and qualitative information on the buffer(s) of liquid assets:
  - a breakdown into types of liquid assets with values before and after applying haircuts, taking into account the provided definition of haircut;
  - assessments of the reliability of liquid assets, operational capacity of undertakings to transform liquid assets into liquidity as well as continued availability of any arrangements with liquidity providers.
- ▶ Section on liquidity risk indicators – the qualitative information on liquidity risk indicators should include a description, and explanation of the appropriateness, of the liquidity risk indicators used by undertaking.

**Policy option B.3: Structure with high-level specification of content with definition of short term versus medium and long term and with more detailed specification of content in sections on assumptions, cash flow projections, liquid assets and liquidity indicators, including own time horizons, a minimum list of cash flow items and conditions on the liquidity risk indicators to be reported**

This policy option is the same as policy option B.2 but adds a definition to distinguish the liquidity analysis over the short-term (up to and including 3 months) from the analysis over the medium and long-term (beyond 3 months). Moreover, further detailed specification of the content is included in the following two sections of the LRMP:

- ▶ Section on cash flow projections – a minimum list of cash flow items to be reported for the projections on an ongoing basis and, where the value of the cash flow items changes materially, for the projection under stressed conditions, distinguishing the following areas:
  - main incoming cash flows (gross written premiums, reinsurance recoverables, investment income) and outgoing cash flows (claims, expenses, reinsurance premiums);
  - cash flow items that can be restricted or suspended by NSAs in exceptional circumstances (dividend distributions, other payments to shareholders and other subordinated creditors, share buy-backs and repayment of own fund items, bonuses and other variable remuneration, redemption rights of life insurance policyholders or surrenders), in accordance with Article 144b of the Solvency II Directive;
  - outgoing cash flow items, potentially representing other important sources of liquidity risk (purchases of assets, margin and collateral calls, intragroup cash outflows);
  - incoming cash flow items on other sources of liquidity (intragroup cash inflows, sales of assets not included in the buffer of liquid assets and unsecured funding), i.e. which are not related to the buffer of liquid assets.
- ▶ Section on liquidity risk indicators – further specification that own liquidity risk indicators should include indicators that signal whether liquidity risk exposures are within the established risk tolerance limits and compare liquidity resources and liquidity needs under normal and stressed conditions taking into account the relevant time horizon.

**Policy option B.4: Structure with high-level specification of content with definition of short term versus medium and long term and further specification of content in sections on assumptions, cash flow projections, liquid assets and liquidity indicators, including standardised time horizons, harmonised templates of cash flow items and liquid assets, including haircuts, as well as the reporting of a common liquidity risk indicator**

This policy option is the same as policy option B.3, but introduces further standardised elements in the following sections of the LRMP:

- ▶ Section on cash flow projections – for the reporting of the results of the cash flow projections:

- standardised time horizons are introduced of 3 months for the liquidity analysis over the short term and 1 year for the liquidity analysis over the medium and long term. In addition to the standardised time horizons, undertaking would also have to report on liquidity analyses over other time horizons that represent a material risk in view of the undertaking’s risk profile and timing of liquidity needs;
- a detailed cash flow template is introduced, like the one used in EIOPA’s liquidity monitoring<sup>23</sup>, but including the cash flow items that can be restricted or suspended by NSA in exceptional circumstances, replacing the minimum list of cash flow items under option B.3.
- ▶ Section on liquid assets – a detailed liquid assets template is introduced, like the one used in the IAIS liquidity monitoring<sup>24</sup>, including prescribed haircuts, replacing undertakings’ own breakdown of liquid assets and assumed haircuts under option B.2 and B.3;
- ▶ Section on liquidity risk indicators – a common liquidity coverage indicator, defined as the amount of liquid assets divided by the (stressed) liquidity needs over a relevant time horizon, needs to be reported besides the undertaking’s own liquidity risk indicators.

## IMPACT OF THE POLICY OPTIONS

### POLICY ISSUE A: CRITERIA FOR MEDIUM AND LONG-TERM LIQUIDITY ANALYSIS

#### Policy option A.0: No change

Policy option A.0		
<b>Costs</b>	Policyholders	If assumed that the measure can work effectively, the lack thereof may result in less protection for policyholders and higher risk to financial stability.
	Industry	No material impact.
	Supervisors	No material impact.
	Other	No material impact.
<b>Benefits</b>	Policyholders	No material impact.
	Industry	No material impact.
	Supervisors	No additional resources need to be devoted.
	Other	No material impact.

<sup>23</sup> See Table 2-10 on page 28 of EIOPA, [Methodological principles of insurance stress testing – Liquidity component](#), EIOPA-BoS-20/760, 13 January 2021.

<sup>24</sup> See Table 2 on page 25 of IAIS, [Liquidity metrics as an ancillary indicator](#), Level 2 Document, 18 November 2022.

**Policy option A.1: Application criteria based on both qualitative and quantitative information**

Policy option A.1		
<b>Costs</b>	Policyholders	No material impact.
	Industry	Affected undertakings may face one-off costs in terms of fees to externals and time devoted by staff involved in the drafting process. Additionally, keeping the plans updated would also require certain resources on an ongoing basis, although these are not deemed high.
	Supervisors	Methodology for the identification of the undertakings subject to the liquidity analysis over the medium and long term has to be defined. Additional resources needed to analyse the LRMPs provided by undertakings.
	Other	No material impact.
<b>Benefits</b>	Policyholders	A clear and structured liquidity risk management process and procedure is expected to ultimately result in better managed undertakings in the benefit of policyholders.  Policyholders would ultimately benefit from a more stable financial system (see also “other” below).
	Industry	The analysis carried out as part of the drafting process could yield relevant lessons for affected undertakings (e.g., by identifying potential liquidity gaps), which could react accordingly if needed.
	Supervisors	LRMPs create an obligation to explain in a single document how liquidity risks are managed (knowing that liquidity risk is one of the risks included in Article 260(1)(d) of the Delegated Regulation). This would raise awareness of potential liquidity risks at undertakings’ level and overall at sectoral level in a structural way. By being able to have only a certain number of undertakings, supervisors would strike a balance between having relevant information about the management of liquidity risk by undertakings while avoiding unnecessary burdens.
	Other	To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers.

**Policy option A.2: Application criteria based on both qualitative and quantitative information also including undertakings which apply the matching adjustment or the volatility adjustment or long-term equity.**

Policy option A.2		
<b>Costs</b>	Policyholders	No material impact.
	Industry	Affected undertakings may face one-off costs in terms of fees to externals and time devoted by staff involved in the drafting process. Additionally, keeping the plans updated would also require certain resources on an ongoing basis, although these are not deemed high. The impact of costs might be more significant on smaller entities that will be requested to cover the medium and long-term liquidity analysis due to their inclusion based on the criteria that requires undertakings which apply the MA or the VA or long-term equity to be selected.
	Supervisors	Additional resources needed to analyse the LRMPs provided by undertakings. Depending on the number of undertakings operating in the market, this ongoing resource consumption could be much higher than expected.
	Other	No material impact.
<b>Benefits</b>	Policyholders	A clear and structured liquidity risk management process and procedure is expected to ultimately result in better managed undertakings in the benefit of policyholders.  Policyholders would ultimately benefit from a more stable financial system (see also “other” below).
	Industry	The analysis carried out as part of the drafting process could yield relevant lessons for affected undertakings (e.g. by identifying potential liquidity gaps), which could react accordingly if needed.
	Supervisors	LRMPs create an obligation to explain in a single document how liquidity risks are managed (knowing that liquidity risk is one of the risks included in Article 260(1)(d) of the Delegated Regulation). This would raise awareness of potential liquidity risks at undertakings’ level and overall at sectoral level in a structural way. By being able to have only a certain number of undertakings, supervisors would strike a balance between having relevant information about the management of liquidity risk by undertakings while avoiding unnecessary burdens.
	Other	To the extent that the tool is able to achieve its objectives, it will contribute to mitigate systemic risk and reduce its potential harm to consumers.

