

Annual Report 2005
and Work Programme 2006



CEIOPS

Committee of European
Insurance and Occupational
Pensions Supervisors

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Welcome to the second Annual Report of CEIOPS. You will find in it a summary of the Committee's activities during the past year, its programme and aspirations for the future and the operational organization by which it hopes to achieve them.

2005 has been a year of major rapid development for CEIOPS. It has moved from being a start-up body to a remarkably busy and productive organization. CEIOPS' first Annual Report last year described its evolution, from creation in late 2003 to an established position at the end of 2004. The Committee had to form a machinery to function at all, then to work at the various levels required of it. Significant progress has been made, but challenges still remain.

This year the Committee's range and depth of activities have expanded significantly. It has undertaken a vast workload. We remain determined to fulfil our role under the 'Lamfalussy' organizational structure for European financial services committees. To do this we must ensure that our own organizational structure and tools keep pace, not just with incoming demand but with the ability to provide support at CEIOPS' own initiative.

Some work streams continue to follow requests by the European Commission. The most dominant of those remain our contributions at Level 1 and advices at Level 2 in the Lamfalussy model for the creation of a new prudential insurance regulatory framework: the Solvency II project. So far CEIOPS has been able to meet its challenging deadlines. This is due to great effort by our Members and Secretariat. Both are to be congratulated and thanked. However further efforts are demanded. At this stage, being able to deliver clear and valuable advice for the creation of robust, reliable and efficient prudential legislation, harmonized across the EU, remains a priority for the Committee. This will also pave the way for building further convergence in supervisory practices. Supervisors are aware that this task is so fundamental that it may affect any evaluation of CEIOPS' performance as a Level 3 Committee.

At the same time, CEIOPS is committed to work towards converging and improving supervisory practices and cooperation when implementing the current regulatory framework, including pension funds legislation. This presents a number of challenges as well, but I am confident that CEIOPS will be able to exploit appropriately its supervisory tools and also develop any new initiatives when building its medium-term work programme.

All require more capacity to be freed up to support the Committee's work as a whole. Resources continue to lag behind need.

During the year CEIOPS has consolidated its cooperation with the other "Level 3 Committees", CEBS and CESR. Joint work, consistency projects and regular exchanges of information are in place for ensuring consistency of approach across financial sectors. This will remain a commitment for CEIOPS.

I am also pleased to report on the way CEIOPS' external relationships have been developed and consolidated. These include with European partnership bodies and third country institutions. We have tried to foster crucial dialogues with stakeholders, constituents, industries and others. Our methods have included public and private events, exchanges with individuals and groups, and a new website. Without cooperation with all relevant parties, CEIOPS would fail. We are committed to succeed.

The year has made CEIOPS increasingly aware of the challenges it faces. It must meet demands on its availability and the many legitimate expectations of its ability to deliver. These naturally grow with increased commitments. Pressures like these require prioritizing activities the Committee can reasonably undertake and regular clarification to the outside world of its progress.

I am confident that CEIOPS, with the support of all the Members and a strengthened Secretariat, will continue to achieve its targets and enjoy a successful and satisfying year to come. I am looking forward to reporting on its progress next year.

Frankfurt, April 2006

Henrik Bjerre-Nielsen



In 2005, the first full year of its operational activity, the CEIOPS Secretariat had to react to increasing demands, both in terms of deliveries and procedures, while continuing to set up its structure and organization.

The challenging deadlines for delivering the advice on the Solvency II project, together with the complexity of this task, entailed significant constraints and some unavoidable shortcomings in the internal process. These have been overcome purely through extraordinary efforts from the Members and the Secretariat staff. At the same time, the need for enhanced supervisory convergence and cooperation in implementing the current regulatory framework has not allowed any reduction in attention to exploiting and developing supervisory tools at the level of the Committee. This has been emphasized by the need to foster the activity of the Level 3 Committees on cross sector aspects. The individual chapters of this Report should give a clear view of achievements and work in progress on all these substantial issues.

Also in terms of procedures, the past year has been a real test for the Secretariat. Taking into account the role of the Committee, particular efforts have been devoted to improving the dialogue with all stakeholders. Increased reporting to the political level, enhanced transparency towards and dialogue with all interested parties, as well as an improved consultation process, have been a priority and a significant source of commitment. The setting up of the new website and the organization of public events and hearings represent a few examples of the attention paid to these aspects.

In this challenging context, the Secretariat has strived to build an operational framework to support the Members in developing the Committee's work, while ensuring consistency and transparency of the process towards all the stakeholders and the Members themselves. It also has provided the central channel for the dialogue with external parties.

A strong Secretariat is a precondition for a streamlined and effective working process and, at the same time, a high profile visibility of the Committee. In 2005 the staff and infrastructure of the Secretariat have progressively developed. The logistical tools have benefited from consolidation of the contracting relations with suppliers, including the valuable infrastructure provided by the German Supervisory Authority. This has paved the way for further progress in 2006, which also includes the setting up of new premises in Frankfurt.

Also the staff has been strengthened. As mentioned in the last Annual Report, in April 2005 the team comprised the Secretary General and four staff members. In September, two additional secondees joined the team and in February 2006 an additional person was recruited. While this has enabled some extension of the range and level of the Secretariat's activity, it has to be said that the limited size of the staff, compared to the tasks to be carried out, still represents a constraint. Further steps are still to be taken finally to attain the desired operational level.

The current Secretariat staff, in any case, is fully committed to face the challenges. Despite differences in national backgrounds, cultures and interests, they remain cohesive and friendly. Individually, they make working in an international office a pleasure. Collectively, the team functions on the basis that when necessary, the whole is greater than the sum of its parts. That way, it can regularly take on disproportionately heavy tasks and still deliver the product. I have to thank all the staff for their positive attitude.

Relying on the valuable cooperation from CEIOPS Members and on the team's variety of professional skills, their human qualities and, above all, their collective strengths, I am confident that the Secretariat will be able to succeed in fulfilling its role.

Frankfurt, April 2006

A handwritten signature in white ink, appearing to read 'A. Corinti'.

Alberto Corinti



INSTITUTIONAL BODIES

CEIOPS' legal constitution and structure have not changed significantly since its establishment in 2004. They were described in last year's Annual Report. This year has seen refinements, following successful completion of the original priority for CEIOPS to become established.

The **Managing Board** and the **Members' Meeting** remain CEIOPS' main institutional vehicles. During 2005 both have been increasingly re-directed from purely organizational issues, towards framing CEIOPS' work and carrying it forward. Whether by full meetings, teleconferences, informal exchanges, or other communications, the pace and progress have greatly accelerated. The consequences for participants have been a corresponding increase in demand, pressure, commitment and results. The Members' Meeting is responsible for all tasks, insofar as they are not defined by law or the Articles of Association to be within the competence of the Managing Board.

The **Managing Board** pursues the Association's business and completes administrative tasks. In particular, this comprises the calling and preparation of Members' Meetings, the implementation of the resolutions of Members' Meetings, the preparation of the budget for each accounting year, accounting for and delivering the annual report, commencement and termination of employment agreements, reporting to the European Parliament and public relations work.

The members of the Managing Board, including the Chair and Vice Chair, concluded their mandate in October 2005 and received discharge from the Members for their work throughout the two years mandate.⁰¹ As continuity had to be a priority at this stage of CEIOPS' work, the previous Chair, Vice-Chair and the three further members of the Managing Board were re-elected in the Members' Meeting on 27 October 2005. As planned, CEIOPS decided to disband the interim observership of two representatives of new EU Member States⁰² in the Board. It had been introduced in the past year in order to facilitate their integration. Instead, Jurij Gorisek, in his function as Internal Auditor of CEIOPS, was invited to participate in the meetings. In order to enlarge the representativeness of the Managing Board, CEIOPS also decided to increase the number of the Managing Board members from 5 to 6. The formalization of this change took place in February 2006. At the Members' Meeting of 25/26 April 2006 Jurij Gorisek was elected as sixth member of the Managing Board.

Another important amendment was introduced in 2005 with regard to the decision making rules of the Committee. At the Members' Meeting on 6 December 2005 the Articles of Association were amended in order to clarify that the election of the members of the Managing Board should take place by simple majority vote; at the same time the qualified majority vote was intro-

duced for adopting resolutions on financial issues in order to streamline the decision process on purely organizational matters. By taking this resolution, the Members decreased the scope of the issues to be decided with unanimity, which is still the governing concept relating to CEIOPS' work.⁰³ The amended version of the Articles will be published on the website as soon as the registration of the amendment with the German Register Court has been formally finalized.

CEIOPS' membership has stayed constant in terms of supervisory authorities⁰⁴. There have been some changes in their delegates. Certain authorities continue to be exclusive to either insurance or occupational pensions supervision.⁰⁵ Others combine all financial services sectors within their responsibilities. Their collective experience and resource across Europe are what fuel CEIOPS' success.

Members' Meetings 2005

Under the Articles of Association, ordinary Members' Meetings have to be called at least three times per year. The huge workload of CEIOPS, especially through the Solvency II project, made it necessary to organise a number of additional meetings in 2005. So, in total, seven meetings took place, the main decisions of which are summarized below:

27 January 2005 (Brussels)

This extraordinary Members' Meeting was dedicated to the discussion of the "Draft Answers to the First Wave of Calls for Advice from the European Commission in the framework of the Solvency II project" in preparation of the February 2005 Members' Meeting.

24 February 2005 (Frankfurt)

In this meeting, following the results of public consultation, CEIOPS approved its "Statement of Consultation Practices", the "Guidelines for Co-ordination Committees in the Context of Supplementary Supervision of Insurance Undertakings in an Insurance Group" and the Second Progress Report to the European Commission on its work in the framework of the Solvency II project. In addition, three documents were approved for public consultation: the "Draft Answers to the European Commission on the First Wave of Calls for Advice in the Framework of the Solvency II project", the "Draft Protocol Relating to the Collaboration of Supervisory Authorities in the Field of Occupational Pensions" and the "Draft Report on Possible Amendments to the Directive on the Supplementary Supervision of Insurance Undertakings in an Insurance Group".



Henrik Bjerre-Nielsen

CEIOPS Chairman,
Finanstilsynet, Denmark



Thomas Steffen

CEIOPS Vice-Chairman, Bundesanstalt für
Finanzdienstleistungsaufsicht, Germany



Florence Lustman

Autorité de Contrôle des Assurances
et des Mutuelles, France



Michel Flamée

Banking, Finance and Insurance
Commission, Belgium



John Tiner

Financial Services Authority,
United Kingdom



Jurij Gorisek

Insurance Supervision Agency,
Slovenia

⁰¹ In 2005, the Managing Board had 10 meetings, 4 of which were joint meetings with the Chairs of the Working Groups engaged in the work on the Solvency II project, i.e. the Chairs of the four Solvency II Expert Groups and the Financial Stability Committee. These meetings had the purpose of discussing main controversial issues arising out of the work of the Groups in preparation for the final discussions and decision making in the Members' Meeting.

⁰² These representatives were Jurij Gorisek from Slovenia and Marijus Mikalauskas from Lithuania.

⁰³ There is only one exception from this principle of unanimity in the Articles of Association regarding operational issues, namely resolutions pertaining to providing advice to the European Commission, which are taken by a qualified majority vote.

⁰⁴ See Annex 1 for a list of Members and Observers. The EEA Authorities and the European Commission have an official observer status in CEIOPS. Since mid-2005 the Supervisory Authorities of Romania and Bulgaria have been invited to join the meetings on an informal basis in view of their accession to the EU in a few months.

⁰⁵ The supervisory powers regarding insurance and pension funds are combined in one Authority in all EU/EEA Member States except for Italy, Ireland, Luxembourg and the United Kingdom.



13 May 2005 (Brussels)

This extraordinary Members' Meeting was dedicated mainly to the discussion of open issues included in the "Draft Answers to the Second Wave of Calls for Advice in the Framework of the Solvency II project".

28 June 2005 (London)

In this meeting, after a three month period of public consultation, CEIOPS finalized and approved for submission to the European Commission its "Answers to the First Wave of Calls for Advice". In this document, CEIOPS gives its views mainly on so-called Pillar II requirements of prudential regulation (e.g. Supervisory Review Process), but also touches upon some aspects of Pillar I requirements (financial requirements).

At the same time, the "Draft Answers to the Second Wave of Calls for Advice" were approved for public consultation. They cover essential and critical aspects of prudential regulation, such as the assessment of technical provisions and capital requirements.

The meeting in London was also an occasion to strengthen the collaboration with the two other supervisory (Level 3) Committees, CEBS and CESR, by deciding to undertake a number of joint projects, in order to fulfil the growing need for supervisory convergence and cross-sectoral approaches.

8 September 2005 (Frankfurt)

This extraordinary Members' Meeting was mainly dedicated to the discussion of the key open issues regarding Solvency II, especially with regard to the Second and Third Wave of Calls for Advice and the specifications of the first round of quantitative impact studies (QIS1). The Preparatory Field Study (PFS) summary report was approved. In order to ensure that the QIS framework is adequate, CEIOPS conducted a PFS in the first half of 2005, which focused on infrastructure issues and aimed at insight into the industry's best practice, in order to prepare for the QIS. These insights were used for the first round of QIS, which was restricted to technical provisions started in autumn 2005. Also the Impact Assessment of the European Commission regarding the Solvency II Directive was discussed.

First discussions took place regarding a "Recommendation to the European Commission on Independence and Accountability" of supervisors, drafted on CEIOPS' own initiative.

27 October 2005 (Frankfurt)

After public consultation on the "Draft Answers on the Second Wave of Calls for Advice in the Framework of the Solvency II project" the final answers were approved for submission to the European Commission. In addition the Members approved the specifications of the first round of quantitative impact studies (QIS1).

The "Draft Answers to the European Commission to the Third Wave of Calls for Advice in the framework of the Solvency II project" were also discussed.

In addition to these issues, the Members approved CEIOPS' "Recommendation on possible need for amendments to the Insurance Groups Directive" for submission to the European Commission. The paper represents CEIOPS' contribution towards any revision of the Directive to be decided by the European Commission and is based on a number of years' experience in the implementation of the supplementary supervision of insurance companies belonging to groups. The Members' Meeting also approved a revised Consultation Paper on the cooperation of Authorities regarding Institutions for Occupational Retirement Provision operating cross-border. The draft had been revised after a public consultation on a preliminary draft in February 2005 containing only the main elements of the text, in order to allow interested parties to give input to CEIOPS' work at an early stage.

Members also took significant decisions on organizational details including CEIOPS' joint cooperative working relations with the other Level 3 Committees.

6 December 2005 (Copenhagen)

Members reviewed CEIOPS' ongoing work programme and approved for public consultation key documents related to the Solvency II project: the "Draft Answers to the European Commission on the Third Wave of Calls for Advice in the Framework of the Solvency II project", a "Consultation paper on prudential treatment of 'deeply subordinated debt'", which results from a request of the EIOPC to consider a proposal on possible changes to the prudential treatment of 'deeply subordinated debt' under the current insurance directives; and "Recommendation on Independence and Accountability", which focuses on the independence and accountability of supervisory authorities in general and the supervisory review process in particular.

CEIOPS' "Fourth Progress Report to the European Commission on the Solvency II project" was also approved for submission to the European Commission.

CEIOPS is supported in its work by its **Consultative Panel**⁰⁶. The Panel continued to monitor CEIOPS' Work Programme and held itself available for consultation by CEIOPS on its policymaking process and key documents. The full Panel last officially convened with CEIOPS' representatives on 11 January 2006 in Frankfurt, to coincide with CEIOPS' second Public Hearing on Solvency II.

In 2005 two meetings of the Panel took place, one on 23 February 2005, back to back with the Members' Meeting, and another on 7 September 2005, back to back with the first CEIOPS Public Hearing on Solvency II.

In these meetings, besides consulting on and monitoring the CEIOPS Work Programme, there was discussion on how to improve the Consultative Panel's effectiveness and to enhance its contributions to CEIOPS' work. Taking into account the conclusions reached in these discussions, the Charter of the Consultative

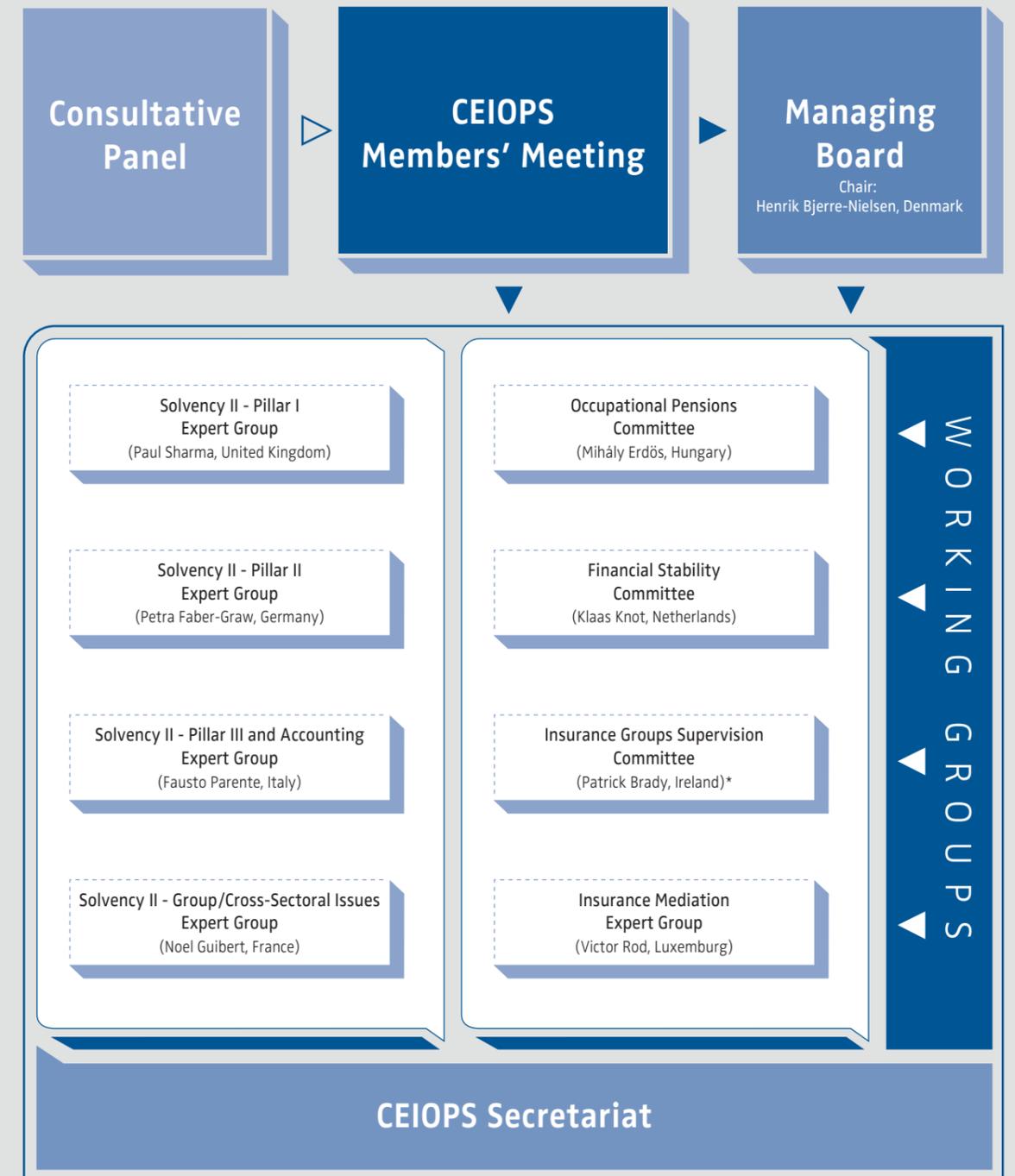


⁰⁶ See Annex 3 for a list of Consultative Panel members. Membership has been renewed in early 2006, with new nominations being the exception.



