August 2009

Solvency II reporting
Public disclosure and supervisory reporting in the new world

Background

Consultation Paper 58/09 (CP58) sets out CEIOPS' draft technical advice to the European Commission for the development of the level 2 implementing measures of Pillar 3 of the Solvency II regime. Pillar 3 deals with the requirements for supervisory reporting and public disclosure under the Solvency II regime. The objectives are to harmonise reporting, promote comparability of valuation and reporting rules with International Accounting Standards, introduce proportionate requirements for small undertakings and ensure efficient supervision of insurance groups and financial conglomerates.

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CEIOPS has considered a number of options in its impact assessment on the most appropriate content, frequency, level of assurance and format of the reporting. The reporting requirement applies at both a stand alone regulated entity (so called "solo" reporting level) and group level. At both levels insurers need to set out in a disclosure policy, approved by management, appropriate governance procedures to ensure timely, complete, consistent and accurate reporting.

The key reporting requirements are:

1. Solvency and Financial Condition Report (SFCR)

This report is the public disclosure which is expected to be made available via electronic publication. The SFCR will be required within either 3 or 4 months[1] of an insurer's financial year end. The SFCR must follow a prescribed structure that CEIOPS developed based on the Framework Directive. The areas covered in the SFCR are: Business and Performance, System of Governance, Risk Management, Regulatory Balance Sheet and Capital Management.

1 To be determined by CEIOPS before Level 2 advice to the Commission

2. Report to Supervisor (RTS)

The RTS is not public and is communicated only to the firm's supervisor. The RTS expands on the SFCR's disclosures using a similar, prescribed structure but this time presenting the information differently as part of the ongoing supervisory dialogue with the firm. For example the summary of business and risk strategies and the financial and non-financial objectives associated with them, the explanation of variance to plan rather than the prior period, and expected future developments are areas where the SFCR would be silent. The frequency with which an undertaking has to provide full qualitative information through the RTS will be linked to the intensity of the Supervisory Review Process (SRP). CP58 indicates that each regulator must require the RTS every five years, at a minimum. However the frequency could be increased up to an annual basis.

3. Private reports to the regulator on occurrence of pre-defined business events (for example changes in business strategy)

Content of the new reports

The content required builds on existing IFRS disclosure, as the reference framework for the regime, incorporating Solvency II specific outputs such as the internal model and details of the Own Risk and Solvency Assessment (ORSA), and defines materiality in the context of the IAS definition.

Both the SFCR and RTS contain qualitative and quantitative information including prescribed Quantitative Reporting Templates (QRTs). CP58 sets out several provisional QRTs of which a subset will be reported to the supervisor on a quarterly basis, 3 or 4 weeks after the quarter end[1]. CEIOPS will be providing full guidance, definitions and requirements as it develops the Level 3 guidance for European supervisors.

CP58 confirms there will be some form of external audit requirement and sets out tentative conclusions, to be finalised at Level 3, on which quantitative and qualitative aspects of the new reporting regime could be included in the scope of the audit.

CP58 specifies the structure for the SFCR and RTS, proposing the minimum content of the information required to make it easier for supervisors and users of the public disclosure to compare one insurer with another and achieve the objective of improving market transparency.

Appendix 1 gives a summary of the structure for the SFCR and RTS and details the key additional information required in the RTS but not in the SFCR. In broad terms the RTS requires information relating to the following example areas which are not required in the SFCR:

- the business and risk strategies including the business continuity plan;
- legal and regulatory issues affecting the business;
- variance against plan rather than prior period;
- future anticipated solvency needs, underwriting performance projections and changes in risk exposure; and
- significant additional disclosure explaining the results of the internal model.

As explained above the SFCR and RTS are required for each regulated entity and at group level. However CP58 also sets out the proposal for a single group-wide SFCR where each solo SFCR, for the parent and subsidiary entities, is included in an annex. It may also require each annex to be translated into a language commonly understood by all the other supervisory authorities concerned.