## POLICY ISSUE B: CONTENT OF THE LIQUIDITY RISK MANAGEMENT PLAN

### Policy option B.0: No change

### Policy option B.1: Structure with high-level specification of content

The benefits to policyholders and supervisors will be limited under this option. The reason is that the draft RTS only provides a structure with a high-level specification of the content, i.e. requiring information on the assumptions, cash flow projections, buffers of liquid assets and liquidity risk indicators. More detailed specifications are imposed on the synthesis section with the overall assessment, requiring an assessment of compliance with the risk tolerance limits, an assessment of the adequacy of liquidity to settle financial obligations towards policyholders and other counterparties when they fall due, even under stressed conditions, material changes relative to the previous LRMP and the identification of vulnerabilities and actions taken to remedy those vulnerabilities. The high-level specification of the content will not ensure that supervisors receive the relevant information, preventing proper macroprudential supervision. Moreover, the high-level requirements will not contribute to enhancing liquidity risk assessment and management.

The content of the LRMPs is likely to be very heterogeneous and, therefore, difficult and costly to assess by supervisors. The costs for the industry will be relatively low, since little adjustments are needed to current liquidity risk assessments and reporting. A cost for the industry is that this option does not ensure a consistent application of the LRMPs, preventing a level playing field.

Policy option B.1		
<b>Costs</b>	Policyholders	No material impact.
	Industry	Limited costs to prepare the LRMPs as only small adjustments are needed to current assessments and (internal) reporting. Inconsistent application of LRMPs prevents a level playing field.
	Supervisors	The content will likely be very heterogeneous and, hence, difficult and costly to assess.
	Other	No material impact.
<b>Benefits</b>	Policyholders	Limited benefits in ensuring that undertakings can meet financial obligations towards policyholders when they fall due, as impact on macroprudential supervision and liquidity risk management is likely to be limited.
	Industry	Industry will have to make very little adjustments to current approach to liquidity risk assessment and reporting.
	Supervisors	Limited benefits in terms of enhancing macroprudential supervision and liquidity risk management, as the content of LRMPs may not be relevant for supervisors and not contribute to better liquidity risk assessment.

	Other	No material impact.
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### Policy option B.2: Structure with high-level specification of content and more detailed specification of content in sections on assumptions, cash flow projections, liquid assets and liquidity indicators, including own time horizons

There are clear benefits for policyholders, industry and supervisors under this option. The more detailed requirements on the content ensure that supervisors receive relevant information, contributing to the macroprudential supervision of liquidity risk. For example, the more elaborate description of the assumptions for the stress tests and scenario analysis improves the NSAs' insights in material liquidity risks and their understanding of the cash flow projections carried out by undertakings. Moreover, the reporting of the aggregate cash flows, with and without accounting for the transformation of liquid assets into liquidity, as well as a breakdown of liquid assets, including haircuts, will provide supervisors with evidence whether undertakings have adequate liquidity to settle financial obligations. The more detailed requirements may also strengthen liquidity risk management. For example, by encouraging undertakings to:

- ▶ take into account internal liquidity constraints in their liquidity analysis;
- ▶ assess the reliability of liquid assets in providing liquidity, their operational capacity to transform liquid assets into liquidity and the continued availability of any liquidity arrangements with counterparties;
- ▶ consider the appropriateness of their liquidity risk indicators to identify, monitor and address potential liquidity stress.

The requirement that undertakings should report on one or more time horizons over the short term and, where applicable, over the medium and long term encourages undertakings to appropriately capture their liquidity risk exposures and the timing of their liquidity needs.

The more harmonised content will make it easier and, hence, less costly for supervisory authorities to assess the LRMPs. In contrast, the more elaborate content will make it more costly for the industry to produce the liquidity risk management. Still, also under this option, undertakings would be able to report on the outcomes of their own liquidity analysis in the LRMP.

Policy option B.2		
<b>Costs</b>	Policyholders	No material impact.
	Industry	Modest costs to prepare the LRMPs, as undertakings would be able to report on their own liquidity risk analyses.
	Supervisors	Modest costs to assess the LRMPs, as more detailed specification results in more accessible and insightful information.
	Other	No material impact.



<b>Benefits</b>	Policyholders	Benefits in terms of contributing to ensuring that financial obligations towards policyholders are met, as macroprudential supervision and liquidity risk management are likely to be enhanced.
	Industry	Benefits in terms of stability of undertakings and the insurance industry, as liquidity risk management and macroprudential supervision are likely to be enhanced.  Benefits in terms of level playing field due to more consistent application of the LRMPs.
	Supervisors	Benefits in terms of enhancing macroprudential supervision and liquidity risk management, as the content of LRMPs is increasingly relevant for supervisors and the further requirements on the content are likely to contribute to better liquidity risk management.
	Other	No material impact.

**Policy option B.3: Structure with high-level specification of content with definition of short term versus medium and long term and with more detailed specification of content in sections on assumptions, cash flow projections, liquid assets and liquidity indicators, including own time horizons, a minimum list of cash flow items and conditions on the liquidity risk indicators to be reported**

There are clear benefits for policyholders, industry and supervisors under this option, more so than under the previous option B.2. The further requirements on the content ensure that supervisors receive relevant information, contributing to the macroprudential supervision of liquidity risk. The minimum list of cash flow items to be reported for the projections on an ongoing basis and, where the cash flows change materially in value, for the projections under stressed conditions will provide NSAs with valuable insight in the development of:

- ▶ the main incoming cash flows and outgoing cash flows of undertakings;
- ▶ outgoing cash flow items covering other potentially important sources of liquidity risk, like margin and collateral calls;
- ▶ incoming cash flow items covering other sources of liquidity than those related to the liquid assets;
- ▶ cash flow items that can be restricted or suspended by NSAs in exceptional circumstances, in accordance with Article 144b of the Solvency II Directive.

The further requirements may also strengthen liquidity risk management of undertakings, for example, obliging them to consider the potentially imminent liquidity risk of margin and collateral calls on derivatives, securities financing transactions and other exposures. In addition, it obliges undertakings to develop appropriate liquidity risk indicators, measuring whether liquidity risk exposures are within the risk tolerance limits and comparing liquidity resources and liquidity needs under normal and stressed conditions taking into account the relevant time horizon.

The definition distinguishing the liquidity analysis over the short term and the analysis over the medium and long term will contribute to a consistent application of the LRMPs and will provide NSAs and undertakings with a common understanding of the two timeframes.

The more harmonised and relevant content will make it easier and, hence, less costly for NSAs to assess the LRMPs. In contrast, the more elaborate content will make it more costly for the industry to produce the liquidity risk management. Still, also under this option, undertakings would be able to report on the outcomes of their own liquidity analysis, although perhaps at a more granular level.

Policy option B.3		
<b>Costs</b>	Policyholders	No material impact.
	Industry	Modest costs to prepare the LRMPs, as undertakings would be able to report on their own liquidity risk analyses, although perhaps at a more granular level.
	Supervisors	Modest costs to assess the LRMPs, as more detailed specification results in more accessible and insightful information.
	Other	No material impact.
<b>Benefits</b>	Policyholders	Benefits in terms of contributing to ensuring that financial obligations towards policyholders are met, as macroprudential supervision and liquidity risk management are most likely to be enhanced.
	Industry	Benefits in terms of stability of undertakings and the insurance industry, as liquidity risk management and macroprudential supervision are most likely to be enhanced.  Benefits in terms of level playing field due to consistent application, also through the common definitions of short term and medium and long term, of the LRMPs.
	Supervisors	Benefits in terms of enhancing macroprudential supervision and liquidity risk management, as the content of LRMPs is relevant for supervisors, also by including information on the effectiveness of restricting or suspending certain cash flow items in exceptional circumstances, and the further requirements on the content are most likely to contribute to better liquidity risk management.  Benefits in terms of ensuring a consistent application of the LRMPs due to the common definitions of short term and medium and long term.
	Other	No material impact.