Panel was revised in the CEIOPS Members' Meeting of 22 February 2006. The main amendments were the explicit mention of a minimum of 3 meetings per year and the possibility of establishing ad hoc task forces for specific issues as well as the exercise of the chairmanship by a member of the Panel itself. In the past the CEIOPS Chair had facilitated the discussions of the Panel.

Although the Consultative Panel's main role is to work as a general "sounding board" for CEIOPS, supporting and advising its policy, it was agreed that it would be useful to have discussions on the detailed work of the respective Working Groups as well, inviting presentations by one or two Working Group Chairs in each meeting followed by a discussion.⁰⁷ Consequently, CEIOPS' ongoing work in the field of occupational pensions, detailed questions regarding the Solvency II project, such as the approach to be used with regard to small entities, as well as CEIOPS' activities related to IFRS and their impact on insurance supervision, were discussed.



CEIOPS' OPERATIONAL ORGANIZATION

The combination of Permanent Committees and Expert Groups tasked with carrying out CEIOPS' Work Programme and detailed in last year's Annual Report, has been found the most effective operational arrangement. They have proved flexible enough to adjust to changes in external demand, for example in the shortened timetable for Solvency II which continues to dominate their work, and as experts to decide how the Programme's individual complexities can best be reconciled and progressed.

Organic growth in European supervisory ambition generally, has necessitated innovative organizational solutions for CEIOPS to meet it. With Solvency II for example, the two original Expert Groups on Pillar I issues had first naturally followed the division of insurance business between life and non-life. It became clear that there were advantages in merging the two Groups. So this year, both business streams were combined into one overall Group for Pillar I work, with subgroups for issues needing concentrated approaches, where necessary.

⁰⁷ The conclusions of the meetings are on the website under Consultations - Consultative Panel.

* Patrick Brady (Ireland) was appointed as Chair of the IGSC, succeeding Ole-Jørgen Karlsen (Norway), in the Members' Meeting of 27 October 2005.

CEIOPS' other Working Groups have continued their work without any structural changes. Presently CEIOPS' work on Solvency II is managed between four Working Groups (Pillar I, Pillar II, Pillar III/Accounting and Group/Cross Sector Issues). The Financial Stability Committee, which is mandated to carry out macroeconomic reviews and studies, is also coordinating its activities closely with them in view of the Quantitative Impact Studies that are being conducted in the framework of the Solvency II project. Three further Working Groups, the Occupational Pensions Committee, the Insurance Groups Supervision Committee and the Insurance Mediation Expert Group, fulfil their mandates in other main fields of activity under CEIOPS' scope, mainly focussing on measures to enhance supervisory convergence.⁰⁸

Level 3 work on financial conglomerates has also invited a new approach. A cross-sectoral business activity called for a cross-sectoral supervisory structure. The Level 3 Committees jointly proposed the establishment of an Interim Working Committee on Financial Conglomerates (IWCFC). Pending a decision of the European Commission on the procedure for Level 3 work in this field, the Level 3 Committees were also asked by the EFCC (Level 2 Committee on Financial Conglomerates) to start work informally through this interim Working Committee.

The **Secretariat** assists the Managing Board and the Working Groups in their duties. It acts as coordinator in dialogues with market participants, consumers and end users, and maintains close contact with the European Commission, supports public relations work of the Managing Board and fulfils further tasks assigned to it by the Managing Board or the Members' Meetings.

During 2005 the Secretariat increased its staff from four to seven. In February 2006 an additional staff member joined the team. The additions have reduced the deficiency in the Secretariat staff complement, but have not eliminated it. CEIOPS' Members are again being looked to for the balance of seconded staff.

The Team

Besides the Secretary General, the Secretariat Staff is currently composed of seven staff members, including two administrative assistants.

Gerlinde Taurer (Austria) has worked in the Secretariat since September 2004 and contributed significantly to the organizational setting up of the Secretariat. Now she mainly follows pension funds and accounting issues, including Solvency II disclosure, and coordinates the preparation of the Managing Board and Members' Meetings.

Ines Alpert (Germany) joined the Secretariat in mid-January 2005 and, since then, has been mainly engaged in following the development of the Solvency II project. Today she takes care in particular of Pillar I and Groups aspects in the framework of the project and of the work of the Financial Stability Committee, including QIS.

Nadine Berger (Germany) started to work with CEIOPS in February 2005 and she was immediately asked to take care of all logistical needs of the Secretariat. Now she continues to deal with organizational aspects, in particular the organization of meetings, and provides secretarial support to the whole staff.

Catherine Coucke (Belgium) joined the Secretariat in April 2005. She principally follows the Committee's work in the field of insurance mediation and takes care of the legal aspects of the Committee, the development and administration of the website and certain organizational projects, such as the organization of CEIOPS Conferences.

Sandra Desson (Netherlands) started to work with the Secretariat in September 2005. Her area of work is mainly related to group supervision. She follows the work of the Insurance Groups Supervision Committee and is the CEIOPS Secretariat representative in the joint Level 3 work in the field of conglomerates.

Neil Alton (United Kingdom) joined CEIOPS in mid-September 2005. He mainly follows Pillar II aspects of the Solvency II project and takes care of the links with the political work at the level of ECOFIN and the EU Parliament. Currently he is also the CEIOPS general contact for the joint work of the Level 3 Committees.

Tanja Leimbach (Germany) started to work in the Secretariat only recently, in February 2006. She assists the Secretary General and takes care of general external communication tasks. She deals with some administrative duties and, together with Nadine, provides secretarial support to the whole staff.



The Secretariat staff as of end 2005 (from left to right):
seated: Gerlinde Taurer, Alberto Corinti, Catherine Coucke, standing: Sandra Desson, Neil Alton, Nadine Berger, Ines Alpert.

⁰⁸ Besides the Annual CEIOPS Work Programme the detailed Work Plans of the individual Working Groups are also published on the website (see "CEIOPS Working Groups' Regular Reporting" under About CEIOPS - Work in Progress) to provide stakeholders with a detailed view of CEIOPS' ongoing work streams, thus enabling them to provide input at an early stage of the working process. The activities of the Working Groups are detailed further below, see chapters 6.1.0. and 6.2.0.



ACCOUNTABILITY, CONSULTATION AND TRANSPARENCY

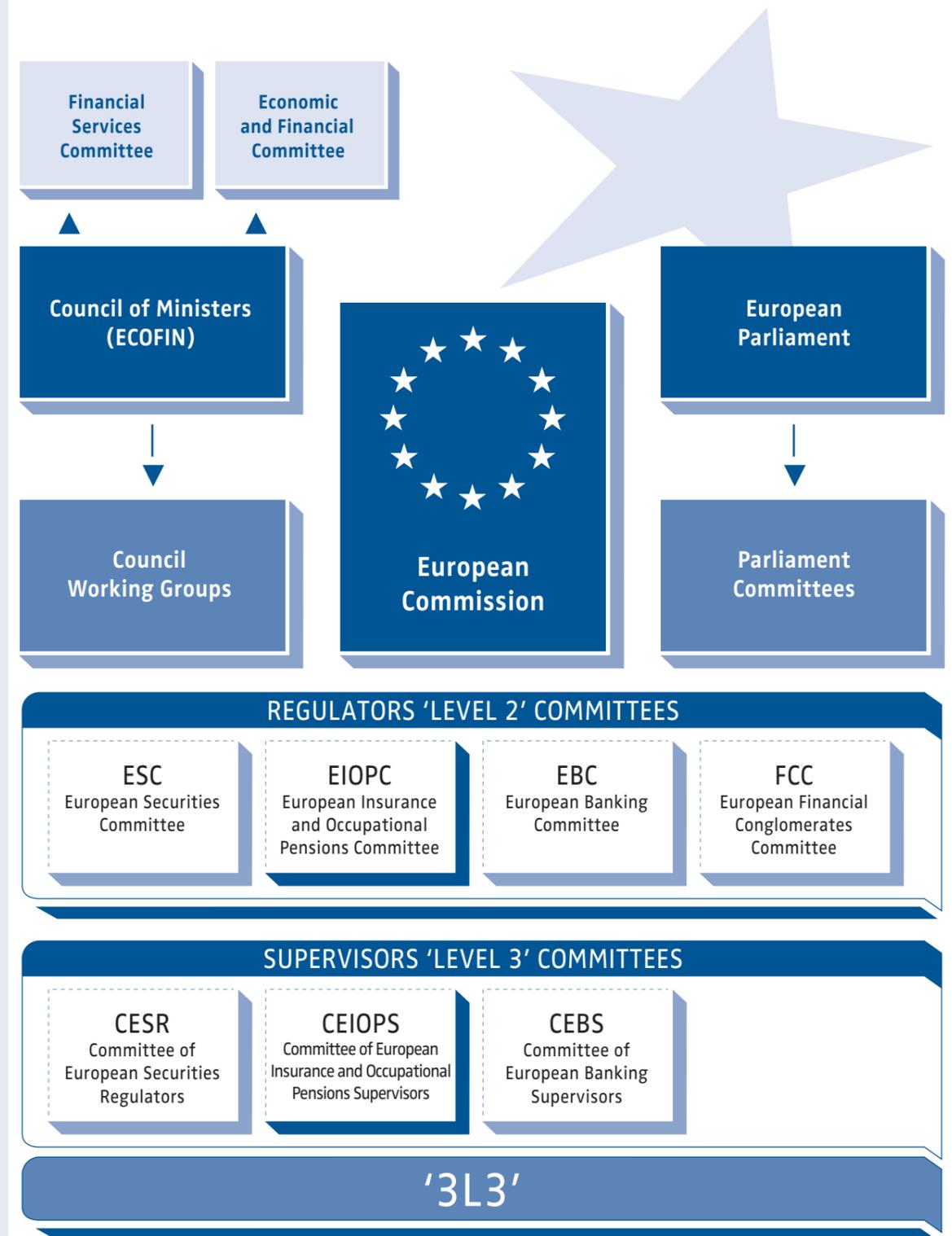
CEIOPS' first Annual Report last year described its policy and practices on accountability, consultation and transparency, together with CEIOPS' founding text and published Public Statement of Consultation Practices⁹⁹ establishing them.

CEIOPS has worked hard to maintain a constant presence with all its relationship bodies, its many interested third parties and the general public. The range of activities required to accomplish this is wide and ever-increasing. CEIOPS aims at regularly securing a high degree of accountability. In the past year, due to the tight deadlines, especially regarding the advice on Solvency II and the stretched resources, this was particularly challenging.

Various methods are used. CEIOPS believes in combining all effective channels it can operate. For example, 2005 saw a rapid increase in consultation processes. They improve accountability and transparency as natural by-products. More than that, they create a welcome closer involvement with constituents, stakeholders and outside parties. But also other tools and channels are to be exploited to ensure a timely and effective external participation in CEIOPS' work: Consultative Panel's debates, IT communications, hearings, public events as well as regular informal contacts at the operational level.

CEIOPS' public consultations

Public consultations on the draft documents CEIOPS issues are one important aspect of transparency. In addition, inviting and taking into account stakeholders' views unquestionably adds value to CEIOPS' products. Up to now, CEIOPS has invited comments on 12 documents. These, and the input in terms of number of received responses and the scale of the responses, are summarized in the tables below. In general, CEIOPS invited comments to its draft papers within three months. In exceptional cases, this period had to be shortened. This was the case with the documents related to Solvency II issues which were approved in the Members' Meeting in December 2005. Due to the very tight deadlines set by the European Commission for CEIOPS' advice, it was not possible to maintain the usual comment periods. The second round of consultation regarding the Budapest Protocol was set at one month, as the main stakeholders were aware of CEIOPS' reactions to their initial comments due to regular contact with the relevant Working Group and the Secretariat, and it was deemed important to publish the final text as soon as possible.

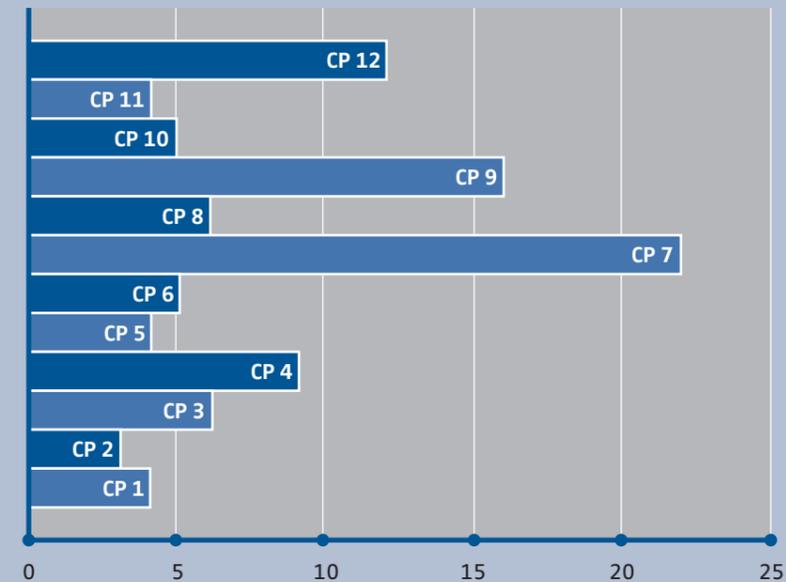


⁹⁹ Public Statement of Consultation Practices (CEIOPS-DOC-01/05), February 2005; see website under Consultations - Policy.

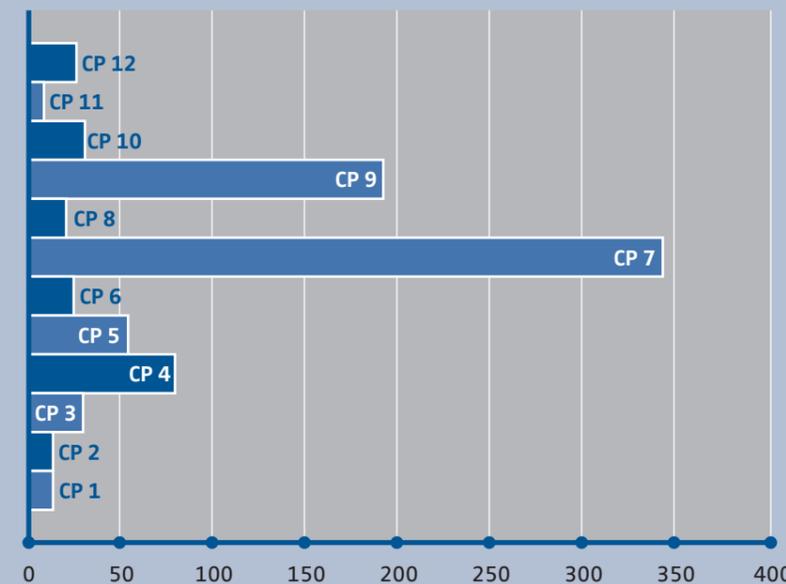


CP No	Title	End of Public Consultation	Consultation period	Publication of final document	Document Number
CP 1	Public Statement of Consultation Practices	20 October 2004	3 months	February 2005	CEIOPS-DOC-01/05
CP 2	Guidelines for Coordination Committees in the context of supplementary supervision as defined by the Insurance Groups Directive (98/78/EC)	1 November 2004	3 months	February 2005	CEIOPS-DOC-02/05
CP 3	Recommendations regarding the implication of the introduction of IAS/IFRS for the prudential supervision of insurance undertakings	1 March 2005	3 months	September 2005	CEIOPS-DOC-05/05
CP 4	Answers to the European Commission on the 'first wave' of Calls for Advice in the framework of the Solvency II project	25 May 2005	3 months	June 2005	CEIOPS-DOC-03/05
CP 5	Protocol relating to the Collaboration of the relevant Competent Authorities of the Member States of the European Community in particular in the application of the Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of Institutions for Occupational Retirement Provision (IORPs) operating cross-border (Budapest Protocol)	First draft: 30 May 2005	3 months	February 2006	CEIOPS-DOC-08/06
		Rev. 1: 28 November 2005	1 month		
CP 6	Recommendation on possible need for amendments to the Insurance Groups Directive	3 June 2005	3 months	October 2005	CEIOPS-DOC-04/05
CP 7	Answers to the European Commission on the Second Wave of Calls for Advice in the framework of the Solvency II project	30 September 2005	3 months	October 2005	CEIOPS-DOC-07/05
CP 8	Protocol relating to the cooperation of the Competent Authorities of the Member States of the European Union in particular concerning the application of Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on Insurance Mediation (Insurance Mediation Protocol)	4 October 2005	3 months	April 2006	CEIOPS-DOC-02/06
CP 9	Answers to the European Commission on the Third Wave of Calls for Advice in the framework of the Solvency II project	9 February 2006	2 months	May 2006	CEIOPS-DOC-03/06
CP10	Developing CEIOPS' Medium-Term Work Programme	10 February 2006	3 months	The input received from stakeholders in this consultation will be used as input to CEIOPS further work.	
CP11	Recommendation on Independence and Accountability	9 February 2006	2 months	May 2006	CEIOPS-DOC-04/06
CP12	Treatment of 'Deeply Subordinated Debt'	9 February 2006	2 months	May 2006	CEIOPS-DOC-01/06

Number of comments received



Pages of comments received



- CP 12 Treatment of Deeply Subordinated Debt
- CP 11 Independence and Accountability
- CP 10 Developing CEIOPS' Medium-Term WP
- CP 9 Answers to third wave of CfA on Solvency II
- CP 8 Insurance Mediation Protocol
- CP 7 Answers to second wave of CfA on Solvency II
- CP 6 Recommendation on amendments to the IGD
- CP 5 Occupational Pensions Protocol
- CP 4 Answers to first wave of CfA on Solvency II
- CP 3 Implication of the introduction of IAS/IFRS
- CP 2 Guidelines for Coordination Committees
- CP 1 Public Statement of Consultation Practices



All responses to Consultation Papers are given due consideration by CEIOPS. Individual responses to consultations are made public, unless the respondent asks otherwise. CEIOPS publishes a summary of responses, giving a reasoned explanation of its reaction covering all main points raised. Where responses to a consultation disclose significant problems, or where proposals which are changed to reflect responses become fundamentally different to their originals, CEIOPS consults on them again.¹⁰ Finally, CEIOPS publishes all formal proposals and advice, or where applicable, reasons for being unable to follow this policy.