CP58 does not include proposals on when the first SFCR and RTS will be required: whether it is intended to be the first financial year end after Solvency II comes into force on 31 October 2012 or after that date.

A summary of the requirements is set out in Appendix 2.

Key themes

We have identified a number of key themes in common with the rest of the Solvency II regime which are of particular importance for Pillar 3:

- Alignment with IFRS;
- Need for senior management engagement; and
- Control, documentation and assurance.

Alignment with IFRS

To minimise the administrative burden of Pillar 3 the Solvency II reporting extensively refers to IFRS disclosures. This approach is consistent with the reference to IFRS as endorsed in the EU as the basis for valuation of assets and non-insurance liabilities in the solvency balance sheet as proposed in CEIOPS CP35 published last March.

1 To be determined by CEIOPS before Level 2 advice to the Commission

CEIOPS seems to have contemplated market-wide synergies that would arise from using IFRS as the single statutory reporting basis across the EU. However the draft regulations do not go as far as making IFRS the required financial reporting framework, leaving it to member state governments to extend voluntarily the use of IFRS beyond listed companies.

This is a decision which is likely to be taken in the UK effective for accounting periods beginning on or after 1 January 2012. A paper is expected to be published by the UK Accounting Standards Board in early August 2009 seeking views on its proposal to replace current UK GAAP by adopting IFRS for Small and Medium-sized Entities. If this is the case then all UK insurers will have IFRS as their financial reporting framework by the time Solvency II is implemented.

	IFRS basis of preparation of subsidiary insurance entities?
FTSE 100 Insurers	
Aviva	✓
Prudential	×
Standard Life	✓
Legal & General	×
Friends Provident	×
Old Mutual	×
Royal Sun Alliance	×
FTSE 100 Bancassurers	
Lloyds Banking Group	✓
Royal Bank of Scotland	✓
HSBC	✓
European Insurance Groups	
Aegon UK	✓
Allianz UK	✓
Hannover Re UK	×
Voluntary IFRS Adopters	
LV	✓
Royal London	×

UK GAAP reporters	UK GAAP reporters applying FRS 25/26/29?
AIG UK (General Insurance)	×
Canada Life (Life)	✓
Axa UK (General Insurance)	×
Axa UK (Life insurance)	✓

Source: Companies' annual reports from the year ended 31 December 2008

European insurers are currently at different stages in relation to the adoption of IFRS – as shown in the table below for a sample of UK insurance companies.

Although IFRS and regulatory reporting serve different purposes, the latter is being developed with the objective of alignment with IFRS. Both frameworks recognise risks and their management as key disclosure requirements. In particular, the ability to see how risk and capital are managed by senior executives will provide valuable insights into the quality of risk management and decision making to European policyholders.

The extent of the similarities of a UK insurer's current financial reporting with the future solvency reporting requirements depends on whether it already complies with IFRS, in particular with IFRS 4 and IFRS 7, or their UK GAAP equivalents, the Operating and Financial Review (OFR) and the Combined Code on Corporate Governance. In Appendix 3, we can see the considerable overlaps between the disclosure requirements of Pillar 3 and current financial reporting requirements, including IFRS, Companies Act 2006 and the UK Listing Rules.

For insurers already on IFRS the key issue ahead of developing Pillar 3 implementation plans is to establish how good the IFRS disclosures are compared with the requirements of the SFCR. The use of existing public disclosures is subject to a qualitative test of equivalence in terms of their nature and scope (article 52 of the Framework Directive).

Although IFRS and regulatory reporting serve different purposes, the latter is being developed with the objective of alignment with IFRS. Both frameworks recognise risks and their management as key disclosure requirements.

The finalisation of the IFRS 4 Phase II project will provide further alignment between Solvency II and IFRS. For example, both Solvency II and Phase II use best estimate valuation techniques as the starting point for the measurement of the insurance liabilities. However Solvency II will not follow the IFRS product classification but instead define its scope based on the legal entity regulatory status as an authorised insurer selling regulated products which could include both insurance contracts accounted for under IFRS 4 and investment contracts accounting for under IAS 39. For jurisdictions such as the UK where tax for life insurers is based on regulatory returns this difference in scope could also have tax implications.