**Policy option B.4: Structure with high-level specification of content with definition of short term versus medium and long term and further specification of content in sections on assumptions, cash flow projections, liquid assets and liquidity indicators, including standardised time horizons, harmonised templates of cash flow items and liquid assets, including haircuts, as well as the reporting of a common liquidity risk indicator**

There will be benefits for policyholders, industry and supervisors under this option, but these will be more ambiguous. The introduction of the standardised elements on the content ensures that supervisory authorities receive relevant and comparable information, contributing to macroprudential supervision. Moreover, the prescriptive requirements may encourage adequate liquidity risk assessment and management. However, it is possible that some requirements are not appropriate in view of the business model and liquidity risk profile of the undertakings. Most notably, the prescribed haircuts for liquid assets may not be appropriate for the time horizon analysed by the undertaking, implying that supervisory authorities will not be presented with a fully risk-sensitive analysis. The standardised time horizons over the short-term (3 months) and, where applicable, over the medium and long term (1 year) and the common liquidity risk indicator may also not be suitable in view of the undertaking’s liquidity risk profile. Still, undertakings would also be required to use their own time horizons, capturing the liquidity risk exposures and the timing of liquidity needs of the undertakings, and report their own liquidity risk indicators. However, this would imply that undertakings would have to carry out a combination of standardised and own projections.

The definition distinguishing the liquidity analysis over the short term and the analysis over the medium and long term and the standardised elements to be reported will contribute to a consistent application of the LRMPs.

Given that undertakings may have to carry out a combination of standardised and own analyses, this option will be costly for industry. The standardised and comparable information will reduce the costs for NSAs to assess the content of LRMPs, but the combination of standardised and own analyses will increase the information to be processed.

Policy option B.4		
<b>Costs</b>	Policyholders	No material impact.
	Industry	Substantial costs to prepare the LRMPs, as undertakings would likely have to carry out standardised analyses in addition to their own liquidity risk assessment.
	Supervisors	Modest costs to assess the LRMPs, as more standardised reporting results in more accessible and insightful information, but the combination of standardised and own analyses increases the information to be processed.

	Other	No material impact
<b>Benefits</b>	Policyholders	Benefits in terms of contributing to ensuring that financial obligations towards policyholders are met, as macroprudential supervision and liquidity risk management are most likely be enhanced.
	Industry	Benefits in terms of stability of undertakings and the insurance industry, as liquidity risk management and macroprudential supervision are most likely to be enhanced.  Benefits in terms of level playing field due to consistent application, also through the common definitions of short term and medium and long term and the standardised elements, of the LRMPs.
	Supervisors	Benefits in terms of enhancing macroprudential supervision and liquidity risk management. The content of the LRMPs is relevant for supervisors, but the standardised elements may not always provide a full, risk-sensitive view.  Benefits in terms of ensuring a consistent application of the LRMPs due to the common definitions of short term and medium and long term as well as the standardised elements.
	Other	No material impact.

## COMPARISON OF POLICY OPTIONS

### POLICY ISSUE A

EFFECTIVENESS (0,+,,++)			
	Discouraging excessive involvement in products and activities with greater potential to pose systemic risk	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management
<b>Policy option A.0</b>	0	0	0
<b>Policy option A.1</b>	++	++	++
<b>Policy option A.2</b>	++	++	++

EFFICIENCY (0,+,,++)			
	Discouraging excessive involvement in products and activities with greater	Discourage excessive levels of direct and indirect exposure concentrations	Promoting good risk management

	potential to pose systemic risk		
<b>Policy option A.0</b>	0	0	0
<b>Policy option A.1</b>	++	++	++
<b>Policy option A.2</b>	+	+	++

**POLICY ISSUE B**

The policy option B.3 is most effective in promoting good risk management and discouraging risky behaviour. This policy option outperforms policy option B.2 by including elements that improve liquidity risk management (e.g. high-level principles for liquidity risk indicators), macroprudential supervision (e.g. minimum list of cash flows) and comparability (definitions distinguishing short term and medium and long term). Although policy option B.4 is most effective in improving transparency and comparability, the drawback is that the standardised approach may not always be appropriately reflecting the liquidity risk profile of the undertaking, thereby providing supervisory authorities with a view that is not fully risk sensitive. Policy option B.1 achieves little in terms of all three objectives.

<b>EFFECTIVENESS (0,+,,++)</b>			
	Promoting good risk management	Discouraging risky behaviour	Improving transparency and better comparability
<b>Policy option B.0</b>	0	0	0
<b>Policy option B.1</b>	0	0	0
<b>Policy option B.2</b>	+	+	+
<b>Policy option B.3</b>	++	++	+
<b>Policy option B.4</b>	++	+	++

The policy option B.3 scores best in terms of efficiency for reaching all three objectives. Policy option B.1 requires undertakings to draw up and supervisors to assess LRMPs, while there is little scope of achieving the objectives. Policy option B.2 features lower implementation costs but also performs worse on achieving the three objectives. Policy option B.4 may achieve the objectives. However, the standardised approach will be quite costly, as undertakings may have to carry out a combination of standardised and own liquidity assessments.

<b>EFFICIENCY (0,+,,++)</b>			
	Promoting good risk management	Discouraging risky behaviour	Improving transparency and better comparability
<b>Policy option B.0</b>	0	0	0
<b>Policy option B.1</b>	0	0	0
<b>Policy option B.2</b>	+	+	+
<b>Policy option B.3</b>	++	++	++

Policy option B.4	+	+	+
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## PREFERRED OPTIONS

Based on the evidence provided in the assessment above, policy option A.1 ('Application criteria based on both qualitative and quantitative information') has been indicated as the preferred option. Besides the efficiency and effectiveness and cost benefit analysis, this option is also the one that provides supervisory authorities with the right tools to enhance and apply proportionality while creating a level playing field.

With respect to the quantitative criteria and risk-based thresholds proposed in the draft RTS, no additional burden is put on undertakings and groups in terms of increased reporting burden, because the information can be derived using the data already contained in the QRTs and information provided by undertakings to supervisors during the regular supervisory dialogue and exchange of information.

The combination of quantitative criteria and risk-based thresholds ultimately gives supervisors the option to further refine the sample of undertakings and groups identified under the scope of the RTS and leads to an efficient and effective outcome in terms of balancing the application of the proportionality principle while still keeping a minimum baseline for supervisory convergence.

Policy option B.3 ('Structure with high-level specification of content with definition of short term versus medium and long term and with more detailed specification of content in sections on assumptions, cash flow projections, liquid assets and liquidity indicators, including own time horizons, a minimum list of cash flow items and conditions on the liquidity risk indicators to be reported') is the preferred option for policy issue B. The policy option strikes the right balance between, on the one hand, promoting good liquidity risk management, enhancing macroprudential supervision and ensuring a consistent application of the LRMPs and, on the other hand, minimising the implementation costs for the industry and supervisors. As undertakings are expected to report on their own liquidity risk analyses, although possibly at a higher level of granularity, this policy option ensures a risk-based and proportionate approach.

Furthermore, in accordance with Article 144a(4) of the Solvency II Directive, small and non-complex undertakings and undertakings which have obtained prior approval from the supervisory authority pursuant to Article 29d of that Directive are not obliged to draw up a LRMP. EIOPA submitted technical advice to the Commission on specifying through a delegated act the conditions for supervisors to take into account in their assessment of the application of undertakings, not classified as small and non-complex undertakings, for the exemption from the LRMP.<sup>25</sup>

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<sup>25</sup> EIOPA, [Technical advice on the implementation of the new proportionality framework under Solvency II](#), EIOPA-BoS-24-590, 30 January 2025.

