

Comments Template on Implementing Technical Standards with regard to the Supervisory Approval Procedure to use Undertaking-Specific Parameters		Deadline 30 June 2014
Name of Company:	CFO Forum and CRO Forum	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> ⇒ Do not change the numbering in the column "reference"; if you change numbering, your comment cannot be processed by our IT tool ⇒ Leave the last column <u>empty</u>. ⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph or a cell, keep the row <u>empty</u>. ⇒ Our IT tool does not allow processing of comments which do not refer to the specific numbers below. <p>Please send the completed template, <u>in Word Format</u>, to CP-14-009@eiopa.europa.eu. Our IT tool does not allow processing of any other formats.</p> <p>The numbering refers to Implementing Technical Standards On the procedures to be followed for the approval of the application of a matching adjustment.</p>		
Reference	Comment	
General Comment	<p>We support USPs as an important tool which provides incentives for insurance and reinsurance undertakings using the standard formula to properly measure and manage their risks, in particular where companies regard the effort for a full or partial internal model as unduly high given their risk profile. We understand that companies should formally demonstrate the appropriate use of USPs, however as the use of USPs is only within the standard formula, i.e. the structure and aggregation method will not change, we expect the approval procedure to be much simpler than for an (partial) internal model.</p> <p>Therefore, the following issues related to the draft ITS should be addressed:</p>	

**Comments Template on
Implementing Technical Standards with regard to the Supervisory
Approval Procedure to use Undertaking-Specific Parameters**

**Deadline
30 June 2014**

- 1) **The timeframe for approval process of USP is the same as the one for internal models whereas the complexity of the latter appears to be higher.** Six months appears to be an excessive period for the approval of a proposal to use a USP relative to the same approval period for an entire internal model. Assuming that the approval procedure for USPs should be much leaner than for IMs, a significantly shorter period, such as 3 months, would be sufficient.

- 2) **The lack of approval or a clear process defining the way forward if no response from supervisor is reached within the deadline.** Supervisors should not remain silent and further clarity should be provided in this respect. Should this happen and when the timeline for approval has elapsed, the undertaking should be able to consider that its undertaking-specific parameters have been approved and be allowed to use them. Indeed, there is no justification to leave an undertaking in a situation of uncertainty when the application is complete and receipt of submission has been received. The approval process should be clearly defined and certainly not be perceived as a possible never-ending process as this will discourage undertakings to take this route.

Furthermore we would like to note that we generally support a broad use of USPs, i.e. within the underwriting risk module, it should not be limited only to certain parameters and there should be no closed list of 'standardised' methods (as described in the draft DAs). Such changes would not impact the approval procedure.

We would also note in general that the references to the draft Delegated Acts in the ITS will need to be updated as the Delegated Acts are finalised and adopted.

Recital (1)

Recital (2)

Recital (3)

Comments Template on Implementing Technical Standards with regard to the Supervisory Approval Procedure to use Undertaking-Specific Parameters		Deadline 30 June 2014
Recital (4)		
Recital (5)	Six months appears an excessive period for the approval of a proposal to use a USP relative to the approval period for an entire internal model which is of the same length. Assuming that the approval procedure for USPs should be much leaner than for IMs, a significantly shorter period, such as 3 months, would be sufficient.	
Recital (6)	We consider that companies should not be denied the use of USPs in order to obtain lower capital requirements. The general economic incentive for a company using the Standard Formula to apply for the use of USPs is that, when data requirements regarding appropriateness and quality can be met, the resulting required capital will be lower because the risk profile of the company is better reflected. This intention should not be discredited as it is economically sensible and appropriate. The reverse case, i.e. underestimation of the required capital by the Standard Formula, is not a case for applying for USPs, but for supervisory authorities to require an internal model or a capital add-on. These separate topics should not be mixed up, and we consider that Recital (6) should be deleted from the draft ITS.	
Recital (7)		
Recital (8)	The intention of the second sentence in Recital 8 is not clear, and should be reworded to clarify what is meant.	
Recital (9)		
Recital (10)		
Recital (11)		
Article 1 (1)		
Article 1 (2)		
Article 1 (3)		
Article 1 (4) a		
Article 1 (4) b		
Article 1 (4) c		