The alignment of Solvency II to IFRS offers an opportunity for insurance companies to adopt an integrated approach that, with the implementation of IFRS at legal entity level, would facilitate the compliance with the Solvency II requirements and simplify processes and systems of the organisation. We believe that simplification of reporting processes could be achieved if the insurer starts from an IFRS basis to build its Solvency II reports.

Senior management engagement

The type of information which needs to be disclosed under Pillar 3 will mean that senior management need to engage in the preparation as well as review of the SFCR and RTS. Some of the statements to be disclosed will not be easily delegated to the financial reporting function, for example around business strategy, ORSA and system of governance. The relative ease with which users will be able to interrogate the disclosure given its comparability will further increase pressure on Boards to "get it right".

Those responsible for preparing the new reports must be encouraged and empowered to challenge the technical input from other departments. Senior management must take the lead to make this new reporting process work effectively and collaboratively.

Since the main stakeholders addressed in the SFCR are the policyholders – the paper even states the executive summary should be aimed specifically at them – the SFCR could be a great vehicle to enhance the relationship between insurers and their customers. It is possible that customer relationship directors would be directly involved in shaping the SFCR which could become an element in the customer retention strategy if the messages of strong capital position and effective risk management contribute to reassure policyholders that their money has been safely placed with the insurer. These considerations, combined with the sheer range of information required, will have a profound impact on the internal organisation of insurers. For example we believe it will stimulate the change in the communication and interaction between finance and other functions such as risk management, compliance and the actuarial function that would call for a far more integrated approach to financial and regulatory reporting than under the old operating model.

This is not simply a Pillar 3 observation but one that applies throughout Solvency II. For example, the requirement for the ORSA to be embedded in the day to day decision making of the insurer will require internal MI to spell out clearly the risk and capital impacts of different course of actions and business decisions. The need for this alignment arises from the consideration that to deliver external reporting that is relevant, reliable and comprehensible then communication must be relevant, reliable and comprehensible internally. Those responsible for preparing the new reports must be encouraged and empowered to challenge the technical input from other departments. Senior management must take the lead to make this new reporting process work effectively and collaboratively.

The chart opposite maps the range of information required in the proposed SFCR against the different departments most likely to be responsible for preparing and reviewing across the three lines of defence. Clear communication between these moving parts is vital to ensure a consistent, complete and accurate message is conveyed externally and to the supervisors.

SFCR structure (including additional requirements in RTS)		1st line of defence					2nd line of defence			3rd line of defence
				Technical support functions			Risk management committees			Audit committee
		The Board*	Business units	Finance	Under-writing	Reinsurance	Risk mgmn't	Compliance	Acturial	Internal audit
A.1	Business and external environment	✓		✓						
A.1A	Objectives and strategies	✓	✓	✓						
A.2	Underwriting performance	✓		✓	✓	✓			✓	
A.3	Investment performance	✓		✓						
A.4	Operating/other expenses	✓		✓						
B.1	Governance arrangements	✓		✓			✓	✓		
B.2	Fit and proper	✓		✓				✓		
B.3	Risk management system	✓		✓			✓			
B.4	ORSA	✓		✓			✓			
B.5	Internal control	✓		✓				✓		✓
B.6	Internal audit function	✓		✓				✓		✓
B.7	Actuarial function	✓		✓					✓	
B.8	Outsourcing	✓	✓	✓						
C	Risk management	✓		✓	✓	✓	✓		✓	
D.1	Assets	✓		✓						
D.2	Technical provisions	✓		✓	✓	✓			✓	
D.3	Other liabilities	✓		✓						
E	Capital management	✓		✓	✓	✓	✓	✓	✓	
F	Approved internal model	✓		✓	✓	✓	✓	✓	✓	

Significant impact　Moderate impact　Minimal impact

* And committees of the Board

Control, documentation and assurance

Disclosure policy

Insurers need to develop a written policy detailing:

- the governance procedures;
- responsibilities;
- timeframes;
- materiality principles;
- identification of information already considered in the public domain and process to validate that it would be of the same nature and scope of the required disclosures; and
- the process for the identification of information for which to seek regulatory permission of non-public disclosure on the confidentiality grounds set out under article 52 of the Framework Directive.