## ANNEX 2: NUMBER OF IDENTIFIED ENTITIES WITH TOTAL ASSETS ABOVE EUR 20 BILLION<sup>26</sup>

THRESHOLD 20 BILLIONS			
Country	Number reporting groups	Number reporting solos	Country Share 20bn
AT	2		76.6%
BE	2		60.1%
BG			69.0%
CY			15.1%
CZ			96.8%
DE	19	1	87.4%
DK	4	6	77.6%
EE			53.1%
EL			42.7%
ES	3		58.7%
FI	1		52.6%
FR	20	2	92.3%
HR			33.5%
HU			83.6%
IE	3	3	69.9%
IS			
IT	6		93.1%
LI			16.1%
LT			47.9%
LU	2		57.1%
LV			68.5%
MT			46.5%
NL	4		87.2%
NO	2	1	76.7%
PL			46.0%
PT			45.9%
RO			91.3%
SE	6	1	71.9%
SI			12.2%
SK			96.5%
<b>TOTAL</b>	<b>74</b>	<b>14</b>	<b>82.9%</b>

Source: Solvency II supervisory reporting, annual solo data of 2023

<sup>26</sup> The country share is based on the following ratio:

Numerator: sum of the total assets of solo entities authorised in the country that are above the threshold and not belonging to a group and the total assets of the solo entities authorised in the country (regardless of their size) belonging to a group exceeding the threshold regardless its country of authorisation.

Denominator: sum of the total assets of all the solo entities authorised in the country.

## ANNEX 3: FEEDBACK STATEMENT

This feedback statement sets out a high-level summary of the consultation comments received and EIOPA's assessment of them. The full list of all the non-confidential comments provided can be found on EIOPA's website.

EIOPA received comments from its Insurance and Reinsurance Stakeholder Group (IRSG) and from nine other stakeholders, mostly representing the (re)insurance industry, but also the actuarial profession in Europe.

As part of the consultation, EIOPA held a workshop with stakeholders to discuss the draft RTS on 27 November 2024.

### GENERAL

#### Stakeholder comments

Most respondents, including EIOPA's IRSG, were of the view that liquidity risk management plans (LRMPs) are strategic and risk management tools that outline principles, processes and governance structures rather than new reporting requirements. The draft RTS should provide insurance and reinsurance undertakings with flexibility in conducting internal liquidity analyses.

Many respondents raised the considerable number of supervisory initiatives in the past years to assess and monitor liquidity risk, including national ad-hoc liquidity reporting, EIOPA liquidity monitoring and stress tests as well as the IAIS global monitoring exercise. According to some stakeholders, these initiatives amount to large insurance groups having to manage as much as eight processes on liquidity reporting.

A number of respondents proposed that the introduction of the LRMPs would provide an opportunity to review these other liquidity initiatives. This would contribute to avoiding duplication and unnecessary burdens as well as align with the Commission's intention to reduce operational and reporting burdens by 25%. Another stakeholder argued that these existing reporting and monitoring exercises should only be continued if the LRMPs are based on undertakings' existing internal liquidity analysis, governance and processes, supplemented by minimal additional data agreed upon with the supervisor. If LRMPs are to include prescriptive elements and strict reporting requirements, it is essential to eliminate other standardised reporting initiatives to prevent duplication and ensure regulatory coherence.

In view of the Commission's objective to reduce regulatory reporting by 25%, a number of respondents, including EIOPA's IRSG, emphasised that any reporting standardisation should not go beyond what is foreseen in the proposal for a draft RTS, such as through the introduction of dedicated templates.

#### Assessment

EIOPA only partially recognises the general comment made by stakeholders that LRMPs are strategic and risk management tools that outline principles, processes and governance structures rather than new reporting requirements. In particular, the suggestion that the LRMP should outline (liquidity risk



management) principles, processes and governance structures does not seem to have a basis in the Solvency II Directive. Such elements are important but should be specified in other risk-management documents, like the undertakings' risk management strategy and the written policy on (liquidity) risk management.

In specifying the content of the draft RTS, EIOPA tried to stay as close as possible to the new Article 144a of the Solvency II Directive which specifies that the LRMP should cover "liquidity analysis over the short term, projecting the incoming and outgoing cash flows in relation to their assets and liabilities." Furthermore, Article 144a of the Solvency II Directive provides that the purpose of the LRMP is to ensure that insurance and reinsurance undertakings "maintain adequate liquidity to settle their financial obligations towards policy holders and other counterparties when they fall due, even under stressed conditions." The latter implies that the LRMP should not only cover cash flow projections on an ongoing basis but also under stressed conditions.<sup>27</sup> Article 144a also specifies that the LRMP should also cover liquidity analysis over the medium and long term, when requested by supervisory authorities. Finally, in the context of the LRMPs, the article requires undertakings to develop and keep up to date a set of liquidity risk indicators.

The draft RTS follows the content of the LRMPs implied by Article 144a of the Solvency II Directive by, broadly speaking, requiring undertakings to report on the results of their cash flow projections, both on an ongoing basis and under stressed conditions, the breakdown of their buffer of liquid assets and their liquidity risk indicators.

EIOPA does agree with stakeholders that the LRMP should not constitute a new reporting requirement in the sense of regular supervisory reporting through templates based on EIOPA's draft implementing technical standards. Moreover, considering the existing initiatives for the monitoring and reporting of liquidity risk at national, European and international level, EIOPA also agrees that the LRMP should not contain another standardised liquidity risk assessment with harmonised assumptions and templates. Instead, the liquidity analysis to be reported in the LRMP should be the undertaking's own assessment of liquidity risk, considering its own liquidity risk tolerance limits. This ensures a risk-sensitive analysis, taking into account the liquidity risk profile of the undertaking, and contributes to a proportionate implementation of the LRMPs.

Balancing the need for a consistent application of the LRMPs and the need to recognise of the undertakings' specificities, EIOPA made several modifications to the draft RTS based on the feedback from stakeholders to achieve the envisaged principle-based and proportionate approach.

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<sup>27</sup> This is also consistent with Article 259 of the Solvency II Delegated Regulation which specifies that "undertakings shall, where appropriate, include the performance of stress tests and scenario analysis with regard to all relevant risks faced by the undertaking in their risk-management system."

## PRINCIPLE-BASED AND PROPORTIONATE APPROACH

### Stakeholder comments

Respondents supported the introduction of LRMPs that are proportionate to the risks and sufficiently flexible to allow the integration of existing liquidity risk management approaches across the industry. According to a number of stakeholders, including EIOPA's IRSG, the draft RTS should provide for a principle-based approach without imposing too frequent updates, excessive granularity in the liquidity analysis and detailed operational reports. Common approaches, deviating from current industry practices, would increase regulatory burdens and may not fit the undertakings' specificities, thereby potentially increasing macroprudential risks.

The response from the actuarial profession in Europe agreed that the proposal for a draft RTS demonstrates a good balance between principle-based and prescriptive approaches, accounting for both consistency and proportionality. Still, the response encouraged EIOPA to further refine certain aspects of the RTS to provide clearer guidance and reduce ambiguity, particularly concerning reporting frequencies, integration with existing processes, and specific provisions for MA and VA users. These enhancements would help ensure the RTS delivers its intended objectives of financial stability and improved liquidity risk management across the European insurance sector.

Seven stakeholders, including EIOPA's IRSG, did not agree that the proposal for the draft RTS achieved a proportionate implementation of the LRMPs, while two stakeholders did not respond to this specific question in the consultation paper. Respondents indicated that overly prescriptive requirements in the proposal would introduce additional administrative burdens on insurance and reinsurance undertakings. In particular, multiple stakeholders mentioned the following elements as not being principle-based and proportionate:

- ▶ The threshold of EUR 12bn for undertakings to carry out the medium- and long-term analysis was not considered risk-based. Stakeholders feared that many undertakings would have to carry out the medium- and long-term analysis, even though medium- and long-term liquidity risk exposures are not material, also considering that liquidity risk is largely a short-term phenomenon;
- ▶ The imposition of the time horizons for the liquidity analysis was deemed overly prescriptive. Some respondents disagreed with the definition of the short-term analysis ( $\leq 3$  months) and the medium- and long-term analysis ( $> 3$  months to at least 1 year). However, more importantly, respondents considered that – within these intervals – undertakings should be given the flexibility to choose a time horizon that suits their liquidity risk profile, i.e. without being required to also make cash flow projections for exactly 3 months and 1 year;
- ▶ The breakdown of the cash flow projections to be reported in the LRMP was considered too granular, especially by including the items 'dividend distributions', 'other payments to shareholders and other subordinated creditors', 'share buy-backs' and 'bonuses and other variable remuneration';

- ▶ The inclusion of a common liquidity risk indicator, the liquidity coverage indicator, was not supported because the indicator would not be comparable due to differences between undertakings in liquidity risk exposures and liquidity risk management practices;
- ▶ The quarterly frequency of update of the short-term liquidity analysis within the LRMP was deemed disproportionate, especially when these updated LRMPs have to be submitted to the supervisory authority;
- ▶ The extension of the content of the LRMPs from the solo level to the group level does not take into account the level at which liquidity risks are managed. In other words, where liquidity risk is managed at the solo level, groups would be forced to prepare an ‘artificial’ LRMP at group level, including aggregate cash flow projections, liquidity buffers and liquidity indicators.

