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Internal Market DG
Director-General

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Subject: Solvency II- Framework for Consultation and First Wave of Specific Calls for Advice

Dear Henrik,

At the meeting of the Insurance Committee on 30th June 2004, Members discussed a proposed Roadmap for the development of a new prudential system for the prudential supervision of insurance undertakings, the so-called Solvency II project. The clear intention of the Commission and IC Members is that the Solvency II project should be adopted using the 'Lamfalussy approach'. Formal approval of the extension of this approach to insurance and occupational pensions by the European Parliament and the Council is imminent. The timing for the Solvency II project is ambitious and challenging. The Roadmap foresees the preparation of a Commission proposal for a Framework Directive for the end of 2005 with the detailed legislation being subsequently adopted by means of implementing measures with a target completion date of 2008.

Framework for Consultation and first wave of specific calls for advice from CEIOPS

CEIOPS has manifestly a crucial role to play in the successful development of the Solvency II project, particularly under a Lamfalussy approach. In order to assist the Commission in the development of the new Solvency II system, the Commission is seeking advice from CEIOPS and other stakeholders. The provision of this advice has been structured through the preparation of a Framework for Consultation, setting out the policy guidelines and principles within which CEIOPS should develop its advice, and three waves of specific calls for advice from CEIOPS addressing specific areas of work important for Solvency II.

Mr. Henrik BJERRE-NIELSEN
Chairman of CEIOPS
Director-General
Finanstilsynet
GL Kongevej 74 A
DK-1850 Frederiksberg C

J:\experts_groups\solvency 2\mandates\Calls-for-Advice\20040710-CEIOPS-1st-wave.doc
Commission européenne, B-1049 Bruxelles / Europese Commissie, B-1049 Brussel - Belgium. Telephone: (32-2) 299 11 11.
Office: C107 1/62. Telephone: direct line (32-2) 2960668. Fax: (32-2) 2990375.

http://europa.eu.int/comm/internal_market/
E-mail: michael.thom@cec.eu.int

Consequently, and subsequent to the discussion in the Insurance Committee meeting on 30th June, I am pleased to attach the (revised):

Framework for Consultation on Solvency II, and Specific calls for advice from CEIOPS (first wave), addressing the following work areas:

Request No. Area of Work

- 1 Internal control and Risk Management
- 2 Supervisory Review Process (General)
- 3 Supervisory Review Process (Quantitative tools)
- 4 Transparency of Supervisory Action
- 5 Investment Management Rules
- 6 Asset-Liability Management

The choice of areas of work for the first wave of calls for advice has been selected on pragmatic grounds and addresses primarily pillar 2 issues within the new Solvency II prudential system (i.e. the supervisory review process).

Background to CEIOPS advice

Technical advice from CEIOPS is requested in the context of the Commission preparing a proposal for a Framework Directive and subsequent implementing measures. CEIOPS advice is provided without prejudice to the Commission's right of initiative to propose EU legislation, and indeed must respect the institutional framework and balance determined by the Community co-legislators, namely, the European Parliament and the Council.

Given that the target deadline for the preparation of the Framework Directive is end 2005, the deadlines established for the first wave of calls for advice is challenging (and indeed will be even more so for the second and third waves). However, the Commission recognises that many of the topics addressed in the three waves of calls for advice will require more in-depth examination at a later date within the scope of the preparation of implementing measures. Consequently, at this stage CEIOPS advice is not expected to address all technical aspects exhaustively.

Second and third waves of specific calls for advice from CEIOPS

The second wave of calls for advice will address chiefly pillar 1 issues (quantitative capital requirements) and the third wave, pillar 3 (disclosure and market discipline) and remaining issues. Details of the proposed work areas are indicated in the attached Schedule 1 which accompanied the Roadmap submitted to the IC. The Commission acknowledges that in a complex project such as Solvency II, advice on later areas of work may impact on advice already given. The Commission therefore welcomes the confirmation you provided during the debate in the Insurance Committee on the Roadmap, namely, that where such a situation arises, CEIOPS will amend or revise advice already given. By the same token, it is possible that the preparation of later calls for advice may require the Commission to amend or revise earlier calls for advice.

The Commission is seeking to prepare the second and third waves of calls for advice from CEIOPS as rapidly as possible. At the latest, the Commission intends to submit the second wave to IC consultation on 1 December 2004 and the third wave to IC consultation at the first IC meeting in 2005. Immediately, after IC consultation, the

Commission intends to forward the calls for advice to CEIOPS, as amended in the light of IC consultation.

Own initiative reflection by CEIOPS and Quantitative Impact Studies (QIS)

Pending receipt of these later calls for advice, the Commission would encourage CEIOPS to deepen its own analysis and reflect on future work areas, seeking inspiration from earlier Commission papers on Solvency II and bearing in mind the guidance provided by the framework for consultation. In particular, the Commission would invite CEIOPS to already reflect on the future data requirements for later quantitative impact studies (QIS). Clearly, further work is needed before any detailed QIS studies can be undertaken, but preliminary work regarding data collection, consistency and comparability can already be started.

Reporting and deadline for advice

I should like to suggest that as a working method, CEIOPS provide us with regular progress reports on its ongoing work. Details are given in the Framework for Consultation and in each specific call for advice. In general, reports should be provided to the Commission at four monthly intervals, the first being on 31 October 2004. Technical advice (under the first wave of specific calls for advice) in relation to the preparation of the Framework Directive should be provided by 30 June 2005. Given the desirability of maintaining flexibility to cater for differing situations, we would propose that the precise format of progress reports be subject to CEIOPS discretion.

Transparency

Throughout the discussion between the European Parliament and Council, great emphasis has been placed on maximum transparency. Therefore, I should also like to suggest that my letter and CEIOPS response be made available on our web sites.

I would appreciate if you could confirm to me that your agreement to the above approach. Similarly, should you have any queries regarding the framework for consultation or the first wave of specific calls for advice, please let me know.

We look forward to working closely together with CEIOPS in the coming years on the Solvency II project- a project that should be not only technically challenging but also immensely satisfying.

Yours sincerely,

(signed)
Alexander SCHAUB

Annexes: Framework for Consultation
Specific calls for advice (First wave: Request nos. 1-6)
Schedule 1: Solvency II- List of work areas and timing of calls for advice

Contact: Michael THOM, Telephone:(32-2) 2960668, michael.thom@cec.eu.int