Whilst insurers may well have timetables with the key milestones and deliverables for regulatory reporting in existence at the moment, they are less likely to have a documented policy supported by robust processes and controls. In developing this written policy and the related infrastructure, the insurer should consider how to have its departments interacting with each other to avoid inefficiencies and duplication of effort and at the same time ensure consistent, accurate and complete compliance with the policy and the regulations.

Asset management certification

One further aspect which senior management needs to consider is the requirement in the SFCR to certify that assets have been invested in accordance with the "prudent person" principle, namely that the complexity of the assets underlying the insurer's portfolio is commensurate with the ability of the appropriate personnel and systems to understand, monitor and manage those instruments. The introduction of this certification process is not unique to Solvency II. For example the UK government has recently introduced a requirement of "certification" for the accurateness of tax returns.

External audit

As noted previously the paper confirms there will be some form of external audit requirement and sets out tentative conclusions on which aspects this will include as set out in Appendix 4.

We do not consider that the scope proposed for external audit is unduly onerous and recognise there will be synergies with the existing statutory audits of financial statements. However, this form of audit would be an additional compliance cost that the regime could introduce.

CEIOPS recognises the difficulties for requiring an external audit of an approved internal model and has not included this in the proposed scope. Requiring the audit of internal models that do not generate audited financial information would call for an extensive audit effort with significant cost implications for the sign off to be achieved within the timelines envisaged. On the other hand the internal model is the corner stone of the new regime and the regulators need to be satisfied that there are alternative forms of external oversight to give assurance to the market that the internal model is used as approved.

Another fundamental dimension of the decision on audit requirements is the legacy of each member state. The UK market is used to regulatory returns being subject to audit. Indeed, following the reviews into the actuarial profession after the closure to new business of Equitable Life, the scope of external assurance on UK regulatory returns increased with additional responsibilities for the Independent Auditor and a new role of Reviewing Actuary. This approach is not common among other member states where there is limited external audit involvement as the table below demonstrates.

Country	External audit requirement for regulatory forms?
France	No audit required
Germany	No audit required
Italy	No audit required
Spain	Limited audit on selected regulatory forms
UK	Yes

Pillar 3 implementation programme for 2009 and beyond

The timing of a Pillar 3 programme will be significantly influenced by the finalisation of the proposals of the Level 2 implementing measures that the European Commissions expects to adopt formally by November 2010 and the outcome of other Solvency II legislative projects, for example the development of Level 2 implementing measures for the ORSA and the SCR, as well as by the size, nature and complexity of the insurer.

CP58 encourages insurers to start analysing the potential disclosure requirements now and begin assessing changes that could be required to IT systems if these proposals were finalised as drafted. CP58 obviously also discourages any full system implementation activity at this stage. Significant CEIOPS work has already been inputted to develop the QRTs and, as it points out, much of the information will be information which management itself needs to monitor the business compliance with Solvency II.

Interpreting the disclosure requirements as if they were final, developing a strategy for disclosure and educating key internal stakeholders on the potential impact impacts are all sensible steps that insurers could begin right now, with the added benefit of providing senior management with the detailed knowledge that would make their comments to CP58 focussed and tied to specific business issues (comments to CEIOPS are due by 11 September 2009).

We envisage a Pillar 3 programme could have three main components:

1. disclosure impact assessment – to identify the impact of the proposed requirements on existing reporting procedures (systems, data, people, processes and controls);

2. disclosure design – to design the structure and principles of the Solvency II reporting regime; and

3. disclosure report building and implementation – to implement changes to the reporting framework to deliver the Solvency II requirements.