### Assessment

EIOPA agrees that certain parts of the proposal for the draft RTS contained elements that are not consistent with the envisaged principle-based and proportionate approach.

The proposal included provisions that would require undertakings to carry out analyses, going beyond their current liquidity risk assessments, that would not necessarily contribute to a better understanding of their liquidity risk profile. To prevent that undertakings would have to carry out additional calculations that do not significantly contribute to enhancing liquidity risk management, modifications were made to the provisions on:

- ▶ the time horizons for the cash flow projections, allowing undertakings to choose their own time horizons;
- ▶ the reporting of the cash flow projections, clarifying that the specific cash flows only need to be reported for the projections on an ongoing basis and, where the cash flows materially change, for the projection under stressed conditions;
- ▶ the liquidity risk indicator, removing the requirement to calculate a common risk indicator, besides the undertakings’ own indicators.

Still, not all suggestions provided by stakeholders were agreed to. Most notably, given that the draft RTS specifies criteria for carrying out the liquidity analysis over the medium and long term, it is essential to have a definition of what differentiates the short term from the medium and long term. Moreover, the cash flow items that have to be reported in the LRMP provide supervisory authorities with insight into important drivers of liquidity risk and allow them to assess the effectiveness of measures to remedy liquidity vulnerabilities in exceptional circumstances. To ensure that the liquidity risk indicators reported in the LRMP are relevant, EIOPA is of the view that imposing some high-level conditions on undertakings’ own indicators is appropriate.

A reference was included in the recital that undertakings have the possibility to combine the liquidity plans in relation to the MA or the VA with the LRMP. However, no specific provisions were included on the liquidity analysis to be carried out by MA and VA users. In EIOPA’s view, the draft RTS is not the appropriate place to impose further requirements – beyond the requirements in Article 44(2) of the Solvency II Directive – on the liquidity analysis in relation to assets and liabilities subject to the MA or

the VA, also considering that combining the two plans is optional. As such, any further provisions on the liquidity analysis for MA or VA users would only apply when the plans are combined and not when undertakings decided to keep these plans separate.

For some of the proposed provisions, there was scope to enhance proportionality:

- ▶ The quantitative threshold of EUR 12 bn for identifying insurance or reinsurance undertakings and groups that would be requested from supervisory authorities to extend the LRMP to cover also liquidity analysis over medium and long-term was increased to EUR 20 bn in assets.
- ▶ The quarterly update of the liquidity analysis over the short term was replaced by the requirement that undertakings should update the LRMP at least annually (and without delay following any significant change in the liquidity risk profile of the undertaking or any major external development affecting significantly the relevance of the content of the LRMP). Unless the liquidity risk exposures of the undertaking exhibit significant fluctuations throughout the year, this ensures that the LRMP does not have to be submitted to the NSA on a quarterly basis.

The remainder of this feedback statement will provide a more elaborate discussion of the comments received and the modifications made to the various articles in the draft RTS.

## CRITERIA FOR COVERING LIQUIDITY ANALYSIS OVER THE MEDIUM AND LONG TERM

### Stakeholder comments

#### Threshold of EUR 12 bn

Several stakeholders expressed concerns on the quantitative criterion of EUR 12 bn in assets and supported only the inclusion of risk-based criteria. While some of them recognise that this threshold is already established to identify entities in relation to reporting for financial stability purposes and other macroprudential tools, they noted that the threshold of EUR 12 bn was defined in 2015 and does not include adjustment for inflation. Thus, there is the risk that many undertakings and groups would be captured making the application of the RTS less proportionate. Others also noted that this quantitative criterion is not appropriate for identifying insurance and reinsurance undertakings and groups exposed to (higher) liquidity risk and proposed other criteria to be considered.

Some also expressed concerns that the threshold introduces an automatism beyond the scope of the Level 1 text, which risks overburdening insurers and imposing a disproportionate compliance obligation. In particular, they noted that the provisions of Article 144d of the Solvency II Directive provide for the supervisory authorities to be the ones determining which undertakings and groups should be requested to draw up a LRMP covering medium- and long-term liquidity analysis, a principle that they believe was not correctly reflected by Article 1 (now Article 2) of the draft RTS.

#### Treatment of banks

Some stakeholders requested clarifications on the treatment of banks in case of insurance groups that include such institutions in their group structure. In this context, they supported the exclusion of banks from the quantitative threshold as well as the analysis and content of liquidity plans. These

respondents argued that banks have significantly higher exposure to liquidity risk, while they are subject to separate liquidity risk management requirements introduced by the sectoral regulation, which makes their inclusion (i.e. in the requirements introduced by the draft RTS) inappropriate.

### **Quantitative and qualitative criteria**

Respondents supported EIOPA's analysis that larger undertakings and groups are more relevant from a macroprudential perspective. However, they suggested for EIOPA to further clarify that not all large undertakings and groups are by default exposed to medium- and long-term liquidity risks. In this context, they found that the draft RTS rightly recognises the possibility to exempt undertakings and groups with assets exceeding the defined threshold (i.e., EUR 12 bn, at the time of the consultation) from the requirement to cover the medium- and long-term liquidity analysis in their LRMPs and they suggested to elaborate this concept that allows a risk-based and proportionate approach. In particular, they suggested to further specify how the quantitative threshold interacts with the qualitative criteria aiming to capture undertakings' exposure to liquidity risk to ensure proportionality and alignment with the specific risk profiles of undertakings.

### **Scope of application – at group and solo level**

Several stakeholders underlined the need for the draft RTS to provide clarity on the requirement to prepare and maintain LRMPs at the individual undertaking level, in particular for these undertakings that are part of an insurance group that meets the quantitative criterion of EUR 12 bn in assets (at the time of the consultation). Some read the provisions of Article 1 (now Article 2) of the draft RTS as imposing a dual-level requirement, both at group and solo level, which may create unnecessary administrative burden. Thus, they requested further guidance that could also support a more consistent application of Article 246a of Solvency II Directive and promote further harmonisation across jurisdictions.

Some respondents also proposed further considerations regarding the scope of application of the requirements in the draft RTS that should reflect and be consistent with the undertaking's approach to liquidity risk management, i.e. the undertaking managing its liquidity on a centralised (group) or decentralised (individual entity) basis. In this context, they argued that the draft RTS should prioritise flexibility, allowing insurers to tailor their LRMPs in alignment with their operational models.

### **Short-term versus medium to long-term plans**

A few respondents requested clarifications on the requirements regarding short-term liquidity risk analysis and commented on the absence of references to short-term liquidity plans in the draft RTS, while advocating a clear distinction of the requirements for short-term analyses from those for medium- and long-term analyses.

## Assessment

### Threshold of EUR 12 bn

The approach taken in the draft RTS for the criteria is inspired by the IAIS Holist Framework and the Common Framework for the Supervision of Internationally Active Insurance Groups (IAIGs). The IAIS defines IAIGs as insurance groups that meet specific criteria related to their size, international activity, and systemic importance. The threshold contributes to a consistent approach across markets, starting from a common size criterion while also maintaining flexibility with the possibility to include as well as to exclude insurance or reinsurance undertakings and groups based on qualitative criteria (opt-in / opt-out mechanism).

EIOPA understands the concerns expressed by several stakeholders that the threshold of EUR 12 bn in assets does not account for inflation since it was initially fixed in 2015. Thus, the draft RTS has been revised and an increased threshold of EUR 20 bn in assets is introduced, which would still ensure sufficient EU market coverage.