An important element in respect of this framework of accountability and consultation is the **Consultative Panel**.¹¹ CEIOPS is aware of the importance of the Panel's input for shaping the Committee's programmes and procedures as well as for testing its tentative key conclusions, and appreciated the contributions given by the Panel up to now. However, the Committee is committed to improve its functionalities, including through the declared organizational changes.

During 2005 the **website** was completely re-designed, modernized and improved. We hope that it now encourages more effective consultation, transparency and user-friendly operation. Also the scope of information included in the public area of the website has been enlarged by including, for example, regularly updated information on the work in progress by the individual Working Groups. This is intended to facilitate the understanding of the state of play of CEIOPS' ongoing work by all interested parties, thus allowing a better and more timely contribution, both formal and informal.

Use has already exceeded that of the old site. CEIOPS hopes that usage will continue to grow.¹² The website's development is continuing in the light of feedback and experience. The Secretariat welcomes all comments, especially if combined with compliments!

Public events organized by CEIOPS have included two Public Hearings and its first Conference, all in Frankfurt. Responses have been very positive.

Two **Public Hearings** were organized in Frankfurt to discuss current issues relating to the Solvency II project. The first, which took place on 7 September 2005, focussed on the issues dealt with in CEIOPS' Draft Answers to the Second Wave of Calls for Advice (Consultation Paper 7). The second, on 11 January 2006, treated the Draft Answers to the Third Wave of Calls for Advice and other outstanding issues of the Solvency II project. In the light of the complexity of this project and its relatively short timeframe, which sometimes affected the deadlines of the written consultation procedure, the "face to face" discussion allowed by these hearings were intended, on the one hand, to facilitate the preparation of public comments and, on the other hand, to give CEIOPS preliminary reactions from stakeholders. 50 stakeholders participated at the first hearing, more than 70 at the second.

Written comments were sought in advance and published on the website, unless requested otherwise.¹³ The occasions provided excellent input, steering discussion with CEIOPS' experts and to be taken into account by them in future work. There will be more public hearings as the project continues. The open sessions

stimulated lively and valuable exchanges between the floor and the CEIOPS representatives. Afterwards they encouraged networking by the attendees.

The **Conference** was a major undertaking for CEIOPS. Professional organizers of conferences know how potentially difficult large events can be as a medium. Thanks to CEIOPS' team, this first effort achieved the intended results. Titled "Developing a New EU Regulatory and Supervisory Framework for Insurance and Pension Funds: The Role of CEIOPS", it attracted top speakers from EU institutional bodies and market participants, among them Jean-Claude Trichet, President of the ECB.

In the Conference, the role of CEIOPS as a Level 3 Committee and the development of its tools, together with specific issues concerning the Solvency II project and the supervision of pension funds, were deeply analysed. Keynote speeches and panels' discussions gave valuable input and contributed to an improved understanding and visibility of CEIOPS' work.

More than 250 participants from European institutions, organizations, financial services industries, the public and the Press followed the event. The quality of presentations and discussion was noticeably high. The accompanying informal networking opportunities were later complimented as particularly useful and rewarding. Speeches are on the website.¹⁴ CEIOPS is proud of this achievement and intends building on the experience to convene another Conference in 2006.¹⁵

As expected in CEIOPS' role, it has been represented at meetings, committees, appearances and many other occasions, both public and closed. In this context, it is worthwhile mentioning the following:

The three Level 3 Committees' Chairs were invited to attend a meeting of the European Council of Ministers, **ECOFIN**, on 11 October 2005. The theme was "Progress and opportunities for better regulation". The Chairs addressed different aspects, with CEIOPS focussing on the advantages and challenges of risk-based supervision. All three speeches were published jointly.¹⁶

On 18 November 2005 the EU **Inter-Institutional Monitoring Group (IIMG)**¹⁷ met to update its review of the Lamfalussy process. CEIOPS' Vice-Chairman and the two other Level 3 representatives appeared before it. The discussion with the Group proved searching and productive, for the benefit of both the process and its participating bodies.

Later that month, on 28 November 2005, the CEIOPS Chair was again invited to appear at a high-level EU meeting, on this occasion before the European Parliament Committee on Economic and Monetary Affairs, **ECON**. CEIOPS' Chair described the origin, purpose, role, work streams and plans of CEIOPS.

These have been the more obvious activities in terms of consultation and transparency. Less evident, but equally valuable, are the many **informal dialogues**. These can be with anyone, from institutional bodies to market participants such as providers, intermediaries, experts and increasingly consumers. On CEIOPS' side,



CEIOPS Chair and Secretary General answering questions from the Press on the occasion of the CEIOPS Conference



CEIOPS representatives in discussion with stakeholders about CEIOPS' Draft Answers on Solvency II - Second Wave!



Panel discussion during CEIOPS Conference 2005

¹⁰ To date, only one CP was issued for a second round of public consultation. The Draft Occupational Pensions Protocol (Budapest Protocol) was published for consultation as a draft outline at an early stage of discussion, lacking some information regarding details of implementation still undecided, as at that time a number of Member States - in spite of the closing

implementation deadline - had not yet implemented the IORP Directive, and it was deemed important to proceed with the main text of the Protocol.

¹¹ See chapter 3.1.0. Institutional Bodies.

¹² The publication of CEIOPS' documents is combined with an email alert. The list of its addressees is growing daily. Stakeholders who wish to be informed of all CEIOPS publications and events are invited to register via the website or write to secretariat@ceiops.org.

¹³ See website under Consultations - Public Hearings.

¹⁴ See www.ceiops.org under Press Room - Speeches and Articles.

¹⁵ The next CEIOPS Conference is scheduled for 14 November 2006 in Frankfurt am Main. See website under Events.

¹⁶ See www.ceiops.org under Press Room - Speeches and Articles.

¹⁷ The IIMG is composed of independent experts and has a mandate to assess and monitor the Lamfalussy process. A first interim report of the IIMG has been published on 22 March 2006.

informal discussions tend to be conducted by its Working Groups. The Group Members can then interact with their counterparties in a less-structured way. A partnership effect is sought, to mutual benefit. At this level, for example the Comité Européens des Assurances (CEA), Association Internationale des Sociétés d'Assurance Mutuelles (AISAM) and Association des Assureurs Cooperatifs et Mutualistes Européens (ACME), the Chief Risk Officers' (CRO) Forum, the Fédération Européenne des Experts Comptables (FEE) and the Groupe Consultatif des Actuaire Européens have all been invited to present their input for the preparation of the QIS and CEIOPS' Draft Answers in the context of the Solvency II project. Also the European Federation of Retirement Provisions (EFRP) and the Association Européenne, des Institutions Paritaires de la Protection Sociale (AEIP) have provided their views in the course of the drafting of the "Budapest Protocol".

To aid exchanges and serve CEIOPS' attention to openness, Regular Reports by each Working Group are published.¹⁸ These include their current Work Plans split into tasks and deadlines, recent past meetings with main topics and conclusions, and future meetings with main agenda items.

The fruits of all these activities have to be blended into ongoing planning and work. They increase outside understanding dramatically. Those are amongst CEIOPS' prime objectives. Their importance to a young fast-growing organization, with their supportive or critical reaction, is difficult to overstate.

DEVELOPING SUPERVISORY TOOLS

The main objective of the Level 3 Committees is to enhance cooperation between supervisors and convergence in supervisory practices.

In September 2004, CEIOPS submitted and published its first report on progress in fulfilling this objective to the EU Financial Services Committee (FSC)¹⁹.

As confirmed in the report, although the development of a new prudential, more risk-orientated and robust insurance regulatory framework (Solvency II) is a current high priority of CEIOPS, the Committee is also determined to further convergence in cur-

rent supervisory practices. However, it is important to note that the current work undertaken by the Committee in assisting the European Commission in preparing the future Solvency II Framework Directive, is in fact laying down the foundations for a substantial body of supervisory convergence work that will follow the adoption of the Solvency II Directive, and any subsequent implementing measures. Solvency II, in other words, is intended to introduce a more harmonized and solid regulatory framework in the European Union and, in this way, represents a precondition for building further convergence of supervisory practices in the single market.

Besides the work on the Solvency II project, the report describes the areas on which CEIOPS has undertaken concrete action to enhance convergence of supervisory practices and highlights further opportunities for greater convergence. The main areas of convergence relate to:²⁰

Supervision of insurance groups

Continuing the work initiated under the former Conference of European Insurance Supervisory Authorities, CEIOPS, by means of its Insurance Groups Supervision Committee, is looking at the issues raised by the implementation of the Insurance Groups Directive. In particular, this Committee is working on applying the coordination arrangements defined by the so-called Helsinki Protocol. In this respect, and also through the Coordination Committees (Co-Cos) established under its umbrella, it facilitates discussion of common supervisory issues and comparison of national implementation of the IGD and, where possible, works at defining a common approach for implementing it as well as at facilitating common supervisory actions. To make the work of the Co-Cos more effective, CEIOPS issued Guidelines for Co-Cos in June 2005. In the Work Programme for 2006 further initiatives are planned for exploiting this operational network in order to streamline the supervision of groups.²¹

Supervision of occupational pension funds

The Occupational Pensions Committee is working at a consistent implementation of the IORP Directive. The conclusion of the so-called Budapest Protocol was one important step for further cooperation and convergence in the area of occupational pensions.

Supervision of insurance mediators

CEIOPS has prepared a Protocol (the Luxemburg Protocol) to be concluded between authorities competent to apply the Insurance Mediation Direc-

tive (IMD). In addition to providing a framework for co-operation in this area, the Luxemburg Protocol is also intended as a significant tool for creating a common approach to supervision.

Implication of accounting on supervision and supervisory reporting

CEIOPS has been working on issues around the introduction of IFRS. It has been guided by two main objectives: First, identification and analysis of the key effects of the introduction of IFRS on the existing supervisory regimes across the EU, and second, proposals for potential prudential treatments ("supervisory filters") to address the effect of the new accounting rules on supervisory reporting. CEIOPS recognises that, in the absence of changes to the supervisory rules and calculations, accounting developments may affect the magnitude, quality and volatility of supervisory measures.

CEIOPS' report to the FSC emphasises that although CEIOPS has already taken some substantive steps, there is much that still can be done. Supervisory convergence is one of the major objectives of the Committee and CEIOPS will continue to pursue opportunities to develop and adopt best practice across jurisdictions, especially in the context of Solvency II.

Convergence of supervisory practices across national borders should as far as possible and necessary be consistent with converging practices in other financial sectors. Hence CEIOPS, CEBS and CESR are working together to organise an appropriate cross-Committee approach to financial conglomerates.²² This is an urgent issue at this stage where the Capital

Requirements Directive is in the process of being enacted and Solvency II being designed.

A Level 3 Committee can pursue its objective toward supervisory convergence and cooperation by using a number of tools.

How to best organise supervision in Europe and the tools and practices that supervisors deploy, are currently topics very much discussed in the EU. Decisions on these are clearly of a highly political nature and, in the first instance, the question of how to organise supervision is one for each Member State. The European Commission's "Green Paper on Financial Services Policy (2005-2010)"²³ includes a paragraph on "Efficient and Effective Supervision", while the European Commission's "White Paper on Financial Services Policy 2005-2010"²⁴ addresses supervisory issues as "supervisory challenges". When the European Financial Services Committee was invited by the ECOFIN to overview how the framework for financial regulation and supervision should be developed²⁵, it established a Subgroup to prepare a "Report on Supervision". The initiative, to which CEIOPS and the other Level 3 Committees contributed, is concentrating on certain tools and is intended to define recommendations to the appropriate Level 3 Committee for working, with a defined timeframe, on the development of those tools. The final FSC Report on Financial Supervision was agreed at the FSC's meeting on 17 February and endorsed by the EFC in its meeting on 30 March 2006. It will be presented to the ECOFIN this spring, and be taken into due consideration by CEIOPS in developing its further work.

¹⁸ See www.ceiops.org - About CEIOPS - Work in Progress.

¹⁹ First Progress Report on Supervisory Convergence in the Field of Insurance and Occupational Pensions for the Financial Services Committee (FSC) (CEIOPS-SEC-70/05), September 2005; see www.ceiops.org - Publications - Other documents.

²⁰ For more details regarding the following, see chapter 6.2.0. Convergence and Coordination of Supervisory Practices.

²¹ See chapter 7.0.0. CEIOPS Work Programme 2006.

²² See chapter 6.3.1. Financial Conglomerates.

²³ COM (2005) 177, 3 May 2005.

²⁴ December 2005.

²⁵ Conclusions, December 2004.

CEIOPS believes in leading by example. It has therefore started analysis of supervisory tools for its own use, taking into account the specific regulatory and supervisory positions of the insurance and pension funds sectors. CEIOPS has recently published a discussion paper²⁶ for public consultation. It describes the present position under the regulatory framework and CEIOPS' resulting work, and goes on to suggest a possible future policy towards supervisory tools and CEIOPS' role going forward.

The paper is ambitious. Its approach has been to aim high and work to achieve it. For CEIOPS, the need for a sound development process is clear. It will be key to CEIOPS realizing its highest objectives.

As better explained in the discussion paper mentioned above, a list of possible individual tools for CEIOPS to develop would include:

- ▶ comparison of national transpositions of Level 1 and 2 legislation, by collecting and disclosing them in a single place for easy comparison e.g. CEIOPS' website, analyzing gaps and inconsistencies, and making recommendations to the European Commission;
- ▶ follow-up monitoring of implementation of its standards and of Members' responses on its guidelines and recommendations;
- ▶ Peer Reviews of supervisory practices, by Members on Members;
- ▶ facilitating a consistent approach on similar supervisory issues across the European Union, by serving as the lead forum for think-tank, discussion and promotional activities;
- ▶ settling procedures for resolving differences in opinions and posi-

tions at CEIOPS' level on supervisory practices;

- ▶ promoting and facilitating training and exchange of staff between supervisors;
- ▶ facilitating the organization of joint on-site inspections;
- ▶ making surveys and analyses on supervisory aspects of common interest;
- ▶ enhancing cooperation and information-sharing, for example by concluding additional Protocols between supervisory authorities for their cooperation in the satisfactory supervision of cross-border operations;
- ▶ establishing and running a network for crisis situations;
- ▶ regular relations and joint initiatives with supervisors of other financial sectors, especially the other Level 3 Committees;
- ▶ representation of common interests of Members in their relationship with non-EU supervisors and international organizations.

Taking into due consideration the regulatory and market specificities of insurance and pension funds, CEIOPS intends to define the best way for putting into practice these tools when designing its Medium-Term Work Programme and individual annual work programmes.

Beyond planning, CEIOPS has already started work in this perspective while contributing to the development of the Solvency II project. There, CEIOPS has analysed specific issues that, besides being relevant for preparing the Level 1 and Level 2 legislation, will also affect its role and tools at Level 3. In particular, CEIOPS has advised the European Commission on the role of "Peer Reviews"²⁷ to promote the convergence of

supervisory practices when applying the new prudential regime. More in general, CEIOPS' views on its tools will be mainly shaped through the development of the Solvency II project. CEIOPS intends to evolve Level 3 measures in a large number of areas under it. These include early warning indicators, minimum requirements for on-site inspections, fit and proper requirements for management and shareholders, the actuarial function, and supervisory reporting such as harmonization and the sharing of data between supervisors.

CEIOPS' ACTIVITIES

6.1.0. Contribution to EU legislation ("Level 2" Activity)

Advising the European Commission, either at the European Commission's request or on the Committee's own initiative, in particular with regard to the preparation of draft implementing measures, is one of the main tasks of CEIOPS. In the framework of the European Commission's work on Solvency II, it has asked CEIOPS to give its advice also on the Framework Directive it is currently working on. While CEIOPS is giving the requested advice, it is already paving the way for the preparation of potential implementing measures and, eventually, of supervisory measures.

6.1.1. The Solvency II project

Solvency II is the European Union's fundamental, root-and-branch review of the prudential supervision regime for insurance undertakings.

It is concerned with establishing an adequate level of solvency capital for insurance undertakings sufficient to meet their liabilities to policyholders and certain third parties. This long running project has first of all examined, and then concluded, that there is indeed a great need to fundamentally redesign the existing framework. Now, the focus has shifted to designing, agreeing and implementing, under the Lamfalussy model, appropriate EU legislation at Level 1 and Level 2. It is also foreseen that successful implementation will be enhanced by action to seek real supervisory convergence through 'Level 3' work. The underlying objective of the Solvency II project is to encourage and embed enhanced risk management in insurance undertakings, and thus achieve a high level of policy holder protection and further support market stability. Furthermore, the project seeks to achieve greater harmonization across the EU, thus facilitating the development of the Single Market and fostering competitive equality.

Contributing to the project has been, and continues to be, CEIOPS' biggest and most important task. The outcome of the project will have implications in each and every Member State and insurance and reinsurance undertaking in the EU. Making sure that the future framework is practicable, achieves the high level standards that both policyholders, as well as insurance undertakings, can legitimately expect, and will be a success, explains why most of CEIOPS' time and resources has been devoted to this project.

Despite the multitude of traditions and approaches that each CEIOPS Member brought with them when CEIOPS started to work on Solvency II, significant progress has been made and CEIOPS can say that there are a number of key areas where consensus has been achieved. That said, it is also fair to say that on a num-



²⁶ Consultation Paper No. 10 'Developing CEIOPS' Medium-Term Work Programme' (CEIOPS-CP-07/05), 11 November 2005.

²⁷ 'Answers to the European Commission on the second wave of Calls for Advice in the framework of the Solvency II project' (CEIOPS-DOC-07/05), October 2005

ber of areas further work, analysis and discussion is needed. But, in one sense Solvency II has already proved a success, underlying the benefits of the Lamfalussy approach: there is an increasing appreciation amongst CEIOPS Members of the multitude of joint problems and issues that people are seeking to solve cooperatively; information and ideas are being exchanged; trust is being formed.