Insurers clearly need to ensure they meet the minimum level of regulatory compliance in their Pillar 3 reporting when Solvency II is operational on 31 October 2012.

However by investing in a reporting programme we believe insurers can optimise the use of their Solvency II resources and turn the compliance burden into a number of strategic opportunities:

- Building a trusting relationship with customers, shareholders, rating agencies and other stakeholders. A number of recent examples have highlighted the damage and loss of trust inaccurate reporting can cause. We believe that relevant and accurate disclosure of risk and capital management can improve reputation and confidence;

- Aligning Solvency II with IFRS information could help investor relations. Delivering both quantitative and qualitative risk information to investors would help support efficient markets and would help reward management strategy by demonstrating how the risk appetite is linked to strategic objectives and decisions and to the IFRS profit;

- Building a brand that is recognised for strength of capital position, transparency in its operations and sound risk management practices to maintain customer confidence and hence market share; and

- Demonstrating the effectiveness of control functions such as risk, compliance and internal audit, giving greater assurance over the reporting, particularly if the ultimate choice on the external audit requirements is for a limited degree of independent assurance.

Conclusion

We concur with CEIOPS in highlighting the importance of analysing the implications of Pillar 3 requirements to leverage as far as possible existing reporting processes, systems and controls and to take advantage of the strategic opportunities Pillar 3 offers.

IFRS, as endorsed in the EU, has emerged as the usual reference framework for the Solvency II balance sheet and disclosure. There is an opportunity for insurers to adopt an integrated approach to move beyond short term IFRS conversion measures by implementing IFRS and Solvency II systems and processes concurrently, particularly following the plans of the International of its projects on insurance liabilities and investment accounting in the next 24 months.

A Pillar 3 programme starting with an assessment against the proposals of CP58 should help insurers prepare for the production of useful, transparent and tailored information, consistent with other disclosures that can help to capture these advantages.

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Appendix 1 – Comparison of the SFCR and RTS

Structure	SFCR	RTS	Additional requirements in the RTS compared with the SFCR
Executive Summary			
Business and Performance (Article 50(1)(a))			
A.1 Business and external environment	✓	✓	• Expected future trends and market developments. • Competitive position and business model. • Legal and regulatory issues affecting the business. • Sources of profits and losses by legal entities in the group.
A.1A Objectives and strategies	×	✓	• Financial and non-financial objectives and business strategies including the business continuity plan. • For groups this includes the group strategy and role of each subsidiary.
A.2 Performance from underwriting activities	✓	✓	• Variance against plan rather than prior period. • Assessment of claims leakage and policyholder fraud. • Projections of underwriting performance.
A.3 Performance from investment activities	✓	✓	• Key assumptions made on interest rates, exchange rates and market indices.
A.4 Operating/other expenses	✓	✓	• Material future anticipated non-underwriting expenses such as restructuring or operating costs.
A.5 Any other disclosures	✓	✓	
System of Governance (Article 50(1)(b))			
B.1 General governance arrangements	✓	✓	• Summaries or copies of major written governance policies. • Demonstration of how policies are consistent with business strategy. • Transactions with shareholders and management.
B.2 Fit and proper	✓	✓	• Further details on policies and procedures to ensure persons subject to Article 42 are fit and proper.
B.3 Risk management system	✓	✓	
B.4 ORSA	✓	✓	• Results of the ORSA. • Future solvency needs that result from the ORSA. • Comparison between the outcome of the ORSA and the SCR. • Details of material risks captured in the ORSA but not in the standard formula. • How the ORSA takes into account the undertaking's strategy.
B.5 Internal control	✓	✓	• Retention and security of records. • Reporting arrangements to provide management with the information it needs to address regulatory concerns. • Business continuity plan. • Further detail on the compliance function.
B.6 Internal audit function	✓	✓	• How IA monitors compliance with internal strategies. • Audit plans (covering past and future audits). • Audit findings, recommendations and actions.
B.7 Actuarial function	✓	✓	• Further details of the activities of the actuarial function concerning data, methodologies, assumptions and results of the technical provisions calculations, expressing an opinion on the overall underwriting policy and reinsurance arrangements. • The contribution made by the actuarial function to an effective implementation of the risk management system.
B.8 Outsourcing	✓	✓	• Oversight and safeguards. • Consideration within the business continuity plans. • Competence of the service provider.
B.9 Any other disclosures	✓	✓	
B.10 Reporting at group level	✓	×	
Risk Management (Article 50(1)(c))			
C.1 Underwriting risk	✓	✓	• Further details to explain the risk exposure, concentration, mitigations and sensitivity. • Material future anticipated risk.
C.2 Market risk	✓	✓	• As above.
C.3 Credit risk	✓	✓	• As above.
C.4 Liquidity risk	✓	✓	• As above.
C.5 ALM risk	✓	✓	• As above.
C.6 Operational risk	✓	✓	• As above.
C.7 Other material risks	✓	✓	• As above.