### Treatment of banks

EIOPA takes note of the feedback received regarding the treatment of banks for insurance groups that have such institutions in their group structure. EIOPA clarifies that banks that belong to an insurance group should be included for the purpose of the quantitative threshold, given that no such exemption has been considered or is recognised in relation to reporting for financial stability purposes and other macroprudential tools. With regard to the information to be provided in the LRMPs that would also include medium- to long-term liquidity analysis, it is expected that this information at group level should take into account the cash flows of banks from and to group entities, given that such information may be relevant for understanding the liquidity risk to which the group is exposed. However, there is no intention for these draft RTS to introduce additional requirements towards banks, since these are indeed subject to sectoral requirements, and as such the LRMP at group level should not assess the cash flows of the banks to other counterparties.

### Quantitative and qualitative criteria

The draft RTS specify both quantitative and qualitative criteria for the identification of insurance or reinsurance undertakings and group that shall be requested by supervisory authorities to draw up and maintain LRMPs that will (also) provide for medium- to long-term analysis of liquidity risk. While the quantitative criterion expressed in terms of total assets is used as a tool for identifying the more significant undertakings and groups from a financial stability perspective, qualitative criteria allow further considerations which are specific to the liquidity risks to which an undertaking or group may be exposed. Thus, the qualitative criteria are linked both to the opt-in and the opt-out mechanism.

### Scope of application – at group and solo level

Article 2(1) of the draft RTS has been further developed to provide clarity on the scope of application of the requirements at group and entity level, to avoid imposing a dual-level requirement that is not justified by any of the circumstances prescribed in the Level 1 provisions. In this context, EIOPA clarifies

that Article 246a of Solvency II Directive, regulating liquidity risk management at group level, already recognises that insurance or reinsurance undertakings which are in the scope of group supervision are exempted from drawing up and keeping up to date a LRMP at individual level whenever the LRMP at group level covers the liquidity management and liquidity needs of the subsidiaries concerned. Paragraph 3 of this article recognises specific conditions under which supervisory authorities can deviate from this exemption.

The Solvency II Directive does not give any room for an exemption of the group to draw up and keep up to date a LRMP at its level. This default approach is introduced by the Directive and can therefore not be modified by the draft RTS.

### **Short-term versus medium to long-term plans**

Article 144a(2) of the Solvency II Directive provides that insurance and reinsurance undertakings shall draw and keep up to date a LRMP covering liquidity analysis over the short term. When requested by the supervisory authorities, insurance and reinsurance undertakings shall extend the LRMP to cover also liquidity analysis over medium and long-term. Furthermore, Article 114d(1)(b) of the Solvency II Directive mandates EIOPA with the development of draft RTS to specify the criteria to be taken into account by supervisory authorities when defining such insurance or reinsurance undertakings and groups. Thus, Article 1 (now Article 2) of the RTS does not refer to LRMPs covering short-term analysis, given that undertakings and groups are expected to develop and maintain such plans and this requirement is not subject to an assessment and subsequent request from supervisory authorities (unless Article 144a(4)<sup>28</sup> of the Solvency II Directive applies).

## **TIME HORIZON OF THE LIQUIDITY ANALYSIS**

### **Stakeholder comments**

A number of respondents, including EIOPA's IRSG, were of the view that the draft RTS should avoid overly prescriptive definitions of short-term versus medium- and long-term and the time horizons to be used in the liquidity analysis of cash flow projections. Undertakings have different interpretations of short, medium and long term and undertakings use different projection horizons in accordance with their specific liquidity exposures. One stakeholder also put forward that EIOPA does not have a specific mandate to define the time horizons.

A couple of respondents were more supportive of the definitions for short-term (3 months) and medium- and long-term (at least 1 year), while at the same time giving flexibility for alternative intervals if they better suit the undertaking's liquidity risk profile and management. However, these stakeholders proposed that the undertaking-specific time horizons should be recognised as real

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<sup>28</sup> Article 144a(4): Member States shall ensure that small and non-complex undertakings, and undertakings which have obtained prior approval from the supervisory authority pursuant to Article 29d are not obliged to draw up a liquidity risk management plan as referred to in paragraph 2 of this Article.

alternatives to the 3-month/12-month time horizons instead of being additive. In other words, the liquidity analysis should not 'also' consider other time horizons that are appropriate with regard to the liquidity risk exposures and to the timing of liquidity needs of the undertakings. Other respondents noted that the flexibility afforded in the proposed Article 2(3) of the draft RTS (original numbering) was to some extent redundant, since the proposed Article 2(2) of the draft RTS (original numbering) does not impose a specific time horizon for the medium- and long-term liquidity analysis.

One stakeholder found the interpretation and implementation of the closing condition unclear. I.e. '...following the starting date of the projections until the point in time when the liquidity risk exposures of the insurance or reinsurance undertaking are not material'. Another respondent suggested to limit the long-term time horizon to the length of the firm's ORSA or business planning horizon. Some other stakeholders proposed to restrict the medium- and long-term analysis to 'up to one year'. Similarly, it was suggested to clarify that the short-term time horizon is 'up to 3 months'.

Finally, one stakeholder suggested that cash flow projections should not begin at the end of the previous quarter but rather at the beginning of the current quarter.

## Assessment

EIOPA does not believe that undertakings should be able to choose their own definitions of short term and medium and long term. The reason is that the draft RTS needs to specify the criteria to be taken into account by supervisory authorities when deciding which undertakings should cover the liquidity analysis over the medium and long term in the LRMP. Since the criteria should be risk-based, it is essential to define the time periods in which the liquidity risk materialise. In addition, it would not be meaningful to specify common criteria for carrying out the liquidity analysis over the medium and long term if undertakings subsequently apply their own definition of what constitutes the liquidity analysis over the medium and long term.

EIOPA does agree with stakeholders that undertakings should be provided with the flexibility to determine their own time horizons that are most appropriate to their liquidity risk profile and timing of liquidity needs. In other words, undertakings should not be required to use a 3-month horizon for the liquidity analysis over the short term if there are one or more other time horizons over the short term that are more relevant in view of the undertakings' risk profile. In the same way, undertakings should not be required to use a 1-year horizon if other time horizons over the medium and long term are more appropriate.

Therefore, undertakings are expected to determine their own time horizons that are most appropriate to their liquidity risk profile and timing of liquidity needs. The draft RTS now provides that undertakings should carry out liquidity analyses for at least one time horizon over the short-term time period and, where applicable, for at least one time horizon over the medium and long-term time period. To ensure that the time periods covering the short term and medium and long term are not confused with the time horizons of the projection, definitions of short term and medium and long term have been included in a new Article 1 of the draft RTS.

The time periods distinguishing on the one hand the short term and on the other hand the medium and long term have largely been maintained. The stakeholder suggestion to define the short term as



'up to 3 months' was taken on board in the draft RTS, but by adding 'and including'. Moreover, the amended provisions for the determination of the time horizons have rendered the end condition for the medium- and long-term time period redundant. Instead, undertakings will have to choose at least one time horizon over the period beyond 3 months following the starting date of the cash flow projections. This means that the draft RTS does not specify an absolute end point for the medium- and long-term time period, like the up to one year proposed by some stakeholders. The appropriate end point will depend on the undertakings' liquidity risk exposures and timing of liquidity needs. Although likely to be immaterial for most undertakings, some undertakings will have relevant liquidity risk exposures beyond one year. According to the survey carried out by the CRO Forum, 29% of undertakings make use of a time horizon of 2 years in their assessment of liquidity risk.<sup>29</sup>

## STRUCTURE

### Stakeholder comments

Only two respondents gave feedback on the proposed structure of the LRMP. One stakeholder indicated that a common and predetermined structure seems to be in contradiction with the aim not to prescribe a standardised liquidity analysis. The other stakeholder suggested to consider including a separate section describing potential management actions on the undertaking in the event of a liquidity issue.

### Assessment

Considering that most stakeholders did not comment on the proposed structure, it was left unchanged. EIOPA does not agree that prescribing a common structure of the LRMP implies that undertakings cannot carry out their own liquidity analysis. Moreover, potential management actions are already covered in the section with the 'overall assessment', which specifies that information should be included on actions undertaken by the undertaking to remedy any vulnerabilities.