Comments Template on Implementing Technical Standards with regard to the Supervisory Approval Procedure to use Undertaking-Specific Parameters		Deadline 30 June 2014
Article 1 (4) e		
Article 1 (4) f		
Article 1 (5)		
Article 2 (1)	While we understand that additional information can be requested by the supervisory authorities during the process, it should be clarified that the timeline for approval is not reset each time a new request is expressed on the part of the supervisor so as to ensure that undertakings are not trapped in a never-ending process.	
Article 3 (1)	Within the range of possible methods to determine USPs the most appropriate method must be chosen, not the most conservative. It is not appropriate to assume that an undertaking will be able to include ALL standardized methods into the comparison required by Art. 3(1). We consider that the wording should therefore be aligned with current draft Delegated Acts (Art. 198 (2) USP3 draft DA) to limit the set of comparable methods to those that are appropriate: "Where the undertaking is able to use more than one standardised method ...".	
Article 3 (2)		
Article 4 (1) a		
Article 4 (1) b		
Article 4 (2)		
Article 5 (1)		
Article 5 (2)		
Article 5 (3)		
Article 5 (4)	When only a part of parameters require further information the deferral should only be applied to that subset of parameters.	
Article 5 (5)	We welcome this consideration.	
Article 5 (6)	Six months appears an excessive period for the approval of a proposal to use a USP relative to the approval period for an entire internal model which is of the same length. Assuming that	

Comments Template on Implementing Technical Standards with regard to the Supervisory Approval Procedure to use Undertaking-Specific Parameters		Deadline 30 June 2014
	the approval procedure for USPs should be much leaner than for IMs, a significantly shorter period, such as 3 months, would be sufficient. The approval process should be clearly defined and certainly not be perceived as a possible never-ending process as this will discourage undertakings to take that route.	
Article 5 (7)		
Article 5 (8)	The approval process should be clearly defined and certainly not be perceived as a possible never-ending process as this will discourage undertakings to take that route. When the timeline for approvals has elapsed, or, for example, after an additional period of time (e.g. 30 days) has elapsed, the company should be allowed to consider the use of USPs as approved. In such a case, there is no justification to leave an undertaking in a situation of uncertainty, which would result in increased operational cost and capital cost eventually increasing cost of insurance products, when the application is complete and receipt has been received.	
Article 6 (1)		
Article 7 (1)		
Article 8 (1)		
Article 9 (1)		
Article 9 (2)		
Explanatory Text 4.1 (a)		
Explanatory Text 4.1 (b)		
Explanatory Text 4.1 (c)		
Explanatory Text 4.1 (d)		
Explanatory Text 4.2		
Explanatory Text 4.3		
Explanatory Text 4.4	The explanatory text goes beyond the provisions of the Article 1 (4) which only requires justifying why the methods used are deemed the most accurate. For example (as part of the approval procedure for USPs), undertakings should not be required to check the adequacy of the loss distribution of any 'standardised method' because this assumption is based on the standard formula. A similar requirement exists under ORSA and does not need to be	

Comments Template on Implementing Technical Standards with regard to the Supervisory Approval Procedure to use Undertaking-Specific Parameters		Deadline 30 June 2014
	duplicated here. Overall, there should be an incentive for undertakings to use UPSs and therefore the application procedure not overly burdensome.	
Explanatory Text 4.5		
Explanatory Text 4.6		
Explanatory Text 4.7	If a decision can be supported based on the comparison of the underlying assumptions of the methods rather than the results, this should be sufficient.	
Explanatory Text 4.8		
Explanatory Text 4.9		
Explanatory Text 4.10		
Explanatory Text 4.11		
Explanatory Text 4.12		
Explanatory Text 4.13		
Explanatory Text 4.14		
Explanatory Text 4.15		
Explanatory Text 4.16	We strongly disagree. The requirements for the use of USPs should be set at a level that encourages their use as this would live up to the spirit of the Framework Directive (Recital 65 last sentence). USP requirements should be set a practical level so that the burden in terms of approval is lessened and uncertainty regarding the use of USPs in the determination of capital requirements eliminated.	
Explanatory Text 4.17		
Explanatory Text 4.18	We strongly disagree as this is giving a free run to supervisor in not meeting the legal requirements in terms of timeline. Again here, to avoid a situation of uncertainty for the undertakings, the approval process should be clearly defined for the undertaking to be able to form an objective assessment of the outcome of the process at the very beginning of the approval process. As mentioned in 5 (6), the approval process should not be perceived as a possible never-ending process as this will	

Comments Template on Implementing Technical Standards with regard to the Supervisory Approval Procedure to use Undertaking-Specific Parameters		Deadline 30 June 2014
	discourage undertakings to take that route.	
Explanatory Text 4.19		
Explanatory Text 4.20		
Annex I: Procedural issues and consultation of interested parties		
Annex I: Problem definition		
Annex I: Proportionality		
Annex I: Baseline		
Annex I: Objective pursued		
Annex I: Policy options - Policy issue 1		
Annex I: Policy options - Policy issue 2		
Annex I: Policy options - Policy issue 3		
Annex I: Policy options - Policy issue 4		
Annex I: Policy options - Policy issue 5		
Annex I: Policy options - Policy issue 6	The 6 months upper limit is too high. The USP application is much simpler than internal model application which has the upper limit of 6 months. We propose 3 months upper limit.	
Annex I: Policy options - Policy issue 7		
Annex I: Analysis of impacts		
Annex I: Comparing the options		