Appendix 1 (continued) – Comparison of the SFCR and RTS

Structure	SFCR	RTS	Additional requirements in the RTS compared with the SFCR
C.8 The nature of material risk exposures	✓	✓	• Development of risks over the next few years. • Further detail on operational losses.
C.9 The nature of material risk concentrations	✓	✓	• Material future anticipated risk concentrations.
C.10 Risk mitigation practices	✓	✓	• Material future risk mitigation practices being considered.
C.11 Risk sensitivities	✓	✓	• Proprietary or confidential on risk sensitivities and why it is not appropriate to disclose these.
C.12 Any other disclosures	✓	✓	
Regulatory Balance Sheet (Article 50(1)(d))			
D.1 Assets	✓	✓	• Information describing the valuation bases and methods that have been accepted as confidential, proprietary or the subject of supervisory dialogue.
D.2 Technical provisions	✓	✓	• As above.
D.3 Other liabilities	✓	✓	• As above.
D.4 Any other disclosures	✓	✓	
Capital Management (Article 50(1)(e))			
E.1 Own funds	✓	✓	• Forecast level of the own funds over a suitable business planning period.
E.2 MCR and SCR	✓	✓	• Forecast level of the MCR and SCR over a suitable business planning period. • Allowance for financial mitigation techniques and management actions.
E.3 The option set out in Article 305b used for the calculation of its SCR	✓	✓	• Capital effect on the SCR of selecting this option.
E.4 Differences between the standard formula and any internal models used	✓	✓	
E.5 Non-compliance with the MCR and significant non-compliance with the SCR	✓	✓	• Information or developments subject of supervisory dialogue not deemed appropriate to disclose publicly. • Anticipated future non-compliance with the capital requirements. • Plans for ensuring compliance is maintained.
E.6 Any other disclosures	✓	✓	
Undertakings with an approved internal model	✓	✓	• Activities during the year to verify ongoing compliance with internal model requirements. • Explanation of the comparison with last year results and the causes and sources of profits and losses for each major business unit. • Significance to which the risk profile deviates from assumptions underlying the SCR calculated with its internal model. • Plans for future development steps of the internal model. • Information on the overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and business strategy. • Capital allocation for regulatory and economic capital. • Future management actions used in the SCR calculation. • For quantitative information included within the RTS (not in the QRTs): SCR as calculated by the internal model, estimate of the SCR according to the standard formula, a split of undiversified capital charges and adjustment for the loss absorbing capacity of technical provisions and deferred taxes, capital add-on, economic capital, comparison and reconciliation with last year results, forecasts and a summary report of the validation results performed during the year.