## ASSUMPTIONS UNDERLYING THE PROJECTIONS

### Stakeholder comments

Only two respondents commented on the specified assumptions underlying the projections to be reported in the LRMP. One stakeholder proposed that undertakings also report on the assumptions underlying the cash flow projections, expecting alignment of the projections with deterministic scenarios used for the best estimate calculations. The other stakeholder suggested to consider requiring certain minimum shocks to ensure comparability. In addition, the probability of the shocks could also be included in the section on the assumptions.

### Assessment

The proposed draft RTS included a general requirement that undertakings should provide qualitative and quantitative information on the assumptions underlying the projections on an ongoing basis and

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<sup>29</sup> CRO Forum, [Managing liquidity risk: Industry practices and recommendations for CROs](#), September 2019.

under stressed conditions, but only explicit information was required on the stress test and scenario analysis. Taking into account the stakeholder feedback, and to ensure a balance between the ongoing and stressed projections, a more explicit requirement was included that undertakings provide a description of the assumptions underlying the projections on an ongoing basis. Still, EIOPA does not believe that these assumptions should necessarily be the same as the assumptions underlying the cash flow projections for the best estimate of technical provisions. For example, the latter should be based on risk-neutral returns, while expected returns would be more appropriate for the cash flow projections for liquidity purposes. The suggestion to require certain minimum shocks for the liquidity analysis was not taken on board, since it conflicts with the envisaged principle-based approach. Undertakings are expected to report on their own liquidity risk analyses, taking into account their approved risk tolerance limits. Moreover, a draft RTS on LRMPs does not seem the appropriate place to introduce a standard model with (minimum) shocks for liquidity risk. The proposal to have undertakings also report the probability of the shocks was also not reflected in the draft RTS, because it is not always possible to determine these probabilities. Besides backward-looking, historical shocks, undertakings are also expected to consider forward-looking shocks.

## INFORMATION ON CASH FLOW PROJECTIONS

### Stakeholder comments

Many respondents, including EIOPA's IRSG, were of the view that the proposed minimum list of cash flow items to be reported in the LRMP is too prescriptive and detailed. Requiring cash flow projections for certain immaterial items may add complexity without meaningfully enhancing risk management. These stakeholders advocate a proportionate and risk-based approach, providing undertakings the flexibility to consider the most relevant variables in their projections and excluding non-material elements from the reporting.

Stakeholders also argued that the analysis conducted over the medium- and long-term horizon cannot achieve the same granularity and level of detail as those conducted over the short term, due to the inherent challenges in estimating certain elements referenced in the draft RTS. In particular, respondents disapproved of reporting the following cash flow items that NSAs can temporarily restrict or suspend to remedy liquidity vulnerabilities in exceptional circumstances, in accordance with Article 144b of the Solvency II Directive:

- ▶ dividend distributions to shareholders and other subordinated creditors;
- ▶ other payments to shareholders and other subordinated creditors;
- ▶ share buy-backs and repayment or redemption of own fund items;
- ▶ bonuses and other variable remuneration.

Stakeholders were of the view that these items are not appropriate for an "at least" list of mandatory items and also not proportionate, considering the low level of liquidity risk that the items represent. Moreover, these cash flows constitute a strategic decision of the undertaking's management, which means they cannot be anticipated during the year. Some respondents, including EIOPA's IRSG, suggested to cover these items in a combined item, like 'distributions to basic own-fund items'.

A number of respondents also suggested that the liquidity cash flows should be aligned as much as possible with the balance sheet items, where relevant, to ensure consistency between the LRMP requirements and the undertaking's internal processes. These stakeholders suggested that the proposed list combines and re-names some items.

Finally, respondents requested clarification for some of the items, including the specification of:

- ▶ sales of liquid assets rather than sales of assets;
- ▶ operational expenses as part of other technical outflows; and
- ▶ margin requirements as part of financial outflows.

## Assessment

EIOPA implemented some modifications to the proposed provisions on the reporting of the cash flow projections in the LRMP. In particular, the draft RTS now specifies that the incoming and outgoing cash flow items need to be reported for the projections on an ongoing basis and, only where these items change materially in value, for the projections under stressed conditions. This ensures that undertakings do not have to distinguish items in their cash flow projections under stressed conditions which are not impacted by the stress tests and scenario analysis. At the same time, the reported values of the cash flows for the projections on an ongoing basis, even if they do not change under stressed conditions, provide the supervisory authority with important information.

EIOPA did not take on board the feedback from stakeholders to delete or combine the cash flow items that can be temporarily restricted or suspended by supervisory authorities to remedy liquidity vulnerabilities in exceptional circumstances. The macroprudential tools in Article 144a (on LRMPs) and Article 144b (on supervisory powers) of the Solvency II Directive to remedy liquidity vulnerabilities in exceptional circumstances are interlinked. The LRMPs in Article 144a of the Solvency II Directive have to be submitted to the NSAs as part of the information to be provided for supervisory purposes, including the supervisory review process. Article 144b of the Solvency II Directive lays down that supervisory authorities, as part of the regular supervisory review process, should monitor the liquidity position of undertakings and empowers supervisory authorities to temporarily restrict or suspend five specific outgoing cash flow items in exceptional circumstances. As such, reporting on the projections for these outgoing cash flow items will provide supervisory authorities with readily and valuable information to what extent restriction or suspension of these items can contribute to remedying liquidity vulnerabilities.

In EIOPA's view, the other items in the minimum list contribute to providing the audience of the LRMP, including the supervisory authority, insight in the drivers of the outcomes of the liquidity analysis. One set of items represent the main incoming cash flows (gross written premiums, reinsurance recoverables, investment income) and outgoing cash flows (claims, expenses, reinsurance premiums) of undertakings underlying their business model. The minimum list of cash flow items also forces undertakings to consider potentially imminent sources of liquidity risk, such as margin and collateral calls on derivatives, securities financing transactions and other exposures, but also purchases of assets and intragroup cash outflows. Finally, some of the incoming cash flow items aim to shed light on the

reliance on other sources of liquidity (intragroup cash inflows, sales of assets not included in the buffer of liquid assets and unsecured funding) that are not related to the buffers of liquid assets.

In response to the feedback from stakeholders, EIOPA did reconsider and streamline the cash flow items proposed in the draft RTS:

- ▶ sales of assets was clarified to exclude sales of liquid assets since the latter have to be reported in the breakdown of the difference between the net and gross balance of incoming and outgoing cash flows;
- ▶ other technical outflows were included as part of claims rather than being combined with expenses;
- ▶ operational expenses was broadened to the more generic category expenses and clarified to exclude bonuses and other variable remuneration to prevent double counting, since it is also in the list of items that can be restricted by supervisory authorities in exceptional circumstances;
- ▶ financial outflows, including margin and collateral calls, was replaced by just margin and collateral calls to avoid having a nondescript category, also considering that margin and collateral calls are a potentially imminent and sizeable source of liquidity risk.

## BUFFERS OF LIQUID ASSETS

### Stakeholder comments

Only two respondents provided feedback on the buffers of liquid assets to be reported in the LRMP. One stakeholder emphasised that buffers of liquid assets are very specific to each undertaking with buffers existing inside the undertaking or outside (e.g. cash pool contracts). In that respect, the other respondent suggested to clearly define liquid assets as well as the level of haircuts to prevent misunderstandings with supervisory authorities and heterogeneous interpretations in Member States. To this stakeholder, it is not clear when the buffer of liquid assets is considered sufficient, both quantitatively and qualitatively, and how it should be included in the plan.

