GUIDELINES

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on basis risk

EIOPA-BoS-14/172-Rev1
EIOPA REGULAR USE
28 September 2026



eiopa
European Insurance and
Occupational Pensions Authority

GUIDELINES ON BASIS RISK

INTRODUCTION

1. According to Article 16 of Regulation (EU) No 1094/2010 (EIOPA Regulation)[1], EIOPA issue these Guidelines on basis risk.
2. The Guidelines relate to Article 104 and 105 of Directive 2009/138/EC (Solvency II)[2].
3. These Guidelines are aimed at facilitating convergence of practice across Member States and at supporting undertakings in calculating their capital requirement for market risk under Solvency II.
4. These Guidelines concern undertakings and professionals responsible for the treatment of the risk mitigation techniques in the calculation of the Solvency Capital Requirement with the standard formula.
5. The aim is to increase consistency and convergence of professional practice relating to the treatment of risk mitigation techniques in the calculation of the Solvency Capital Requirement for all types and sizes of undertakings.
6. These Guidelines are addressed to supervisory authorities under Solvency II.
7. These Guidelines are amended by EIOPA-BoS-2026-74 and apply from 30 January 2027.
8. If not defined in these Guidelines the terms have the meaning defined in the legal acts referred to in the introduction.

GUIDELINES

[DELETED: Guideline 1 – Risk-mitigation techniques with no material basis risk]

Guideline 2 – Financial risk-mitigation techniques: assessment criteria of material basis risk

9. Before allowing for financial risk-mitigation techniques in the calculation of the Solvency Capital Requirement with the standard formula, undertakings should assess inter alia:
    (a) the materiality of the basis risk with reference to the exposure covered by the risk-mitigation technique and the risk exposure of the undertaking without considering other balance sheet items, unless there is a continuous and consistent connection between other balance sheet items and the risk exposure of the undertaking;
    (b) the similarity of the nature of the exposures by taking into account at least the type and terms and conditions of the instruments or arrangements involved and the rules governing the markets where their prices are quoted or which provide the data for their valuation;

[1] 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)
[2] 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)

(c) the changes in the value of the exposures under a comprehensive set of risk scenarios, including all scenarios considered in the relevant modules or sub-modules of the standard formula, by at least taking into account:

(i) the degree of symmetry among both exposures;

(ii) any non-linear dependencies under the scenario;

(iii) any relevant asymmetry of the behaviours in case of risk sub- modules where both upward and downward stresses are applied;

(iv) the levels of diversification of each respective exposure;

(v) any relevant risks not captured explicitly in the standard formula;

(vi) the whole distribution of pay-outs applying to the risk-mitigation technique.

10. The risk-mitigation technique should be considered to result in material basis risk where the above assessment does not provide sufficient evidence that the changes in value of the exposure covered by the risk-mitigation technique mirrors all material changes in value of the risk exposure of the undertaking.
11. Where the terms and conditions of a risk-mitigation technique specify a cap on the maximum loss protection as a proportion of the initial exposure, undertakings should apply the assessment only to the proportion covered by the risk-mitigation technique when determining whether the basis risk is material.

[DELETED: Guideline 3 – Insurance risk-mitigation techniques with no material basis risk]

COMPLIANCE AND REPORTING RULES

12. This document contains Guidelines issued under Article 16 of the EIOPA Regulation. In accordance with Article 16(3) of the EIOPA Regulation, competent authorities and financial institutions are required to make every effort to comply with guidelines and recommendations.
13. Competent authorities that comply or intend to comply with these Guidelines should incorporate them into their regulatory or supervisory framework in an appropriate manner.
14. Competent authorities are to confirm to EIOPA whether they comply or intend to comply with these Guidelines, with reasons for non-compliance, within two months after the issuance of the translated versions.
15. In the absence of a response by this deadline, competent authorities will be considered as non-compliant to the reporting and reported as such.

FINAL PROVISION ON REVIEWS

16. These Guidelines will be subject to a review by EIOPA.