6.1.1.1. Background

In the context of the development of the new prudential system for the supervision of insurance undertakings, the European Commission has requested technical advice from CEIOPS. This request is in line with the rule making process the European Parliament and the Council are adopting under the extension of the "Lamfalussy approach" to the insurance sector.²⁸

Following the definition of the fundamental principles for the design of the future prudential regime, endorsed at the Insurance Committee meeting in April 2003, and according to the Road Map (MARKT/2506/04) agreed for carrying out the project, the European Commission addressed to CEIOPS a Framework for Consultation, which sets policy principles and guidelines for developing advice and which in the meantime was subject to a series of refinements, and three progressive 'waves' of specific Calls for Advice covering all aspects which are relevant for building a global solvency system. As anticipated in last year's Annual Report, CEIOPS' answers to the "First Wave of specific Calls for Advice" were submitted to the European Commission on 30 June 2005, and the answers to the "Second Wave" on 1 November 2005. The answers to the "Third Wave of specific Calls for Advice" were submitted on 3 May 2006.²⁹

In a letter dated 24 January 2006³⁰ the European Commission has asked CEIOPS to develop further certain issues it has already commented on in its past advice but which were not fully elaborated and/or defined and thus require additional input from interested parties. This additional advice will cover key Pillar I issues such as the valuation of technical provisions, development of the SCR and the MCR formula and the recognition of reinsurance and other risk mitigation techniques. Also certain Pillar II issues (Pillar II "capital add-on" and the treatment of re-insurers) and group issues (e.g. admission of diversification effects, sub-group supervision and cooperation with third countries) will be elaborated on.

In addition to the issues outlined in the European Commission's letter CEIOPS plans further work covering Pillar II issues, i.e. safety measures (limits on concentration in covering assets and diversification requirements, fit and proper requirements and supervisory powers, and, possibly, also Pillar I issues such as recognition of SCR internal models and eligible elements of capital). This further advice is aimed at giving the European Commission more detailed information for the development of the Framework Directive and will also take into account the results of QIS1 and 2.

Consultation papers on group aspects as well as Pillar II aspects (treatment of reinsurance within the Solvency II framework, fit and proper requirements and super-

visory powers) are envisaged to be approved for public consultation in June 2006, with final advice being expected in October 2006. An additional consultation paper on Pillar II "capital add-on" and safety measures (limits on covering assets) is planned to be approved for public consultation in October 2006. The consultation paper on Pillar I issues (valuation of technical provisions, development of the SCR and the MCR formula and recognition of risk mitigation techniques) is also scheduled for October 2006 because it mainly depends on the results of QIS2.

In the context of this activity, CEIOPS will also progress the preparatory work for delivering answers to expected requests for advice on potential implementation measures. Indeed, the European Commission is planning the preparation of implementation measures in parallel to that of the Framework Directive. This activity, of course, will also be aimed at paving the way for future Level 3 measures.

CEIOPS is making good progress in developing its further advice to the European Commission. There are, however, some high level political issues, such as the prudential margin to be included in the valuation of technical provisions, where CEIOPS Members have divergent views due to long lasting divergent traditions and practices in European Member States. Given the tight timeframe outlined in the above mentioned letter of the European Commission, some political guidance is necessary. The relevant issues were discussed at the EIOPC meeting of 5 April 2006, which will result in an amended framework for consultation.

In the framework of the Solvency II project several rounds of Quantitative Impact Studies (QIS) are foreseen. They will provide a key input for the impact assessment report of the European Commission for the Solvency II Framework Directive.

From mid-October to the end of December 2005, CEIOPS conducted a first round of QIS (QIS1), restricted to technical provisions in life and non-life, with particular regard to the level of prudence to be embedded in their measurement. In line with the European Commission's note on *The Impact Assessment of the Solvency II Level 1 Directive* (MARKT/2519/05) the European Commission received the results of QIS1 in March 2006. The QIS1 summary report was approved at CEIOPS' Members' Meeting on 22 February 2006.³¹

Following this, CEIOPS is currently engaged in a more comprehensive second round of QIS (QIS2) including solvency requirements in close cooperation with European stakeholders. QIS2 was launched at the beginning of May 2006, following the approval of the QIS2 specifications by the Members' Meeting on 25/26 April 2006. The results of QIS2 are planned to be finalised by October 2006.

As mentioned in the last year's report, in setting up the organization and steering the preparatory work for delivering advice, CEIOPS considered the need to ensure an organic and comprehensive coverage of the overall solvency regime, thus allowing flexibility and effectiveness of its contributions along the development of the whole project, in relation to its different steps. To this end, the Working Groups in charge of preparing CEIOPS' deliberations have been tailored on the fundamental lines of the new prudential model and not on the specific calls for advice or on the formal way through which the future regime will be translated

First wave of CfAs:

01. Internal control and risk management;
02. Supervisory review process (general);
03. Supervisory review process (quantitative tools);
04. Transparency of supervisory action;
05. Investment management rules; and
06. Asset-liability management.

Second wave of CfAs:

07. Technical provisions in life assurance;
08. Technical provisions in non-life insurance;
09. Safety measures;
10. Solvency capital requirement: standard formula (life and non-life);
11. Solvency capital requirement: internal models (life and non-life) and their validation;
12. Reinsurance (and other risk mitigation techniques);
13. Quantitative impact study and data related issues;
14. Powers of the supervisory authorities;
15. Solvency control levels;
16. Fit and proper criteria;
17. Peer reviews; and
18. Group and cross-sectoral issues.

Third wave of CfAs:

19. Eligible elements to cover the capital requirements
20. Co-operation between supervisory authorities
21. Supervisory reporting and public disclosure
22. Procyclicality
23. Small undertakings

²⁸ See Annex B.2.0. CEIOPS' Role in the Lamfalussy Procedure.

²⁹ All answers to the European Commission's Calls for Advice can be found on the website under www.ceiops.org - Publications - Submissions to the European Commission.

³⁰ See www.ceiops.org - Requests for advice.

³¹ See www.ceiops.org - Publications - Submissions to the EC.



into formal requirements under the "Lamfalussy model". Mandates and work plans of the groups have been established accordingly. The following table shows the internal allocation of responsibilities to the individual Working Groups for providing the preparatory work on the second and third wave of Calls for Advice:

Second wave of Calls for Advice		Working Groups					
		P I Life	P I Non-Life	P II	P III	GCS	FinStab
7	Technical provisions: life	■	○	○	○		
8	Technical provisions: non-life	○	■	○	○		
9	Safety measures	■	■	○			○
10	SCR: standard formula	■	■	○		○	○
11	SCR: internal models & their validation	■	■	○		○	
12	Reinsurance (risk mitigation techniques)	○	■	○			
13	QIS and data-related issues	○	○	○	○	○	■
14	Powers of the supervisory authorities			■		○	
15	Solvency control levels	○	○	■		○	○
16	Fit & proper criteria			■		○	
17	Peer reviews			■			
18	Group & cross-sectoral issues	○	○	○		■	
Third wave of Calls for Advice		Working Groups					
		P I	P II	P III	GCS	FinStab	
19	Eligible Elements to cover the Capital Requirements	■	○	○	○	○	
20	Independence and Accountability of Supervisory Activities		■		○		
21	Cooperation between Supervisory Authorities	○	○	○	■		
22	Supervisory Reporting and Public Disclosure	○	○	■	○		
23	Procyclicality	○	■		○		
24	Small and Medium Sized Enterprises	■	○	○			

■ responsible for drafting and co-ordinating ○ to provide input to drafting group

CEIOPS' technical advice, at this stage, is requested in relation to the preparation of the Framework Directive on the new prudential regime. In other words, the development of the subsequent implementing measures could likely invite further CEIOPS contributions.

The European Commission's latest 'Solvency II Roadmap'³² foresees the adoption of a proposal for a Directive by the European Commission in July 2007. CEIOPS has undertaken to meet the Roadmap's timing³³ and is now heavily engaged in its work streams.

6.1.1.2. Pillar I

Introduction

When setting up the organization CEIOPS created two Pillar I Expert Groups, one concerned with life business and the other with non-life. As CEIOPS moved towards giving its first substantial advice on Pillar I issues in 2005, these two groups were merged. The combined group provides technical support to assist the development of Pillar I standards for life and non-life insurance business. The group has also established good relationships with a number of key stakeholder groups. Through guest presentations and targeted 'pre-consultative' questions, the Group has been able to consider a broader range of expertise and opinion in developing its recommendations. There were nearly ten meetings in 2005, which were partly carried out jointly to coordinate work on life and non-life before the two Expert Groups' merger at the end of April 2005.

Year's Work

The group has made a substantial contribution to CEIOPS' advice throughout the year, beginning with its first recommendations on investment and asset-liability management in the context of the 'first wave'. This was later developed into advice on a 'prudent person plus' approach - the combination of high-level principles, risk-sensitive capital requirements and safety nets designed to ensure that assets and liabilities are managed appropriately.

The Group's other work on the 'Second Wave' began to establish the conceptual basis for Pillar I standards, beginning with technical provisions. Harmonisation of the level of prudence in technical provisions is one of the most ambitious - and most critical - goals of the Solvency II project. Different supervisors place different emphasis on this tool, driven in part by experience of their local market and local product types. Starting from these different bases has increased the difficulty of reaching a consensus on technical provisions, although a first exercise in quantitative impact studies (QIS1) with the industry was an important step forward in setting out the critical decision points.

In the 'Second Wave', the Group also set out the design criteria for the Minimum Capital Requirement (MCR) and the Solvency Capital Requirement (SCR). This included a description of the main risk categories that would be treated under the SCR, together with first advice on possible modelling approaches for the major risk categories in the standard formula.

The group contributed to advice on the recognition of SCR internal models and the treatment of risk mitigation techniques. These aspects are vital for ensuring that Solvency II gives proper incentives for sound risk management.

In the 'Third Wave', technical support on the definition of capital, procyclicality and potential adaptations for small undertakings were provided.



Paul Sharma

Financial Services Authority (FSA, United Kingdom),
Chair of Pillar I Expert Group

Chairman's message:

Closer alignment between financial requirements and risk creates incentives for insurers to manage their business in a sound manner. Pillar I is the first and last line of defence in securing a high level of policyholder protection and plays a vital role in encouraging an efficient, stable market for insurance.

³² 'Note to the Members of the European Insurance and Occupational Pensions Committee, Solvency II Roadmap - towards a Framework Directive, Updated version (July 2005)', MARKT/2502/05-rev. 2.

³³ See chapter 7.0.0. CEIOPS Work Programme 2006.

Next Steps

In 2006, CEIOPS needs to focus on developing operational standards for Pillar I. The first step will be to develop detailed QIS proposals - consistent with the answers already submitted - on technical provisions and capital requirements. Clearly, a sound standard for technical provisions will need to form the bedrock of the new solvency system. QIS1 laid essential groundwork by testing a number of different options for liability valuation (including different percentiles), but it is important to begin to narrow the field. CEIOPS also needs to reflect carefully upon economic valuation proposals put forward by such international bodies as the Comité Européen des Assurances and Chief Risk Officers Forum, developed as a comprehensive alternative to the percentile approach.

Solvency II needs to 'work' for all insurers - not simply the largest or most sophisticated players. However, moving to a system which is more responsive to the risks faced by insurers will necessitate a certain degree of complexity. In particular, CEIOPS recognises that the calculation of technical provisions will be especially demanding. The Committee therefore welcomes the Groupe Consultatif Actuariel Européen's support in developing guidance on methods for insurers with less complex risk profiles.

For the capital requirements, CEIOPS will not be in the position to test a single, unified proposal for the MCR or the SCR. In QIS2, the emphasis will be on testing a limited number of different capital treatments for each risk type in an effort to find the right balance between risk sensitivity and complexity. The exercise should improve our understanding of how insurers manage their risks in practice and signal how these capabilities might evolve by the time Solvency II is implemented.

Following analysis of the QIS results and further technical discussion in the group, CEIOPS aims to produce a consultation paper in late October 2006. This will recommend further advice on the structural design of Pillar I requirements, as well as setting out the steps CEIOPS will take to calibrate the system to meet the overall soundness objectives. The paper will come at a critical point in the project as the European Commission begins to shape its first proposal for the Solvency II Directive, together with its formal 'impact assessment.'

6.1.1.3. Pillar II

Introduction

The Pillar II Expert Group provides preparatory work on the appropriateness and consequent requirements related to qualitative aspects of management, such as risk management and internal control systems, as well as all phases of supervisory action, both in terms of process and prudential tools.

The Group has expanded its contacts with outside parties, including from the industry, professionals and other experienced sources. Its work is better informed and constructed as a result.

The year has been one of considerable effort to meet the requirements imposed on the Group and of its adaptability to their change.

Year's Work

In 2005, the Pillar II Expert Group had seven meetings and developed a series of reports. These have taken the form of advice to the European Commission covering a number of technical aspects of prudential supervision related to Pillar II and included in all three waves of Calls for Advice received by CEIOPS.

The Group provided technical support for developing requirements for corporate management, risk management and the internal monitoring of insurance undertakings under Solvency II. It is following the principle of proportionality, applying the same supervisory principles equally to all undertakings. The manner of application will be determined by the degree of corporate complexity. The supervisors' job will be to verify whether their supervised entities have fulfilled these requirements and reached the targets set by the principles.

Solvency II requires that all key personalities of an undertaking, such as managers, holders of significant interests and controllers, will meet "fit and proper" criteria. They must have sufficient professional expertise and experience or, if shareholders, sufficient financial strength, and be trustworthy and of good repute. CEIOPS is looking at a structure where responsibility remains with the entity, but with supervisors having the power to intervene, including the power to dismiss managers.

Under CEIOPS' approach, supervisors will require undertakings to implement a risk management system in order to identify and evaluate all risks (technical, credit, market, solvency and operational) and keep them on a level appropriate for their business. The Group has concluded that risk management should also reflect the risks of all internal corporate sectors, in the form of a so-called "internal assessment", to enable management to identify the cause, effects and probability of the risk, along with its size. Other risk-reducing measures such as hedging or reinsurance are also being taken into account. Where these requirements are not met, the group is working on the supervisor being empowered to request that risk management be improved and, until such



Petra Faber-Graw
Federal Financial Supervisory Authority (BaFin, Germany), Chair of Pillar II Expert Group

Chairman's message:

The review of individual insurers' actual risk profiles and their risk management practices in comparison to the regulatory requirements under Pillar II supplements the financial requirements of Pillar I. This linkage under the Solvency II project between qualitative requirements and risk at Pillar II, creates further incentives for insurers to manage their business in a prudent way and helps to encourage the embedding of good risk management practices throughout the undertakings. Therefore, Pillar II plays an important role in harmonizing qualitative requirements on companies as well as on supervisory actions and practices, while taking into account cross-sectoral issues between the banking and insurance sector.

improvements have been effected, to require internal limits on the business, or to establish additional capital requirements.

Under Solvency II, corporate governance requires a framework for clear, unambiguous structures of responsibilities and decision-making processes. The Group has developed principles whereby the internal controls should follow the size and complexity of the individual insurance undertaking. Those should function separately from day-to-day business and guarantee a reporting that is timely, correct and consistent.

The new supervisory regime will be complemented by solvency control levels. It is considered that if the capital adequacy of an entity falls below a certain threshold, its supervisors should be required to take corrective measures. Every threshold will be allocated a range of supervisory steps, to ensure the transparency of the measures applied and avoid regulatory arbitrage. Much of the work is directed towards ensuring as far as possible that the standard supervisory tools are compatible with all national and international jurisdictions.

In future, the Supervisory Review Process CEIOPS has worked on will help supervisors verify whether the requirements concerning the capital adequacy, corporate governance, risk management and internal controls have been met. This Process will evaluate the adequacy of eligible capital, in size and quality, for the undertaking's business. Companies have to map their risk profile realistically. Under the envisaged design, any shortfalls trigger appropriate supervisory action. The Group, under CEIOPS' policy, intends that the competences, methods and tools of the supervisory authorities will be harmonised EU-wide and rules implemented for the cooperation of supervisors.

Since the Solvency II regime will be principle-based, the supervisory authorities will need additional powers. CEIOPS has founded its proposals for Solvency II on risk management. Therefore, the Group's strategy is that supervisory authorities will be empowered for example to require that missing risk models or data be submitted, or that varying internal models be applied. Until the risks are removed or accounted for, the Group's view is that the supervisor should have the power to limit new business or to determine that the capital requirements should be adjusted. Depending on individual shortcomings in any one case, CEIOPS' answers to the European Commission also includes the option to request the submission of business plans or to require the dismissal of an actuary or a manager.

Next Steps

During 2006, the Group needs to focus on developing operational standards for Pillar II. The first step will be to develop detailed proposals for a Pillar II add-on - consistent with the answers already submitted to the European Commission - on "Policy on solvency capital" and "Eligible forms of capital". Moreover, the Pillar II WG will elaborate a paper about "Additional Limits on Assets" in order to detail the "prudent person plus principle". In both cases CEIOPS aims to produce a consultation paper in late October 2006.

Apart from that, further technical discussions in the Group will take place on "Solvency II requirements for reinsurers", "Supervisory Powers" and "Fit and Proper". They are intended to form the basis of further advice on the structural design of Pillar II requirements which will be delivered at the end of June 2006.

6.1.1.4. Pillar III

Introduction

The Expert Group on Pillar III and Accounting was established in April 2004 mainly to carry out the preparatory work needed for the fulfilment of CEIOPS' tasks concerning Pillar III of the Solvency II project. These cover financial disclosure and market discipline. However, the group is also tasked with addressing accounting issues which are of interest to the EU supervisors.³⁴

Year's work

In 2005, the Group had seven meetings. Its work was mainly focused on the development of Pillar III aspects of the Solvency II project, and in particular building a conceptual framework for public disclosure and supervisory reporting. The group concentrated on the interrelationships between the two and with the accounting requirements to be applied when drawing up financial statements.

The aim has been to construct a general robust framework, ensuring availability of the information necessary to assess the risk profile of an insurance entity. The envisaged framework should allow the risk profile of an insurance entity to be assessed through a combination of public disclosure stemming from accounting requirements, public disclosure requirements envisaged by supervisors and confidential information available to supervisors only - supervisory reporting.

In CEIOPS' view, these differing information needs should be fulfilled by consistent sets of data, which also limit the disclosure and reporting burdens on insurance undertakings. The requirement for consistency between different sets of data should also allow Member States to opt for different mixes of disclosure requirements, derived from accounting principles or from supervisory requests, within a common framework for the whole of the EU. The national choice of the optimal mix might be determined by specific situations existing at national level only, in terms of accounting/disclosure requirements in force or on the stage of development of national insurance markets.

Next steps

By its own nature, the Expert Group's role should increase at a later stage of Solvency II, as a clearer definition of the different features of the whole project emerges.

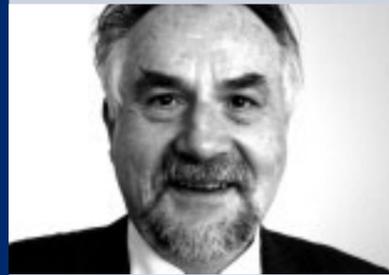


Fausto Parente

Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo (ISVAP, Italy),
Chair of Pillar III/Accounting Expert Group

Chairman's message:

Market discipline is playing a role of increasing relevance for the stability of financial markets, by allowing a more informed decision-making process for all stakeholders, by rewarding good performance and facilitating easier identification of market failure. The Solvency II project presents a major challenge, to harness market discipline for the support of the attainment of supervisory objectives.