### Assessment

EIOPA made a small amendment to the provisions on the buffers of liquid assets to better recognise other potential sources of liquidity, not related to the buffer of liquid assets, such as unsecured funding and intragroup liquidity arrangements, including cash pooling. Article 6(4)(c) of the draft RTS (new numbering) was modified, also requiring an assessment of the continued availability, even under stressed conditions, of any arrangements with counterparties to provide other sources of liquidity, including the identification of these counterparties. Moreover, also the provisions on the liquidity risk indicators have been made more flexible to recognise the potential reliance of undertakings on other sources of liquidity. The common indicator, relying on the ratio between liquid assets and (stressed) liquidity needs, was relinquished, while the added condition for undertakings' own liquidity risk indicators is specified in general terms of "liquidity resources and needs" (see section below).

EIOPA did not agree the stakeholder suggestion to add definitions of liquid assets and to specify the level of haircuts. This would be in conflict with the approach of the draft RTS that undertakings should report on their own liquidity risk analysis rather than on a standardised liquidity risk assessment. With regard to the question when the buffer of liquid assets is considered sufficient, the new Article 144a(1) of the Solvency II Directive specifies that undertakings “maintain adequate liquidity to settle their financial obligations towards policy holders and other counterparties when they fall due, even under stressed conditions.” As such, the desired level of liquid assets depends on potential other sources of liquidity, but also the level of stress that the undertaking wants to be able to resist according to its risk tolerance limits.

## LIQUIDITY RISK INDICATORS

### Stakeholder comments

Several respondents, including EIOPA’s IRSG, opposed the inclusion of the liquidity coverage indicator as a common liquidity risk indicator. Stakeholders argued that the common indicator would not be comparable between undertakings, since the stresses will be determined by each undertaking individually. Moreover, there is the risk that the LRMP will be reduced to this single measure to evaluate the liquidity position of undertakings. Finally, the liquidity coverage indicator may only be calculated for NSAs, as it does not have to be used by undertakings in their liquidity risk management. As such, the indicator will result in parallel processes with higher implementation costs.

### Assessment

EIOPA agrees with stakeholders that the proposed common liquidity risk indicator may result in additional calculation without significantly contributing to liquidity risk management, as undertakings are not obliged to use the indicator in their risk management. Moreover, the common indicator may be of limited use to supervisory authorities in terms of comparability, since they refer to different liquidity stresses and time horizons. Therefore, the requirement for undertakings to report the common indicator was abandoned.

Undertakings only have to provide information on their own liquidity risk indicators used to identify, monitor and address potential liquidity stress. Still, it is important that the reported indicators are relevant for liquidity risk management and informative for the readers, including the undertaking’s AMSB and its NSA. Therefore, some conditions have been imposed on the indicators in the draft RTS, while recognising that they should reflect the specificities and the risk profile of the undertaking. In particular, the reported indicators should include indicators that signal the extent to which liquidity risk exposures are within the established risk tolerance limits and compare liquidity resources and liquidity needs under normal and stressed conditions. Commonly used examples of such indicators, like the liquidity coverage ratio and the excess liquidity metric, have been mentioned in the recital.

## OVERALL ASSESSMENT OF LIQUIDITY RISK

### Stakeholder comments

Only one respondent commented on the proposed section with the overall assessment in the LRMP, arguing that both internal and external liquidity buffers should be taken into account.

### Assessment

Considering that most stakeholders did not comment on the proposed structure, it was not altered. In EIOPA's view, the draft RTS provides undertakings with the possibility to take into account buffers of liquid assets, but also other sources of liquidity. This is particularly the case following the adjustments made to the provisions on buffers of liquid assets and the liquidity risk indicators (see the assessments of the feedback on the buffers of liquid assets and liquidity risk indicators). The provisions on the content of the overall assessment do not mention buffers of liquid assets, but only the more generic term "liquidity".

## FREQUENCY OF UPDATE OF THE LIQUIDITY RISK MANAGEMENT PLAN

### Stakeholder comments

Most respondents, including EIOPA's IRSG, were of the view that a quarterly update of the short-term liquidity analysis for the LRMP would be disproportionate, especially when there is no significant change in the undertaking's risk profile.

Many respondents anticipated that a quarterly update of the LRMP would imply that the LRMP would also have to be submitted to the supervisory authority at a quarterly frequency. In that respect, one stakeholder explained that monitoring and reporting to the management at a quarterly basis is not comparable to updating and approving liquidity documents for submission to the supervisory authority. Therefore, even if management reporting occurs on a quarterly basis, the same frequency cannot be applied for submission to supervisors.

A couple of respondents also argued that quarterly updates would be disproportionate when compared to other requirements under the Solvency II Directive in more extreme scenarios, such as those outlined in Article 144b. For undertakings with material liquidity risks or deficiencies, this article mandates supervisory reviews of liquidity measures only once every six months.

Some respondents suggested to align the frequency of LRMP updates with the actual liquidity processes and governance structures of each undertaking. For most undertakings, annual or even multi-annual updates (e.g. every three years) would suffice, with more frequent updates triggered only by significant changes in liquidity risk or other relevant circumstances. Other stakeholders proposed that the short term LRMPs should only require a yearly update or if there is a significant change in the liquidity profile of the undertaking. According to one respondent, the latter requires a quarterly calculation of quantitative data and – in particular – the liquidity indicators.

With regard to supervisory reporting, several stakeholders referred to the ORSA process, allowing the timing of submissions to be agreed upon by the undertakings and supervisors to align with the internal calendars of risk assessment.

## Assessment

EIOPA agrees with stakeholders that quarterly submission of the LRMP to supervisory authorities would be too burdensome, both for undertakings and NSAs, if there is no significant change in the undertaking's liquidity risk profile.

The frequency of update of the LRMP, which is in scope of the draft RTS, is not necessarily the same as the frequency of submission to the supervisory authority, which is not in the scope of the draft RTS. Article 144a(3) of the Solvency II Directive provides that undertakings submit to the supervisory authorities the LRMP as part of the information referred to in Article 35(1) ('Information to be provided for supervisory purposes') of the Solvency II Directive. Article 35(9) of the Solvency II Directive empowers the Commission to further specify the information to be provided for supervisory purposes. Still, the quarterly frequency of update of the short-term analysis in the LRMP may imply that the LRMP also must be submitted to the supervisory authority on a quarterly basis.

The draft RTS was modified requiring undertakings to update the LRMP at least annually. A more frequent update should be used where liquidity risk exposures are subject to significant fluctuations throughout the year. The LRMP should also be updated without delay following any significant change in the liquidity risk profile of the undertaking or any major external development affecting significantly the relevance of the content of the LRMP. The latter implies that it is insufficient for undertakings to assess liquidity risk just once a year. As already specified in Article 44(1) ('Risk management') of the Solvency II Directive, insurance and reinsurance undertakings should identify, measure, manage, and report liquidity risks on a continuous basis.

Some stakeholders suggested that for some undertakings less frequent updates would be appropriate. This would be in line with the Article 45(5) of the Solvency II Directive which allows small and non-complex undertakings – as well as captives under some conditions – to perform the ORSA every two years. However, an important difference with the LRMP is that all undertakings have to carry out an ORSA. In contrast, small and non-complex undertakings and undertakings which have obtained prior approval from the supervisory authority in accordance with Article 29d of the Solvency II Directive do not have to draw up an LRMP. Since part of undertakings can make use of the proportionality measure not to draw up an LRMP, EIOPA did not implement any exemptions from the annual frequency of update. Finally, in line with ORSA, the draft RTS does not specify any deadlines for updating the LRMP.

## CONTENT AND FREQUENCY OF UPDATE OF THE LIQUIDITY RISK MANAGEMENT PLAN AT GROUP LEVEL

### Stakeholder comments

Stakeholders commented that the LRMP should be done either at solo level or at group level, depending on the level at which liquidity risk is managed (as done for EIOPA stress tests on liquidity).

In particular, in case of liquidity risk being managed at solo level, stakeholders are against the introduction of artificial group liquidity metrics and recommend that it contains only the content of the different plans at solo level.

### **Assessment**

In accordance with Article 246a of the Solvency II Directive, subsidiaries can be exempted from drawing up an individual LRMP as far as their liquidity needs are included in the group LRMP. Nonetheless, the Directive provisions do not give any room for an exemption from having a LRMP at group level. The default approach to have a LRMP at group level is introduced by the Directive and therefore cannot be modified by the draft RTS.