Noël Guibert

Autorité de Contrôle des Assurances et des Mutuelles (ACAM, France), Chair of Groups and Cross Sectoral Issues Expert Group

Chairman's message:

The emergence of groups operating in the insurance sector at both national and international level has been quite important during the last ten years. In the same time, major groups have developed centralised internal control and risk management functions and their own internal models in order to strengthen the analysis of their risks and to allocate capital in an efficient way. As a result, the development of groups that often perform cross-sectoral and cross-border activities, both within and outside the EEA, raises specific issues in terms of solvency and supervision. Taking into account that specificity, developing adequate tools and organising a proper cooperation between supervisors is therefore an essential element of the future Solvency II prudential regime.

In 2006, the Group aims to refine some aspects of the general framework which need either Level 3 development by CEIOPS or consideration at Level 1 and 2 in the Lamfalussy model. This task might be best achieved through the definition of some practical aspects of the items to be disclosed or included in supervisory reporting. The Group's work on definitions is linked to the work of the Pillar I and Pillar II Expert Groups. Nevertheless, many items can be identified and detailed which are already of interest. The Group will proceed to highlight possible further specifications to be added to the general framework and to conduct preliminary work towards the definition of possible future Level 2 and 3 measures.

6.1.1.5. Group/Cross-Sectoral Issues

Introduction

The Expert Group on Groups and Cross-Sectoral Issues (GCS) provides preparatory work on the specific issues raised by the supervision of insurance entities that belong to a group. These issues include, inter alia, the consequences in terms of capital requirements, validation of internal models and the organization of the cooperation between supervisors both within and outside the EEA.

The Group has organised contacts with outside parties, and works in close cooperation with the other CEIOPS Solvency II Expert Groups, the issues at group and solo level often being closely linked. In 2005, the GCS met 6 times.

Year's Work

In 2005, the group substantially contributed to CEIOPS' answers to the Calls for Advice of the European Commission, reviewing issues related to regulatory arbitrage in a cross sectoral perspective, capital requirement at group level, supervisory review process of groups and validation of internal models. Within these major topics, the Expert Groups identified issues of special interest, in particular the taking into account of diversification effects in both the solvency of a group and its solo entities, the role of the lead supervisor in group supervision and the validation of internal models in a group context, whether or not there was the possibility of supervising sub-groups and the special issues raised by groups operating from or in non EEA countries.

In the answer to the Second Wave of Calls for Advice general principles on these issues, such as the necessity to include express provisions in the future framework Directive and supplementary supervision of groups, as well as the general principle of competence of the group supervisor to lead the process of validation for the internal models in a group context, were treated.

The study of different aspects of these issues continued in the framework of the Answers to the Third Wave of Calls for Advice. In particular, these answers include more detailed principles regarding the cooperation between supervisors as well as the role of the lead supervisor and the solo supervisors involved in the supervision of a group in the validation of internal models in a group context.

Next Steps

In 2006, in addition to the issues raised in the answers to the Calls for Advice, the Group will draft advice on further group-related issues, in particular regarding

- ▶ diversification effects in solvency of groups and solo entities,
- ▶ the supervision of sub-groups and
- ▶ groups operating in or from third countries.

Over a longer term, considering the need for detailed implementation measures for the main principles to be included in the framework Directive, the activity of the Group should continue throughout the whole setting up of the future Solvency II regime.

6.1.1.6. Quantitative Impact Studies

Introduction

The European Commission has envisaged that a series of QIS will be needed throughout the Solvency II project. This will also be input for the Impact Assessment that the European Commission has to provide when proposing a Framework Directive. The Impact Assessment will consider the wider macroeconomic consequences of Solvency II. QIS will test the impact of proposed principles with respect to the financial resources of individual insurance companies. The Financial Stability Committee has been given the responsibility to conduct QIS. It created a Task Force for the purpose, consisting of five members of the Committee. The main assignments of the Task Force are to create the QIS framework (spreadsheets and guidance for the national supervisors and the industry), to set up a format for country reports, to take account of questions and answers during the process, to consolidate the country results and to conduct certain calculations at a European level. The specifications to be tested in QIS are formulated mainly by the Pillar I Expert Group.

Years' work

In order to ensure that the QIS framework is adequate, the Committee conducted a Preparatory Field Study (PFS) among selected life insurance companies in the first half of 2005. The PFS focused on infrastructure issues and aimed for insight into current industry best practice. The PFS indicated that life insurance companies are relatively well equipped to value liabilities in a more risk oriented way, although differences were observed in the methods for determining key factors such as future bonuses, risk margins, and values of embedded options. It appeared that transition from current to market consistent valuation may generally lead to a slight reduction of liabilities, pointing though to a large dispersion between countries and companies. Moreover, stress tests that were part of the PFS indicated that equity risk and interest rate risk are in general the most important risk factors to insurers, while other risk factors seem less material. The PFS revealed that methods used by the various insurers are rather heterogeneous. In future work, clear guidance on methodological issues relating to



Klaas Knot

De Nederlandsche Bank (DNB, Netherlands), Chair of Financial Stability Committee

Chairman's message:

During the last year, major first steps were set to test the impact of future proposals with respect to Solvency II. A preparatory field study among life insurers and a first round of quantitative impact studies (QIS) among life and non life insurers were organised. Involvement of the national supervisory bodies and the industry has proved vital to accomplish these achievements.

valuation techniques, the level of prudence (risk margin) as well as the application of stress tests, seems therefore necessary. The results of the PFS have been published on the CEIOPS website.³⁵

The insights of PFS were used for the first round of QIS (QIS1) which started in autumn 2005. The Pillar I Expert Group developed the relevant specifications for QIS1, after which the specifications and guidance were verified across the industry by means of a so-called pre-test. QIS1 primarily focused on testing the various confidence levels with respect to the determination of the proposed risk margin on top of the best estimate of the insurers' liabilities. From the PFS the valuation of insurance liabilities appeared to be one of the central elements when striving for greater harmonisation of prudence levels requested under Solvency II. In this context, QIS1 tested the 75th and 90th percentile and invited firms to bring the 60th percentile and/or alternative approaches (such as the cost of capital approach) to CEIOPS' attention.

The results following from QIS1 were evaluated by the national supervisors and CEIOPS, as well as the industry and possible other stakeholders, in spring 2006. The results were sent to the European Commission and published on CEIOPS' website in form of a summary report in March 2006. The report highlights the general trends and observations found in the country reports submitted by the national supervisors. Importantly, the participation of insurance companies has on average enlarged compared to the PFS and the coverage could be seen as a representative sample.

Next steps

The outcomes of QIS1 are an important input to a more comprehensive round of QIS (QIS2), which started on 1 May 2006. QIS2 will include solvency requirements, based on further refinements of the Minimum Capital Requirement (MCR) and Solvency Capital Requirement (SCR) formulas developed by the Pillar I Expert Group. It is also envisaged that there will be different options for technical provisions to be tested under QIS2. The outcome of QIS2, which will become available in October 2006, will provide essential input for the European Commission's work on the Framework Directive for Solvency II as well as the European Commission's Impact Assessment.

6.1.2. Other advice or recommendations to the European Commission

Besides answering the Calls for Advice put forward by the European Commission in the context of the Solvency II project, CEIOPS worked on advice or recommendations on its own initiative regarding other issues. It analysed the practical functioning of the Insurance Groups Directive with a view to report to the European Commission on any recommendations for amendments. Also, it gave its views to the European Commission on the issue of Independence and Accountability of supervisors and on the prudential treatment of 'Deeply subordinated debt'.

6.1.2.1. Possible supervisory improvements under the Insurance Groups Directive

As reported in the chapter dedicated to the activity of CEIOPS' Insurance Groups Supervision Committee (IGSC),³⁶ the year saw CEIOPS' adoption of the IGSC's paper on possible modification of the Insurance Groups Directive (IGD)³⁷ and CEIOPS' planning of its resulting work.

The IGD itself was adopted six years ago.³⁸ It provided for a report by the European Commission to the European Insurance and Occupational Pensions Committee (EIOPC) by 1 January 2006, on the Directive's application and any need for further harmonization. The IGSC had been tasked by CEIOPS to draw up its paper in that light. The final CEIOPS recommendation to the European Commission includes an analysis of implementing issues based on supervisory experience and a number of possible legislative improvements and suggestions for Level 3 measures.

In view of CEIOPS' analysis and considering the fact that the CEIOPS Solvency II Expert Group on Group and Cross-Sector Issues has worked in detail on group-related issues in the framework of its advice, the European Commission has meanwhile indicated that its delivering a report to the EIOPC would not add significant value to CEIOPS' work. The European Commission's intention has been confirmed to make all desirable changes to the IGD as soon as possible, through its Solvency II Proposal.³⁹

CEIOPS will continue to assess how best to follow up on the recommendations included in the paper within the existing legislative framework. Considerations will include ways to facilitate the appointment of a lead supervisor as defined in the Helsinki Protocol, to avoid double reporting on group solvency and the feasibility of collecting and publishing on the website, information on how Member States have exercised the various options provided for in the Directive regarding the supplementary supervision of insurance groups.

6.1.2.2. Deeply Subordinated Debt

One issue adjacent to the Solvency II project is the treatment of some types of deeply subordinated debt as eligible elements of capital under the current insurance directives. The subject was raised in a meeting of the EIOPC in June 2005. One delegation there presented a proposal and CEIOPS was asked to give technical advice on it and also on any appropriate action.

CEIOPS published a Consultation Paper in December 2005⁴⁰. The responses received during the consultation period are also published on the website. The Paper outlines the current legal situation, the proposal to amend the current Insurance Directives and the principal considerations involved, including three possible courses of action. The delegation's proposal under consideration had pointed out that the increasing use of what is termed 'hybrid capital' was blur-

³⁵ CEIOPS' Preparatory Field Study for Life Insurance Firms - Summary Report (CEIOPS-FS-08/05 S), see www.ceiops.org - Consultations - QIS.

³⁶ See chapter 6.2.2. Insurance Group Supervision.

³⁷ Recommendation on possible need for Amendments to the Insurance Groups Directive' (CEIOPS-DOC-04/05), October 2005.

³⁸ Directive 98/78/EC of the European Parliament and of the Council of 27 October 1998 on the supplementary supervision of insurance undertakings in an insurance group, OJ No. L 330 of 5 Dec. 1998.

³⁹ See minutes of EIOPC Meeting of 2 December 2005, published on http://www.europa.eu.int/comm/internal_market/insurance/committee_en.htm

⁴⁰ Consultation Paper No. 12, 'Treatment of 'deeply subordinated debt'' (CEIOPS-CP-09/05), 9 December 2005.

ring the present classification of capital and that it would be sensible to take account of this through amendment of the relevant directives.

CEIOPS invited views, in particular on the importance of achieving cross-sectoral alignment, the urgency to change the definition of eligible elements of capital, and to give indication of the quantitative impacts that the various options would have on undertakings' capital position.

CEIOPS' formal advice was submitted to the European Commission at the beginning of May 2006.⁴¹

6.1.2.3. Advice on Independence and Accountability

Beyond responding to the received Calls for Advice, CEIOPS decided to provide advice on its own initiative on an issue linked to the Solvency II project: Independence and Accountability of supervisors.

Taking into account that the topic includes important issues for supervisory authorities and the proper exercise of their powers, CEIOPS Members considered that they should work on the subject by choice and make any appropriate recommendations to the European Commission. They also decided that the Consultation Paper for the purpose would be different in style to those used for answering the Calls for Advice themselves.

The result was Consultation Paper No. 11, 'Draft Recommendation on Independence and Accountability'⁴². It posed a number of interesting questions and concluded with thirteen brief paragraphs of proposed Advice, for public comment. These combined high-level principles with legal and operational recommendations. The period for comments closed on 9 February 2006. Ceiops' formal Recommendation was submitted to the European Commission on 3 May 2006.

6.2.0. Convergence and Coordination of supervisory practices ("Level 3" activity)

Besides the fundamental overhaul of the Insurance Directives under way, political focus is on the implementation of existing legislation as well as enhanced supervisory cooperation and convergence. In this respect CEIOPS' work at Level 3 comes in.

CEIOPS' main activities at Level 3 are featured here under their Permanent Committees and Expert Groups. Those jointly undertaken with the other Level 3 Committees are summarized there⁴³.

Looking ahead and to supplement these activities, CEIOPS has recently decided to establish a Task Force⁴⁴, chaired by Michel Flamée, a Board member of CEIOPS, and which also includes a Commission representative. The main aim of this Task Force is to present a proposal on how to organize training programmes and the exchange of staff with the purpose of enhancing the convergence of day to day supervision across the EU. Also it is mandated to look into the effect of Solvency II rules on supervisory authorities. The outcome of this work will give input to the European Commission's impact assessment which it is carrying out on the Framework Directive.

6.2.1. Occupational Pensions

Introduction

The OPC was established in February 2004.⁴⁵ Since its establishment twelve meetings took place, six of them in 2005.

The main tasks of the OPC are to develop a common understanding of the IORP Directive, to facilitate supervisory cooperation, coordination and exchange of information in the case of cross-border activities and on related issues and to carry out the preparatory work for dealing with issues related to pension funds.

Year's Work

The main topics the OPC worked on in 2005 were reaching a common understanding of the main provisions of the IORP Directive including on the supervisory cooperation, coordination and exchange of information on cross-border membership, and on related issues, and the drafting of a Protocol organising the cooperation, coordination and regular information exchange between competent authorities in the implementation of the IORP Directive, with a view to Institutions for Occupational Retirement Provision (IORPs) operating cross-border.⁴⁶

The drafting of the Protocol took up most of the available resources of the OPC and a number of fruitful discussions with relevant interested parties.

In February 2005 CEIOPS published a first draft of the Protocol (CP 5) containing the main elements of the text, in order to allow interested parties to give input to CEIOPS' work at an early stage. After processing the comments received during the public consultation, the Protocol was revised and completed. Following the differences of this draft compared to the first version of the document, CEIOPS decided to publish the Protocol for another round of public consultation. This second comment period ended end-November 2005. Taking into account the comments received, CEIOPS published the final Protocol as well as a reasoned summary of the responses, following the approval by the Members' Meeting in February 2006.⁴⁷ The "Budapest Protocol" is CEIOPS' third protocol laying down details of supervisory cooperation.



Mihály Erdős

Financial Supervisory Authority (PSZAF, Hungary), Chair of Occupational Pensions Committee

Chairman's message:

The most important goal of the Occupational Pensions Committee (OPC) in 2005 was the drafting of a Protocol for cooperation and exchange of information in the context of Institutions for Occupational Retirement Provision (IORPs) operating cross-border. The adoption of the Protocol in the Members' Meeting of 22 February 2006 was a major step forward in supervisory convergence in the area of occupational pensions, with implications not only for supervisors of pension funds but for the whole pension industry.

⁴¹ Advice to the European Commission on the treatment of 'deeply subordinated debt' (CEIOPS-DOC-01), 6 May 2006; see www.ceiops.org – Publications – Submissions to the EC

⁴² CEIOPS-CP-08/05, dated 9 December 2005.

⁴³ See chapter 6.3.0. Cross-Sector Issues.

⁴⁴ Compass (Convergence and Impact Assessment Task Force). Compass met for the first time on 28 March 2006 to discuss its mission statement, tasks and working methods.

⁴⁵ The OPC was first known by the name Working Group on Occupational Pensions (WGOP) and later, when it was formally classified as a Permanent Committee, renamed Occupational Pensions Committee.

⁴⁶ Protocol Relating to the Collaboration of the Relevant Competent Authorities of the Member States of the European Union in Particular in the Application of the Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the Activities and Supervision of Institutions for Occupational Retirement Provision (IORPs) Operating Cross-Border (CEIOPS-DOC-08/06), February 2006

⁴⁷ The implementation period of the IORP Directive ended on 23 September 2005. As at this stage a number of Member States still have not implemented the Directive, Appendices 5 and 6 of the Budapest Protocol show some gaps. For an updated view on the status of transposition of this and other FSAP Directives see

http://europa.eu.int/comm/internal_market/finances/docs/actionplan/index/transposition_en.pdf

Besides this, the OPC worked on an analysis of the current status of the pension savings institutions from the EU legislation point of view.

Monitoring the situation in the occupational pensions market and assessing the possibility of extending the optional application of this Directive to other regulated financial institutions, is included in the ongoing work of the Committee.

Next Steps

For the coming months the OPC plans to concentrate on the collection of experience with the implementation of the IORP Directive, especially

- ▶ the licensing procedures (prior authorisation, relevant law),
- ▶ the mutual exchange of information on limits applied by the member states as defined by the Directive (investment),
- ▶ the mutual information on the rules about the technical provisions, and
- ▶ the exchange of information about the content of relevant social and labour law.

Regarding the Protocol mentioned above, the OPC will approach authorities which are competent under the Directive, but are not members of CEIOPS as they are not tasked with prudential supervision (i.e. competent for social and labour law implementation), to join the Protocol by signing a Joinder agreement. The implementation of the IORP Directive, still under way in some countries, may well entail modification of CEIOPS' membership as well. The Committee will also revise the text of the Protocol in the light of the experience gained after some months.

Also on the agenda of the OPC is an ongoing mutual exchange of information about supervisory practices and approaches, measures taken by the competent authorities and national pension systems as well as discussions and reviews about relevant market developments including macro-analysis of risks and their impact on financial stability. A stability review of the pension market and consequent report to the EU Economic and Financial Committee will be carried out by the Financial Stability Committee in close cooperation with the OPC.

In order to maintain its open approach towards the various stakeholders, the OPC continuously invites the representatives of relevant organizations to make presentations giving their views on current issues.

Since its establishment CEIOPS has worked on two Protocols enhancing cooperation and exchange of information in the field of insurance and occupational pensions supervision: The Budapest Protocol that was adopted at the Members' Meeting of 22 February 2006 and the Luxemburg Protocol that was approved at the Members' Meeting of 25/26 April 2006. In addition CEIOPS has taken over two protocols from its predecessor, the Conference of European Insurance Supervisors: the Siena Protocol and the Helsinki Protocol.⁴⁸

Siena Protocol⁴⁹

Scope: Cooperation and exchange of information between supervisory authorities regarding services of insurance companies established in their territory which they provide in other Member States (host Member State) under the freedom of establishment (opening of branches) or the freedom to provide services. The Protocol is based on the principle of mutual recognition, and does not affect the duty vested in the competent authority of the home Member State to exercise prudential control over the undertaking for which it has sole responsibility. It lays down details of cooperation (tasks, communication, documents, deadlines) between relevant home and host authorities.

Helsinki Protocol⁵⁰

Scope: Cooperation and exchange of information between supervisory authorities regarding the supplementary supervision of insurance undertakings in an insurance group, which was introduced by the IGD.

The Protocol establishes rules for co-operation and co-ordination (sharing of information) between authorities engaged with the (supplementary) supervision of individual undertakings of the same insurance group with a view to taking into account explicitly the relevant financial affiliations between the insurance company and other parts of the group (solo-plus supervision). In particular, the Protocol foresees close cooperation of relevant authorities through the establishment of Coordination Committees (Co-Cos) for each insurance group affecting more than one supervisory authority.

Budapest Protocol⁵¹

Scope: Cooperation of authorities competent in the implementation of the IORP Directive in relation to the supervision of IORPs that operate cross-border. Although this Protocol was approved by CEIOPS it is not only valid for CEIOPS Member Authorities, but is intended to include also Competent Authorities that are not CEIOPS Members. These Authorities will be invited to adhere to the Protocol by signing a Joinder Agreement. The protocol covers the procedure beginning with the notification of the intention to go cross-border, that is based on the precondition that the IORP is authorised in the home Member State, up to the starting of business by an IORP going cross-border, specifying the conditions, deadlines and communications necessary between the IORP, the home and the host Member State Competent Authority. Apart from the taking up of cross-border business, the Protocol covers the ongoing supervision (respective roles of home and host Competent Authorities) and exchange of additional information after the notification process for the ongoing supervision of IORPs.

Luxemburg Protocol⁵²

Scope: Cooperation of supervisory authorities in the implementation of the Insurance Mediation Directive (IMD). The Protocol sets out the agreement between supervisory authorities to cooperate and exchange information in order to enhance a satisfactory supervision of intermediaries and their cross-border activities. It covers principles for cooperation between competent authorities regarding mainly the registration procedure, the supervision of professional requirements and professional secrecy, the registration and notification procedures, and details on ongoing supervision of intermediaries.

⁴⁸ All protocols are available on the website under www.ceiops.org – Publications – Protocols.

⁴⁹ Protocol relating to the collaboration of the supervisory authorities of the Member States of the European Community in particular in the application of the Directives on life assurance and non-life insurance - 'Siena Protocol' (DT/F/182/97) of 30 October 1997.

⁵⁰ Protocol relating to the collaboration of the supervisory authorities of the Member States of the European Union with regard to the Application of Directive 98/78/EC on the Supplementary Supervision of Insurance Undertakings in an Insurance Group (DT/NL/194/00 Final), 11 May 2000

⁵¹ Protocol Relating to the Collaboration of the Relevant Competent Authorities of the Member States of the European Union in Particular in the Application of the Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the Activities and Supervision of Institutions for Occupational Retirement Provision (IORPs) Operating Cross-Border (CEIOPS-DOC-08/06), February 2006

⁵² Protocol Relating to the Cooperation of the Competent Authorities of the Member States of the European Union in Particular Concerning the Application of Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on Insurance Mediation (IMD), (CEIOPS-DOC-02), 6 April 2006.



Ole-Jørgen Karlsen

KREDITILSYNET (Financial Supervisory Authority, Norway), Outgoing Chair of Insurance Groups Supervision Committee

Chairman's message:

By approving its report on possible changes to the Insurance Groups Directive in October 2005, CEIOPS has taken on a challenge to achieve further harmonization and streamlining of insurance group supervision. The suggested amendments to the Directive are limited in favour of CEIOPS seeking greater control by its Members to avoid multiple layers of supervision and reducing gaps between supervisory regimes. I fully trust that the Committee with Patrick Brady as its new chairman will help CEIOPS to meet the challenge and that Patrick will enjoy working with the group as much as I have over the last five years.

6.2.2. Insurance Groups Supervision

Introduction

Following the signing of the Helsinki Protocol in May 2000 an ad hoc working group was established. The first task for this so-called Helsinki Protocol Working Group was to map all insurance groups with cross-border activity within the EEA. For each of the insurance groups operating in multiple jurisdictions, a Coordination Committee of supervisors (Co-Co) was established. The Co-Cos are composed of the national supervisors involved in the day-to-day supervision of the groups' entities.

The main goal of the Co-Cos is to facilitate a common and global assessment of the financial position and management of each individual group, striving to combine the need to consider the economic reality of the group with the legal framework of each group's undertaking.

As part of CEIOPS' own group structure, the Helsinki Protocol Working Group has been re-named Insurance Groups Supervision Committee (IGSC).

The bulk of the work conducted by the IGSC since its creation in 2000 has been to help European insurance supervisors develop a platform within the existing legal framework from which to conduct the supervision of insurance groups, by issuing guidelines for Co-Cos in February 2005 ('Co-Co Guidelines').⁵³

After many years of chairing the group, Ole-Jørgen Karlsen has stepped down as Chair of the IGSC due to other working commitments end October 2005. Patrick Brady from the Irish Financial Services Regulatory Authority was appointed as his successor.

Year's work

After the approval of the Co-Co Guidelines the majority of work undertaken in 2005 was to draft the Recommendation on Possible Need for Amendments to the Insurance Groups Directive (IGD) that CEIOPS submitted to the European Commission in October 2005.

To reduce the burden both for the industry and the supervisors involved, within the limits of the present regulatory framework, CEIOPS sees a need to enhance convergence in the way that supervisory cooperation is put into practice. In this perspective, the operational network based on the Co-Cos should be further exploited, for example by emphasizing the role of the lead supervisor. Some supervisors, however, consider it necessary to introduce appropriate legislative amendments to better achieve this goal, in line with the approach used by the Financial Conglomerates Directive (FCD).

If other means prove insufficient, the Committee has recommended introduction into the IGD of the option for European supervisors to ask for a reorganization of groups originating from third countries, for example by establishing a holding company in Europe, in line with provisions in the FCD.

In the field of solvency requirements the IGSC has identified a number of areas where the supervisory approach should be harmonized by Level 3 measures, such as issuance of guidance from CEIOPS, rather than changing the IGD. Only in a few cases, such as reducing the number of options for calculating the adjusted solvency requirement, CEIOPS has asked for an amendment to the Directive. The Committee also proposed the introduction of a general requirement for internal control and risk management systems at group level, in line with the FCD. A more general reference to corporate governance should be given than that which follows from the FCD. Finally the development of further guidelines for communication between supervisors in crisis situations was envisaged.

Next steps

To follow up CEIOPS' intention to reduce supervisory burden and achieve further convergence between its Members, the IGSC will address the areas covered in last year's report on the Directive and the Co-Co Guidelines. Considerable effort and resources must be invested in enhancing the intensity and effectiveness of the work of the Co-Cos, with the aim of delivering better information to the supervisors and at a lower price for them as well as for the industry.

Another important work stream will be the practical implications of the cooperation with the Swiss and US supervisors, with whom MoUs have been concluded at the beginning of 2006 to enhance collaboration and exchange of information regarding European insurance groups with head offices or affiliates in Switzerland or the United States.⁵⁴

⁵³ Guidelines for Coordination Committees in the Context of Supplementary Supervision as Defined by the Insurance Groups Directive (98/78/EC) (CEIOPS-DOC-02/05), February 2005, see www.ceiops.org - Publications - Standards and more.

⁵⁴ For more detail see chapter 6.4.0. The International Environment - Cooperation with Third Countries.



Victor Rod

Commissariat aux Assurances (Luxemburg), Chair of Insurance Mediation Expert Group

Chairman's message:

Organizing the collaboration of competent authorities on insurance mediation issues is not an easy task: The Directive 2002/92/EC is still not fully transposed in a number of Member States. Thus the competent authority is not always known or has not been put in place in each jurisdiction. In addition, in some Member States the competent authority is different from the authority in charge of supervising insurance companies. In spite of these difficulties, I am however convinced that the Protocol established by the Insurance Mediation Working Group represents a good tool for fair and consistent collaboration among competent authorities.

6.2.3. Insurance Mediation

Introduction

The Expert Group was set up in October 2004 to help address the challenges of the implementation of Directive 2002/92/EC on Insurance Mediation (IMD), which had to be implemented by 15 January 2005. The tasks of the Group were particularly to develop a common understanding of the IMD, to facilitate the cooperation, coordination and exchange of information between competent authorities as concerns insurance and reinsurance intermediaries (the intermediaries) and to carry out preparatory work for dealing with issues relating to intermediaries.

Year's work

Most of the Group's resources were put into the drafting of a Protocol organising the cooperation, coordination and regular exchange of information between competent authorities in view of the implementation of the IMD, and in this context the elaboration of a notification procedure with regard to cross-border business of intermediaries within the EEA. In determining these rules, the Competent Authorities intend to uphold practical cooperation between national administrative services for the purpose of facilitating the supervision of intermediaries and of examining any difficulties which may arise in the application of the Directive. The Protocol covers details of registration and notification as well as ongoing supervision and information exchange related to it. It provides standardised forms for communications and contact details for all competent authorities. Authorities that are competent according to the Directive but who are not Members of CEIOPS will be invited to join the Protocol by signing a joint agreement.

Next steps

Now that the Insurance Mediation Protocol has been approved by CEIOPS Members, the Expert Group will take care of the supervisory issues arising from the first implementation of the Directive. A precise mandate is expected to be decided at the next Members' Meeting.

6.2.4. Accounting

Introduction

The CEIOPS Expert Group on Pillar III of the Solvency II project is also responsible for accounting issues which are of relevance to EU supervisors. In particular, the Group follows the work of the International Accounting Standards Board and carries out the preparatory work for CEIOPS' contribution both to the International Financial Reporting Standards-making process and to the related EU endorsement process. To this end, the Group represents CEIOPS in its observer capacity in the Accounting Regulatory Committee (ARC) and in the European Financial Reporting Advisory Group (EFRAG) Insurance Working Group. It also deals with interrelationships between financial statements and supervisory reporting and acts as an information-sharing platform in the field of accounting.

Year's work

The ongoing definition of the international accounting framework and its changing situation required the thorough involvement of the Group in several different tasks during 2005.

The contribution to the development of the international accounting framework in 2005 was effected through CEIOPS' participation as observer in the work of the ARC and EFRAG and through several comment letters to the EFRAG and the IASB on the main accounting issues relevant for the insurance sector. Those included comments on amendments to IAS 39 concerning the Fair Value Option, the treatment of financial guarantees and credit insurance contracts and the proposed amendments to the IAS/IFRS standards on Business Combinations.

The first application of IAS/IFRS to consolidated accounts of insurance undertakings in 2005 led EU supervisors to develop further work on the impact of their implications for prudential supervision. First, the Group completed work carried out in 2004 by processing the comments received on CEIOPS' Consultation Paper 3 "Recommendations regarding the implication of IAS/IFRS introduction for the prudential supervision of insurance undertakings", which was formally approved and published in September 2005.⁵⁵

This Document also mentioned possible impacts for supervision of the lack of homogeneity in the financial statement formats stemming from the application of IAS/IFRS. So secondly, the Group undertook work to enhance harmonisation in the collection of IAS/IFRS data for supervisory purposes throughout Member States. This work, basically comprising comparison and discussion of the issues arising in similar work undertaken at national level, was intended to be part of the information-sharing tasks for the Group. As a result, the issuance of recommendations for common financial statement formats for supervisory purposes was deemed to be too early at this stage of the Solvency II project. A further contributing factor was the varying and sometimes limited scope of application of IAS/IFRS to insurance undertakings in several Member States.

Fausto Parente

Istituto per la Vigilanza sulle Assicurazioni Private e di Interesse Collettivo (ISVAP, Italy), Chair of Pillar III/Accounting Expert Group

Chairman's message:

The ongoing development of the international accounting framework is posing significant challenges to the EU insurance sector. EU supervisors are called upon to play an important role both in the development of Phase II of the IASB Insurance Project - aiming at consistency with the measurement of technical provisions within the future solvency regime - and in dealing with prudential issues arising from the application of the already-endorsed accounting standards.

⁵⁵ Recommendations regarding the Implications of the IAS/IFRS Introduction for the Prudential Supervision of Insurance Undertakings (CEIOPS-DOC-05/05), September 2005



Klaas Knot

De Nederlandsche Bank
(DNB, Netherlands),
Chair of Financial Stability Committee

Chairman's message:

In the past year the Financial Stability Committee has further refined its risk-based approach for monitoring financial stability in the European insurance, reinsurance and pension funds market. The efforts resulted in the publication of two semi-annual financial stability reports. These both present an in depth risk-based analysis, illustrated by detailed supervisory information and accompanied by special topics.

Next steps

Phase II of the IASB insurance project will likely require a deeper involvement of EU supervisors in the definition of the international accounting framework. The progressing of a common EU approach to the measurement of technical provisions under the Solvency II project should lead to a closer relationship with the IASB, to promote consistency of approach.

Further work is also required on the relationships between financial statements and supervisory reporting already mentioned. It is worthwhile to note that the importance of these relationships is related to the fact that Solvency II is expected to be IAS/IFRS compatible. Since several insurance undertakings might continue to apply their national accounting standards, while many others will start to apply IAS/IFRS, it is important that differences in the national accounting frameworks do not undermine the effectiveness of the solvency system. The Group might assist the development of Solvency II by investigating connections between its anticipated solvency and reporting requirements on the one hand and the international accounting framework on the other hand, highlighting possible issues arising at national level.

6.2.5. Financial Stability

Introduction

The Financial Stability Committee is a permanent CEIOPS Committee. One of the long-term objectives of the Committee is to establish a macro-prudential surveillance framework for analysing the development in the insurance and occupational pensions sector and monitoring the interplay with financial stability. For this purpose the Committee has prepared a common reporting system and addressed the challenge posed by the fact that reporting formats and deadlines have not been harmonized in the EU. Activities resulting from the objective cover the preparation of an annual report and a six-monthly update on developments in the European insurance, reinsurance and occupational pensions sector. The reports are presented for discussions on the macro-financial conditions and overall stability of the EU financial system in various international committees, e.g. the Financial Stability Table organised by the European Financial Committee (EFC/FST) and the Banking Supervision Committee of the European Central Bank.

Years' work

In 2005 the Committee has prepared two financial stability reports on the European insurance and occupational pension fund sector over the last year. The spring report, being primarily based on market information (financial markets developments, sectoral stock market indices, rating information on European insurance sector, etc.), also included an extensive annex on the structure and performance of the European reinsurance market. The autumn report was largely based on supervisory information, employing a wide range of indicators drawn from national supervisory data sources for 2003 and 2004 summarized

in a statistical annex, as well as qualitative information from the insurance supervisors pertaining to the (re) insurance and pension fund sector in the respective countries. It included three special boxes: cycles in non-life insurance and the present softening of markets, the impact of US hurricanes on European reinsurers and longevity risk, i.e. the risk that future mortality rates (or survival rates) prove to be lower (higher) than formerly projected.

The stability analysis strongly benefited from the new risk analysis that was developed over the last year. Member countries are requested to provide an evaluation of up to five of the most important risks facing (re)insurers and pension funds in their markets, accompanied by a qualitative assessment of the risks, any recent developments and mitigation action taken to address the issue. The overview presents an interesting summary of the current risks and challenges as perceived by the national supervisor, and indicates the current focus of the policy and actions of supervisors and insurance companies.

Both semi-annual reports have been published on CEIOPS' website.⁵⁶

Next steps

During the last year, the Committee has developed a statistical framework for pension fund statistics that will enable it to conduct a more profound analysis of the pension sector in the near future. The recently promulgated European Pensions Directive (IORP Directive), which will focus on all pension products offered by IORPs as well as by life insurers⁵⁷, will facilitate this activity.

Moreover, a system was developed for fast track reporting of key figures of major European insurance groups and undertakings (covering at least 50 percent of the national markets, but preferably 70 percent or more). The Committee will as a result be able to conduct a quick scan of the developments on the insurance market after the year's end and will facilitate a preliminary exchange of views on topical market developments in the insurance sector. Both steps will lead to full coverage by the Committee of the three sectors (insurance, reinsurance and pension funds) in the 2006 financial stability reports.

6.3.0. Cross Sector Issues

CEIOPS is very conscious of the increasingly cross sectoral nature of its work. The Committee has to remain constantly aware of the impact of its initiatives on the other financial services industries. Correspondingly, trends and activities in those sectors are often highly relevant to the supervision of insurance and pension funds business. Stakeholders on the European and national levels expect the Committees (so called "3L3 Committees") to align their work on similar issues in view of the growing importance of cross-sector business. There is an understandable expectation from industry for the Committees to ensure consistency and avoid unnecessary burden arising from different sectoral approaches and requirements. At the other end of the spectrum the possibilities of regulatory arbitrage makes an alignment of rules more and more necessary in a constantly integrating environment.

⁵⁶ See www.ceiops.org - Publications - Reports.

⁵⁷ According to Article 4 of the IORP Directive, the Member States may choose to apply certain articles of the Directive to the occupational retirement provision business of insurance undertakings.



Signing of Cooperation Protocol at the 3L3 Conference in Brussels on 24 Nov. 2005

(from left to right: José María Roldán, CEBS; Henrik Bjerre-Nielsen, CEIOPS; Arthur Docters van Leeuwen, CESR)

In this spirit and with the equivalent approaches of the other two Level 3 Committees, the cooperation and exchange of information between the three Committees intensified in the course of the year and eventually found a formal framework in the conclusion of a Memorandum of Understanding (MoU).⁵⁸

Subjects of common interest exist in many aspects of the work undertaken by the Committees. The Committees therefore agreed, where necessary and relevant, to align the work on these subjects in general. The results of this work should be consistent and/or take into account the effect in other sectors of such work, without implying that the results need to be identical. Differences would, however, need to be explained by the differences in objectives or underlying conditions and the necessity of prioritizing.

The cooperation ranges from mutual information on work under way in the individual sectors to work undertaken together. According to the Joint Protocol, the main responsibility for facilitating and ensuring good cooperation lies with the Chairs, assisted in this effort by the Secretariats. The following practical working arrangements have been put in place:

- ▶ Regular meetings of the Chairs and Secretary Generals of the 3L3 Committees (two or three times a year)
- ▶ Regular meetings of representatives of the respective Secretariats (at least three times a year). Location and chairmanship alternates between the three Committees for these meetings, allowing alternate broad participation of staff members to facilitate contact.
- ▶ Regular inventory of issues of common interest and definition of methods to be used to ensure consistency on the prioritised issues and to promote consistency across all subjects (e.g. by cross participation in expert groups/working groups, nomination of contact persons, contacts between chairs of expert groups/working groups, joint working groups or joint papers).
- ▶ Establishment between the Secretariats of a general contact point and of specific contact points if and when needed on specific subjects.
- ▶ Mutual access to information and documents distributed to the members of the Committees, except for strictly confidential information restricted to the involved competent authorities.
- ▶ Joint work on issues of common interest on the initiative of the Committees themselves or when receiving mandates on similar subjects.
- ▶ Definition of a 'lead' Secretariat responsible for drafting first proposals and inviting and integrating the other Committees' structures' input. It must be underlined however, that this practical arrangement of 'Lead Committee' does not impair the power of each individual Committee to decide independently on issues within its competence. In practical terms this means that a joint output requires the approval of all Committees concerned.
- ▶ Joint reporting on cross sector risks and other cross sector issues to the various interested European institutions and/or committees.
- ▶ Regular briefing of the respective Committees on the ongoing contacts and work under these arrangements and scheduled meetings of the respective Chairs, Secretaries General or Secretariats.
- ▶ Annual adoption and publication of a joint work programme for cross-sector co-operation in addition to the individual work programmes of the Committees. The first Joint Work Programme was approved by the Committees in January 2006.

6.3.1. Financial Conglomerates

In 2005, CEIOPS, together with the other Level 3 Committees, worked on proposals to set up an effective and efficient joint organizational structure in charge of Level 3 work on financial conglomerates. In June and November 2005 concrete proposals were put forward for the attention of the European Commission. All parties involved agreed that the role should be to:

- ▶ focus on prudential issues exclusively covered by the follow-up and implementation of the Financial Conglomerates Directive; in practical terms it was agreed that the Level 3 Committees covering prudential aspects, CEIOPS and CEBS, would be operationally involved;
- ▶ be capable of a streamlined decision-making process within the mandate ;
- ▶ be capable of liaising directly with the European Financial Conglomerates Committee and the European Commission on behalf of the Level 3 Committees;
- ▶ be able to accept mandates from CEBS and CEIOPS as well as from the European Commission, meeting the agreed timelines;
- ▶ be transparent and open;
- ▶ be accountable especially towards the sectoral Committees, both because the supervisory solutions chosen for financial conglomerates need to be consistent with sectoral solutions, and because CEBS and CEIOPS will accommodate the organizational and operational work from their budget.

In order to strike the right balance between these starting points, a Task Force, led by Arnold Schilder (CEBS Member) and Michel Flamée (CEIOPS Member) were asked by CEBS' and CEIOPS' Chairs to draft the mandate and the draft work programme for the 'Interim Working Committee on Financial Conglomerates' (IWCFC). The EFCC (Level 2 Committee on Financial Conglomerates) in its meeting of 27 March 2006 has asked CEBS and CEIOPS to start working informally. The formal procedure for the 3 Level 3 Committees to work together in the field of financial conglomerates has yet to be finalised.

Regarding the Work Programme for 2006 and 2007, the first aim of the IWCFC will be to assess the current status of the Directive's transposition and assist in the consistent application of the Directive for the conglomerates identified. The IWCFC is prioritising the convergence of national supervisory practices on issues concerning, for example, capital requirements, intra-group transactions and risk concentration. Cooperation and coordination requirements between the supervisors involved will be another important task.

⁵⁸ Joint Protocol on Cooperation between CESR, CEBS and CEIOPS (CEIOPS-3L3-01/05), 24 November 2005. The official signing of this Protocol was effected by the three Chairs on behalf of the Committees on 24 November 2005.



6.3.2. Other work streams

Financial conglomerates are currently the subject of the most important joint work of the 3 Committees (especially CEIOPS and CEBS). The Joint 3L3 Work Programme⁵⁹ for 2006 defines a number of other common initiatives, distinguishing between joint work, consistency projects, reports to European Institutions and information points. A number of these projects have already been started in 2005:

Joint work

Besides the work on financial conglomerates, work aimed at providing common definitions of Level 3 measures (standards, guidelines and recommendations) is planned. As all three Committees use the documents named for their Level 3 measures, as is stated in the founding decisions of the respective Committees, it makes sense to use them in an equal meaning, both in term of scope and desired effects.

Consistency Projects

Under this heading mapping and comparison of sectoral work projects are envisaged, aiming at streamlining processes and developing consistent approaches across sectors. This might lead to future joint initiatives. Work on the following aspects is currently planned:

A. OUTSOURCING

Cooperation between CESR and CEBS will continue in order to ensure consistency to the maximum extent permitted by the EU legal framework between the CESR Level 2 provisions and the CEBS Level 3 guidance stemming respectively from the MIFID and CRD. The aim of this work is to create consistency between the standards of CEBS, the Level 2 and 3 work in the MIFID area and the future work on UCITS and Solvency II. To avoid inconsistencies with these developments, CEIOPS is participating in this alignment in view of its work in the framework of the Solvency II project.

B. SUPERVISORY COOPERATION

The Committees will compare their work on regulatory approaches and cooperative arrangements with regard to the relationship between home and host competent authorities in a group environment. The objective of this work is to research whether the individual sectoral work done by the Committees might be extended to cooperation with supervisors or competent authorities in the other sectors and to take on board their respective good practices. This should ensure greater cross-sector consistency of approaches. The comparison will be done during the course of 2006.

C. REPORTING REQUIREMENTS

The Committees will take stock of potential inconsistencies and overlaps between sectors in reporting requirements, which stem from sectoral EU directives applying to European supervised entities and market participants. The Committees aim at presenting a first result of this inventory within the second half of 2006. Based on the inventory, future work may be proposed.

D. INTERNAL GOVERNANCE

The work within the context of the CRD and the MIFID on internal governance of banks and investment firms will be further discussed. An analytical report will be prepared and shared with the market on any overlaps and areas of possible future work. This will take into account the current thinking on Solvency II.

Reports to European Institutions

A. FINANCIAL MARKET TRENDS AND CROSS SECTOR RISKS

On cross sector risks the Committees will be jointly reporting to various European institutions and/or committees, such as the EFC/FST and its cross-sector reports for its meeting in September. The Committees will also provide the FSC with reports for its contributions to the EFC- Financial Stability Table.

In this context, the Committees will continue to monitor any problems raised by off-shore centres and decide on any need for Level 3 action in light of the terms of reference of the FSC.

B. SUPERVISORY CONVERGENCE

The Committees will coordinate their respective report on supervisory convergence to the Financial Service Committee.

C. CONSULTATION RESPONSES TO EU INSTITUTIONS

The Committees will provide joint responses to European Commission consultation papers and other documents when the need arises during the course of 2006.

Information points for the exchange of experiences

The establishment and improvement of information exchange between the working groups of the Committees have been given priority for 2006. On the following issues the Committees will regularly exchange information on their respective work in progress, with the aim of identifying the need for any further specific action:

- | | |
|--|---|
| a. Mergers and acquisitions | f. Mutual funds/Hedge funds/Unit linked insurance contracts & retail investors/policy holders' protection |
| b. Solvency II/Basel II | g. External Credit Assessment Institutions/rating agencies |
| c. Enforcement of IFRS | h. Crisis Management |
| d. Deposit insurance/Deposit guarantee schemes/Insurance guarantee schemes | i. Offshore-Centres |
| e. Standards on clearing and settlement | j. Developing training schemes |
| | k. Impact Assessments |

On 24 November 2005 in Brussels, the three Committees held for the first time a **Joint Conference** in cooperation with the Belgian supervisory authorities. The event was titled "Cross-sectoral co-operation in financial regulation and supervision".

⁵⁹ See '3L3 Work Programme 2006' (31 January 2006), which is on all three Committees' websites.



6.4.0 The International Environment - Cooperation with Third Countries

CEIOPS and its European legislative framework do not stand alone. They are embedded in an international environment, which influences their activities, but which is also affected by CEIOPS. All CEIOPS insurance supervisory authorities are Members of the International Association of Insurance Supervisors (IAIS). Many of them are also Members of the recently founded International Organization of Pension Supervisors (IOPS).⁶⁰ CEIOPS has no official role in these organizations, but primarily serves as a platform for exchanging information and coordinating positions between its Members. In addition, informal contacts with the Secretariats of IAIS and IOPS are maintained, to keep each other informed about the respective work programmes and discuss issues of common interest.

In the field of accounting, CEIOPS is in close contact with the relevant international bodies, as its work, especially related to the Solvency II framework, is bound up with the development of the international accounting rules.⁶¹

Besides these, close relationships exist with a number of national supervisory authorities, in particular with the insurance supervisory authorities of Switzerland and the United States.

6.4.1. Cooperation with Swiss Supervisory Authority

A number of insurance groups supervised by EU/EEA authorities have their holding company or a group subsidiary company in Switzerland. In these cases an exchange of information with the Swiss supervisory authority is essential for an effective implementation of the Insurance Groups Directive. So negotiations were started between CEIOPS and the Swiss Insurance Supervisory Authority (FOPI) to agree on a Memorandum of Understanding (MoU) with the aim of formalizing the cooperation. A final text was approved by FOPI and CEIOPS at the end of 2005, to be concluded as a "collective bilateral" agreement with FOPI on one side, and the relevant CEIOPS Member Authorities on the other. The signing process started in February 2006.⁶²

The purpose of the MoU is to establish a formal basis for concrete co-operation, including the exchange of information and assistance. It is also intended to involve the Swiss Supervisory Authority in the supplementary supervision of insurance groups.

An important practical aspect deriving from the MoU is the participation of FOPI's representatives in the meetings of the Co-Cos.⁶³ Participation by FOPI is foreseen in all cases where a Swiss insurance undertaking is involved. Participation means attendance and the possibility of co-operating actively, under the respective legal frameworks.

When Swiss based insurance groups and financial conglomerates become subject to supplementary supervision by FOPI, the latter will coordinate that role

with the competent CEIOPS Member Authorities. This represents a very welcome and constructive development in the relationships of the participating bodies. CEIOPS considers this MoU as a first step for further common initiatives and cooperation with FOPI.

6.4.2. Cooperation with US Supervisory Authorities

In 2005 the existing relations with the National Association of Insurance Commissioners (NAIC) have been continued and intensified. In the framework of the US-EU Dialogue, which comprises EU and US Insurance Supervisory Authorities as well as the European Commission, two meetings took place in 2005, one in Frankfurt in February and a second in Vienna in October. The last meeting was held at the beginning of March 2006 in Orlando, Florida.

The Dialogue is aimed at both improving the knowledge of the respective legal frameworks and practices, and identifying ways for enhancing cooperation and the exchange of supervisory information.

The main issues of interest in the past year were the US regime of collateral requirements applied to European reinsurers doing business in the US, and the negotiation of an MoU between insurance supervisors on both sides of the Atlantic.

The debate about reducing or eliminating collateral has already been going on for a number of years. All US States currently require unauthorised reinsurers to post 100% collateral against reinsurance obligations underwritten in the US. 'Unauthorized' does not necessarily mean 'non-US', but refers to reinsurers that are not either licensed or accredited in the ceding insurer's state of domicile, or given regulatory equivalence by being licensed in a state with substantially similar credit for reinsurance laws and regulations.

The European Commission and CEIOPS are jointly working on a recognition of equivalence by the NAIC members of their regulatory regimes to facilitate the business of European reinsurers in the US. The aim is to agree on a roadmap for reducing and/or abolishing the present collateral requirements. A first step has been taken by the NAIC in preparing a White Paper summarising the historical need and the pros and cons of collateral requirements⁶⁴, which could be used as a basis for further negotiations. The recent publication of the EU Reinsurance Directive⁶⁵, which introduced prudential rules for reinsurance undertakings, in principle copying the requirements of the insurance directives, could be an important factor in speeding up this process. At the NAIC Spring meeting the White Paper was finally approved and the NAIC Reinsurance Task Force mandated to find possible solutions regarding non-US reinsurers other than the existing collateral requirements. CEIOPS, together with the European Commission, will actively contribute to the work of the NAIC task force. A small ad hoc CEIOPS Task Force has been set up for this purpose.

⁶⁰ IOPS was formally founded in July 2004. As of February 2006, 14 of CEIOPS' Members and Observers are also governing members of the IOPS. The organization is chaired by John Ashcroft (UK-The Pensions Regulator).

⁶¹ For details, see chapter 6.2.4. Accounting.

⁶² The MoU is relevant only for insurance supervisory authorities, not pensions supervisors, and especially for those authorities participating in group supervision. At the time of finalization of the Report nearly all CEIOPS Members had signed the agreement.

⁶³ See details in chapter 6.2.2. Insurance Group Supervision.

⁶⁴ U.S. Reinsurance Collateral White Paper (December 6, 2005), prepared by the NAIC Reinsurance Task Force of the Financial Condition (E) Committee. CEIOPS had the opportunity to comment on the draft report, which it did at the beginning of December 2005 jointly with the European Commission, see www.ceiops.org.

⁶⁵ Directive 2005/68/EC of the European Parliament and of the Council of 16 November 2005 on reinsurance and amending Council Directives 73/239/EEC, 92/49/EEC as well as Directives 98/78/EC and 2002/83/EC, OJ L 323 of 09.12.2005, p. 1



The second major work stream related to the US is the cooperation regarding supervision of transatlantic insurance groups. To establish a formal basis for cooperation and coordination including the exchange of information and investigative assistance, an MoU has been negotiated between CEIOPS and the NAIC. It was approved by the respective Committees in February/beginning March 2006. The MoU is intended to serve as a model for the conclusion of bilateral MoUs between individual EU and US Insurance Supervisors. The CEIOPS Insurance Groups Supervision Committee will work in the next months on making the MoU operational between the relevant EU and US Authorities.

CEIOPS WORK PROGRAMME 2006

Like last year, CEIOPS' Work Programme for 2006 will be driven mainly by the tasks generated through the development of the Solvency II project and by a number of work-streams related to the implementation of EU legislation. These are aimed at facilitating and improving supervisory action, co-operation in its implementation and convergence in supervisory practices.

In general, prudential aspects, together with the creation of a satisfactory accounting framework for insurance, remain the top current priorities for the Committee.

Using the same approach as last year, the planned work is presented below by distinguishing activities which contribute to the preparation of EU legislation (Level 2 activities) and activities which focus on the implementation of EU legislation and resulting supervisory practices (Level 3 activities).

1. Preparation of EU legislation (Level 2 Activities)

The development of the Solvency II project will continue to represent the major area of CEIOPS' Level 2 activities and to comprise most of the CEIOPS Work Programme 2006. In 2005 CEIOPS delivered its advice to the European Commission on the areas included in the first and the Second Wave of Calls for Advice. Also, it released for public consultation the draft advice in response to the Third Wave of Calls for Advice, which is expected to be delivered to the European Commission by the end of April 2006.

In addition during 2006, besides finalizing the answers to the Third Wave of Calls for Advice, CEIOPS will continue to work on the overall project through assisting the European Commission in dealing with all its different phases. Given the complexity and duration of the project, CEIOPS intends to cover the entire development of the new prudential framework, not only by contributing to the preparation of the Framework Directive (Level 1 measures), but also by continuing to assist the European Commission in the preparation of possible implementing measures (Level 2 measures) and so paving the way for any consequent supervisory measures (Level 3 measures).

2006 should see the developing definition of the Framework Directive. Under the European Commission Road Map, the proposal for such a Directive is scheduled for mid-2007. In this context, CEIOPS will work on integrating the advice already delivered, by covering aspects not yet dealt with, or needing further specification as a result of greater technical analysis and/or quantitative impact studies.

In the context of this activity, CEIOPS will also progress the preparatory work for delivering answers to expected requests for advice on potential implementation measures. Indeed, the European Commission is planning the preparation of implementation measures in parallel to that of the Framework Directive. This activity, of course, will be also aimed at paving the way for future Level 3 measures.

In particular, it is envisaged that CEIOPS will issue further consultation papers focussing on those parts of the advice already given which were not fully elaborated and/or defined and thus require additional inputs from interested parties. Consultation papers will cover key Pillar I issues such as the valuation of technical provisions, development of the SCR and the MCR formula and the recognition of reinsurance and other risk mitigation techniques. Other consultation papers will deal with Pillar II issues (fit and proper requirements, supervisory powers, the treatment of reinsurance within the Solvency II framework and limits on concentration in covering assets and diversification requirements) as well as group issues (e.g. admission of diversification effects, sub-group supervision and cooperation with third countries). The additional advice is aimed at giving the European Commission more detailed information for preparing a proposal for the Solvency II Framework Directive.

In parallel to the development of the work on aspects related to Pillar I issues (financial requirements), CEIOPS will organise rounds of Quantitative Impact Studies (QIS), to support the definition of the proposed requirements with valuation of their actual impact on the market.

From October 2005 to December 2005, CEIOPS conducted a first round of QIS (QIS1), focussed on technical provisions in life and non-life insurance, with particular regard to the level of prudence to be embedded in the measurement. According to the note of the European Commission on The Impact Assessment of the Solvency II Level 1 Directive (MARKT/2519/05) the European Commission expects the results of QIS1 in February 2006.

A more comprehensive, second round of QIS (QIS2), including solvency requirements, is expected to start in May 2006. The pre-test phase of this QIS, with a small sub-sample of insurers in each Member State, is expected to start around the end of March/beginning of April 2006. The results of QIS2 are expected to be sent to the European Commission in October 2006.

In addition CEIOPS may further contribute to the European Commission's Impact Assessment by addressing broader economic consequences for insurers of the overall Solvency II project as well as cost-benefit analyses of all waves.

2. Implementation of EU legislation and resulting supervisory practices (Level 3 Activities)

In the area of Level 3 activities CEIOPS intends to continue its work on the implementation of the Occupational Pensions (IORP) Directive, the Insurance Groups Directive (IGD) and the Insurance Mediation Directive (IMD), also on the application of the new accounting framework based on the International Financial Reporting Standards (IFRS).

2.1. Occupational Pensions

In the field of occupational pension funds, in October 2005 CEIOPS released for consultation a draft Protocol for the co-operation between competent supervisory authorities in the implementation of the IORP Directive. The Protocol is expected to be finalized in early 2006, after taking into account the comments received in a second round of public consultation.

In the light of the transposition of the IORP Directive into national jurisdictions, CEIOPS will continue to work on facilitating the exchange of information between supervisors, thus enabling a common approach to supervisory issues and enhancing convergence in supervisory practices. In this context, priority will be given to:

- ▶ Authorisation and notification procedures;
- ▶ The interpretation of social and labour law;
- ▶ Competent authorities;
- ▶ Investment requirements placed on cross-border schemes; and
- ▶ The mutual exchange of information.

Further it is envisaged to start exchanging information regarding:

- ▶ Practices in the calculation of technical provisions; and
- ▶ The progress achieved in the adaptation of the investment rules and the use of depositaries in the national supervisory systems.

Case studies will be analysed to gain better knowledge and understanding of the different national pensions systems within the EU. This analysis could generate further CEIOPS initiatives, both in the field of Level 3 measures and as recommendations to the European Commission. The actual nature of any follow-up measure will depend on the results of this analysis.

Further regular exchange of information is planned regarding changes in national pension systems and relevant market developments.

2.2. Groups Supervision

In the field of the supplementary supervision of insurance groups, CEIOPS will continue to support the activity of the co-ordination arrangements put in place by the supervisory authorities following the "Helsinki Protocol" for the supervision of multinational groups. CEIOPS aims, within the current regulatory framework, to converge supervisory practice in order to eliminate unnecessary supervisory burdens on the different insurance groups.

In this context, particular attention will be paid to actions aimed at streamlining the supervision of groups within the limits of the IGD. In particular, priority will be given to the aspects listed below.

- ▶ CEIOPS will address the issue of the appointment and competences of the lead supervisor in the different Coordination Committees (Co-Cos) in order to clarify its role in the supplementary supervision of groups and improve its functioning.
- ▶ In conjunction with the previous point, the legal and practical feasibility of delegation of tasks between group supervisors will also be analysed. This study may lead to the amendment of the Helsinki Protocol.
- ▶ CEIOPS will also start defining, within the context of the Co-Cos activity, an operational framework for facilitating joint inspections and exchange of staff.
- ▶ By the end of 2006 CEIOPS intends to conduct a survey of the actual functioning of the Co-Cos on the basis of the guidelines published in February 2005.
- ▶ Also CEIOPS will look into ways to follow up on the "Recommendation on Possible Amendments of the IGD", published in October 2005, with the aim of converging supervisory practices and assisting the solutions to be taken by the Co-Cos.

Furthermore CEIOPS intends to start gathering the information to provide a database (accessible by the general public) with basic elements of the implementation of the supplementary supervision of insurance groups in the Member States.

Another related work-stream will be the analysis of appropriate tools for crisis management. In developing a co-ordinated approach during a crisis situation, links will be maintained with the work in progress at cross-sectoral level.

A further potential and complex area of work is the implementation of the Directive on the supervision of financial conglomerates. By the end of 2005 the 3 Level 3 (3L3) Committees started arranging appropriate structures for dealing with these activities. CEIOPS and CEBS intend to start joint work on the implementation of the Financial Conglomerates Directive. The first aim is the convergence of national supervisory practices on issues for example with regard to capital requirements, intra group transactions and risk concentra-



tion. Secondly the co-operation and co-ordination requirements between the supervisors involved will be an important element of this joint work in 2006.

2.3. Insurance Mediation

CEIOPS will continue its activity on the implementation of the IMD. By the end of February 2006 CEIOPS expects to publish a Protocol organising the cooperation and exchange of information between competent authorities in the case of cross-border operations.

Further specific activities to facilitate the convergent and effective implementation of the IMD will be carried out by CEIOPS in 2006, in anticipation of the difficulties foreseen over the application of the new supervisory rules. A clearer picture of the appropriate initiatives in this field will become apparent after the actual transposition of the IMD, still to be completed. A stocktaking exercise on issues arising in the application of the directive will be likely to be needed.

2.4. Accounting

In the field of accounting, CEIOPS will provide input to the development of the IFRS and their application in the EU. Particular efforts will be required in relation to the development of the IFRS on insurance contracts (phase II), with particular reference to the measurement of insurance liabilities. CEIOPS will continue to pursue this issue through its participation in the work of the European Financial Reporting Advisory Group as an observer.

This participation by CEIOPS in the IFRS-rules making and endorsement process will also be helpful in the development of the Solvency II project, whose results are expected to be IAS/IFRS compatible. Even though IAS/IFRS standards are not aimed at supervisory purposes, the policy and methodologies used for drawing up public financial statements should, as far as possible, be compatible with prudential purposes as well, in order to reconcile easily public financial statements with the reporting system used in applying the supervisory regime.

However, since the application of IAS/IFRS will not be mandatory throughout the EU, in the development of the Solvency II project, CEIOPS will also take into due consideration the need for compatibility between those undertakings that will continue to apply local General Accepted Accounting Principles (GAAP). In this regard, CEIOPS will continue to act as an information-sharing platform in the field of accounting in order to enhance further harmonisation and a better understanding of the outstanding differences among Member States.

2.5. Financial Stability

In the field of Financial Stability Review and following the mandate of the EFC-Financial Stability Table, CEIOPS will continue its regular reporting on the situation of insurance markets - and in the near future on the occupational pension

funds sector - and the effects on the stability of the financial sector, integrating the content and format of the 2004/2005 report with further risk surveys and analysis. The report, usually issued in October, will be preceded in the spring by a provisional report, underlining the main market trends.

In developing this work, attention will be paid to the parallel analysis and reporting of the other financial sectors. In addition, a joint 3L3 report on cross-sectoral risks will be regularly delivered to the EFC-Stability Table.

Further specific macro-prudential analysis could also be undertaken as a response to market developments.

2.6. Cross Sectoral Work

Close cooperation with the work of the other "Level 3 Committees" will also feature in dealing with a number of issues of common interest. A Memorandum of Understanding (MoU) between the 3L3 Committees was signed on 24 November 2005. In this MoU the following objectives with common interest to all 3L3 Committees have been identified:

- ▶ Sharing information in order to have compatible approaches;
- ▶ Exchanging of experiences which can facilitate supervisors' ability to cooperate;
- ▶ Producing joint work or reports to relevant EU committees and groups;
- ▶ Reducing supervisory burdens and streamlining processes; and
- ▶ Having similar basic functioning of the three Committees.

In 2006 several co-ordination arrangements, varying between producing joint work, finding a consistent approach, joint reporting and/or exchange of information and experiences, will be put in place. They are explained in the Joint 3L3 Work Programme 2006.

2.7. Areas of Other Work

In the framework of the Insurance Groups Supervision Committee, CEIOPS will remain engaged in negotiating on behalf of its members with relevant third countries' supervisors (e.g. Swiss, US), co-ordination agreements dealing with the supervision of groups including non-EU entities. But also in a broader sense CEIOPS will continue the dialogue with the US supervisors about insurance regulation and supervision. Dialogues with Chinese and Indian supervisors will also be started in 2006.

It is anticipated that the implementation of the Directive on Supervision of Reinsurance, published on 16 November 2005 (Directive 2005/68/EC), will create a further work-stream for CEIOPS in developing a common understanding of the Directive between Member States and the future organization between "competent authorities" in this area.



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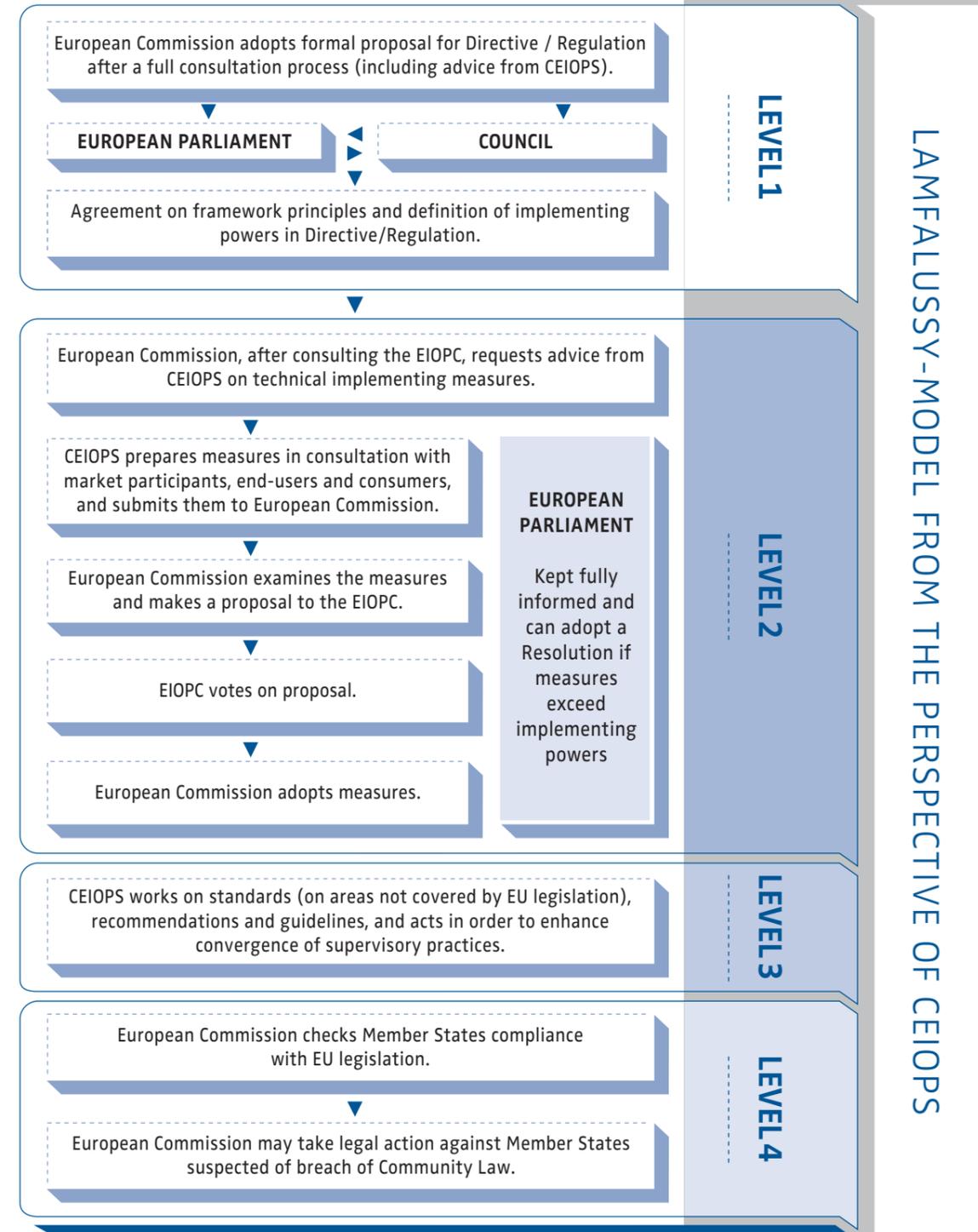


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* In view of their forthcoming accession to the EU, Romania and Bulgaria were informally invited to participate in CEIOPS' work as observers as of June 2005.

** See Annex 1: List of CEIOPS Members and Observers



Consultative Panel

Mr. Lars Ohman ¹⁾	ACME (Association des Assureurs Cooperatives et Mutualistes Européen/ Association of European Cooperative and Mutual Insurers)	SE
Mr. Esteban Tejera Montalvo ²⁾	AISAM (Association Internationale des Sociétés d' Assurance Mutuelle/ International Association of Mutual Insurance Companies)	ES
Mr. Mick McAteer	BEUC (Bureau Européen des Unions de Consommateurs)	IE
Mr. Jean-Paul Coteur ³⁾	BEUC (Bureau Européen des Unions de Consommateurs)	BE
Mr. Paul Carty	BIPAR (Bureau International des Producteurs d' Assurances et de Réassurances)	IE
Mr. Gérard de la Martinière	CEA (Comité Européen des Assurances)	FR
Mr. Dario Focarelli	CEA (Comité Européen des Assurances)	IT
Mr. Rolf-Peter Hoenen	CEA (Comité Européen des Assurances)	DE
Mr. Jaap Maasen	EFRP (European Federation of Retirement Provisions)	NL
Mr. Peter Thompson ⁴⁾	EFRP (European Federation of Retirement Provisions)	GB
Mr. Henri Lourdelle	ETUC (European Trade Union Confederation)	FR
Mr. Gerd Geib	FEE (Fédération Européenne des Experts Comptables)	DE
Mr. Rolf Stölting	GCAE (Groupe Consultatif Actuariel Européen)	DE
Ms. Judit Zolnay	Stabilitas Pension Funds Association	HU
Mr. Jean-François Engels	UEAPME (Union Européenne des Artisans - Petites et Moyennes Entreprises/ European Union of Artisans - Small and Medium Business)	LU
Mr. Jim Stephens	UNICE (Union des Industries de la Communauté Européenne)	GB
Mr. Pawel Pelc ⁵⁾	UNFE (Association of the Capital Market)	PL

Financial Statement for the Year ended 31 December 2005 (amounts in Euro)

	Actual 2004	Actual 2005
Income and Expense Account		
Revenues		
Membership fees	757.437,06	1.663.372,82
Interest income	2.642,25	10.798,48
Total revenues	760.079,31	1.674.171,30
Current expense		
Salaries and wages	124.661,14	463.418,35
Rental expense	58.808,48	93.418,32
Travelling and entertainment	20.786,86	72.180,16
Office supplies	51.796,50	24.816,49
Organisation and meetings	11.797,86	79.993,87
Telecommunication expense	8.641,95	15.484,47
Delivery and communication	275,49	3.777,70
Printing	1.334,45	13.872,12
EDP installation and maintenance	31.197,23	8.730,49
Website	0,00	8.894,74
Professional fees	51.437,82	43.686,96
Miscellaneous expense ²⁾	24.884,28	81.322,73
Total expense	385.622,06	909.596,40
Result for the year (ordinary business)	374.457,25	764.574,90
Prior year result	0,00	374.457,25
Retained result¹⁾	374.457,25	1.139.032,15
Assets and Liabilities		
Cash and Bank Account	384.775,43	1.163.939,08
Membership fee receivables	0,00	90.151,06
Total assets	384.775,43	1.254.090,14
Less: Liabilities and Accrued Expense		
Accrued expense	4.640,00	99.433,62
Other liabilities	5.678,18	15.624,37
Total liabilities	10.318,18	115.057,99
Total Committee Members' equity	374.457,25	1.139.032,15

The term of the old Consultative Panel ended in February 2006; All members were renominated and reappointed in the Members' Meeting of 22 February 2006 with the following exceptions:
¹⁾ replaced by Yannick Bonnet, ²⁾ replaced by Asmo Kalpala, ³⁾ no replacement was nominated, ⁴⁾ replaced by Penelope Green, ⁵⁾ replaced by Ewa Tomaszewska.

Note: The Consultative Panel members are appointed in their personal capacity and represent neither their organisation nor their countries.

¹⁾ The surplus arising from 2005 is mainly due to the fact that the Secretariat was not endowed with as many staff members as planned. Besides limiting the expenses in terms of wages, this entailed a lower level of expenses related to the overall activity of the Secretariat. According to the budget for 2005, at the beginning of the year the CEIOPS Secretariat should have consisted of the Secretary General, six professionals and two assistants (total of 9 persons). Instead, it started with a total of only 2 staff members at the beginning of the year, increasing to only seven by the end of the year.

²⁾ The position comprises an amount of around 65.000 € owed to the French Authority for secretariat services which France performed for the former Conference of Insurance Supervisors, the predecessor of CEIOPS.



List of Abbreviations and Terms Used

3L3	three "Level 3 Committees" (CEIOPS, CEBS, CESR)	EIOPC	European Insurance and Occupational Pensions Committee	IGSC	Insurance Groups Supervision Committee	QIS	Quantitative Impact Study/Studies
ARC	Accounting Regulatory Committee	EU	European Union	IIMG	Inter-institutional Monitoring Group	Reinsurance Directive	Directive 2005/68/EC of the European Parliament and of the Council of 16 November 2005 on reinsurance and amending Council Directives 73/239/EEC, 92/49/EEC as well as Directives 98/78/EC and 2002/83/EC, OJ L 323 of 9.12.2005
Budapest Protocol	Protocol Relating to the Collaboration of the Relevant Competent Authorities of the Member States of the European Union in Particular in the Application of the Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the Activities and Supervision of Institutions for Occupational Retirement Provision (IORPs) Operating Cross-Border (CEIOPS-DOC-08/06), February 2006	e.V.	eingetragener Verein (legal form of CEIOPS; a private non-profit organisation under German law)	IMD	Insurance Mediation Directive (Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on insurance mediation, OJ No. L 9 of 15 Jan. 2003)	Siena Protocol	Protocol relating to the collaboration of the supervisory authorities of the Member States of the European Community in particular in the application of the Directives on life assurance and non-life insurance (DT/F/182/97), 30 October 1997
CEBS	Committee of European Banking Supervisors	FCD	Financial Conglomerates Directive (Directive 2002/87/EC of the European Parliament and of the Council of 16 December 2002 on the supplementary supervision of credit institutions, insurance undertakings and investment firms in a financial conglomerate and amending Council Directives 73/239/EEC, 79/267/EEC, 92/49/EEC, 92/96/EEC, 93/6/EEC and 93/22/EEC, and Directives 98/78/EC and 2000/12/EC of the European Parliament and of the Council, OJ L 35 of 11.2.2003)	IOPS	International Organisation of Pension Supervisors	SCR	Solvency Capital Requirement
CEIOPS	Committee of European Insurance and Occupational Pensions Supervisors	FOPI	Federal Office of Private Insurance (Swiss Insurance Supervisory Authority)	IORP(s)	institution(s) for occupational retirement provision	US	United States of America
CESR	Committee of European Securities Regulators	FSAP	Financial Services Action Plan	IORP-Directive	Directive 2003/41/EC of the European Parliament and of the Council of 3 June 2003 on the activities and supervision of institutions for occupational retirement provision, OJ No. L 235 of 23 Sept. 2003		
Co-Co(s)	Coordination Committee(s)	FSC	Financial Services Committee	IWCFC	Interim Working Committee on Financial Conglomerates		
CP	Consultation Paper(s)	GCS	Group/Cross Sector Expert Group	Luxemburg Protocol	Protocol Relating to the Cooperation of the Competent Authorities of the Member States of the European Union in Particular Concerning the Application of Directive 2002/92/EC of the European Parliament and of the Council of 9 December 2002 on Insurance Mediation (IMD), (CEIOPS-DOC-02/06), April 2006		
CRD	Capital Requirements Directive (Proposal for Directives of the European Parliament and of the Council Re-casting Directive 2000/12/EC of the European Parliament and of the Council of 20 March 2000 relating to the taking up and pursuit of the business of credit institutions and Council Directive 93/6/EEC of 15 March 1993 on the capital adequacy of investment firms and credit institutions, see http://europa.eu.int/comm/internal_market/bank/docs/regcapital/st12890/st12890_en.pdf)	Helsinki Protocol	Protocol relating to the Collaboration of the Supervisory Authorities of the Member States of the European Union with regard to the Application of the Directive 98/78/EC on the Supplementary Supervision of Insurance Undertakings in an Insurance Group (DT/NL/194/00 Final), 11 May 2000	MCR	Minimum Capital Requirement		
ECOFIN	Economic and Financial Council	IAIS	International Association of Insurance Supervisors	MIFID	Markets in Financial Instruments Directive (Directive 2004/39/EC of the European Parliament and of the Council of 21 April 2004 on markets in financial instruments amending Council Directives 85/611/EEC and 93/6/EEC and Directive 2000/12/EC of the European Parliament and of the Council and repealing Council Directive 93/22/EEC, OJ No. L 145 of 30 April 2004)		
EEA	European Economic Area	IAS	International Accounting Standards	MoU	Memorandum of Understanding		
EFC	Economic and Financial Committee	IASB	International Accounting Standards Board	NAIC	National Association of Insurance Commissioners		
EFC/FST	Economic and Financial Committee - Financial Stability Table	IFRS	International Financial Reporting Standards	OJ	Official Journal of the European Union		
EFCC	European Financial Conglomerates Committee	IGD	Insurance Groups Directive (Directive 98/78/EC of the European Parliament and of the Council of 27 October 1998 on the supplementary supervision of insurance undertakings in an insurance group, OJ No. L 330 of 5 Dec. 1998)	OPC	Occupational Pensions Committee		
EFRAG	European Financial Reporting Advisory Group			PFS	Preparatory Field Study		

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Comments on the report would be gratefully received and should be sent to secretariat@ceiops.org.

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ANNUAL REPORT 2005 AND
WORK PROGRAMME 2006

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