Appendix 2 – Summary requirements for the SFCR and RTS

	SFCR	RTS	Quantitative reporting templates (to be included in the SFCR and RTS as CEIOPS' work develops)
Frequency	Annual	Full RTS annual for undertakings subject to annual detailed assessment as part of SRP Annual RTS on material changes to the full requirements for undertakings not subject to annual detailed assessment as part of SRP.	Quarterly and Annual
Submission date	Within 3 or 4 months of an undertaking's financial year end.	Within 3 or 4 months of an undertaking's financial year end.	Within 3 or 4 weeks for quarterly quantitative reporting templates after the quarter end. Within 3 or 4 months for the full quantitative reporting templates after undertaking's financial year end.
Format	Common structure as developed by CEIOPS.	Common structure as developed by CEIOPS.	Common standardised template format as developed by CEIOPS.
Internal approval by administrative or management body	Yes	Yes	Yes

Source: Extracted from CEIOPS CP58/09 3.6.4

Appendix 3

Summary of content of main Solvency II Pillar III requirements	Solvency II Pillar III	Current Financial Reporting	Relevant references in current reporting	Additional disclosure requirements in Pillar III compared to existing financial reporting requirements
Business and Performance Business and external environment; objectives and strategies; performance from underwriting activities; performance from investment activities; operating/other expenses.	✓	✓	OFR (Reporting Statement: Operating and Financial Review)	• The financial performance from investments; the performance from underwriting activities.
System of governance General governance arrangements; Fit and proper processes and procedures; Risk Management System; Own Risk and Solvency Assessment (ORSA); Internal Control; Internal Audit Function; Actuarial Function; Outsourcing.	✓	✓	OFR (Reporting Statement: Operating and Financial Review): Combined Code on Corporate Governance	• An overview of the processes and procedures in place to employ personnel and management body with the skills, knowledge and expertise necessary for the discharge of the responsibilities allocated to them; • An overview of the actuarial function and the key tasks performed and the key areas of responsibility that the actuarial function has; and • An overview of the outsourcing of any critical or important operational functions and activities.
Own Risk and Solvency Assessment (ORSA) • description of the outcome of the ORSA, including an estimate of the undertaking's future overall solvency needs that result from the ORSA process compared to own funds; and • information to allow a comparison between the regulatory capital requirements generated from the SCR (standard formula and internal models) and the overall solvency need resulting from the ORSA process along with how the companies' internal capital needs have been derived.	✓	×		• See the requirements section.
Risk management Exposure, mitigation and sensitivity to underwriting risk concentration risk, market risk; credit risk; liquidity risk; ALM risk; operational risk, other material risks; material risk exposures; material risk concentrations; risk mitigation practices; risk sensitivities.	✓	✓	IFRS7 (Financial Instruments: Disclosure); IFRS4 (Insurance Contracts)	• Operational risks and other risks (if applicable); Asset Liability Management (ALM) risk, reputational risk, client asset and settlement risks – and the relevant risk mitigation techniques.
Regulatory Balance Sheet Description, separately for assets, technical provisions, and other liabilities, of the bases and methods used for their valuation together with an explanation of any major differences in the bases and methods used for their valuation in financial statements. Disclosure of any non-compliance.	✓	✓	IFRS7 (Financial Instruments: Disclosure); IFRS4 (Insurance Contracts)	• Prudent person principle certification.
Capital Management Description of Own Funds structure and forecast level; Minimum Capital Requirement (MCR) and Solvency Capital Requirement (SCR); differences between the standard formula and any internal models used; non-compliance with MCR/SCR.	✓	✓	IAS 1 (Presentation of financial statements – capital section); FRS 27 (Life Insurance); FSA Returns (PRU and INSPRU)	• In addition to current Own Funds structure, the entity needs to disclose forecast level over a suitable period including appropriately stressed capital plans and any intentions to replace any own funds approaching maturity or plans to raise additional own funds.
Quantitative Reporting Templates (QRTs) The QRTs will include: • Capital position • High level financials • Assets • Liabilities • Revenue/expenses • Business analysis • Claims experience • Reinsurance	✓	✓	FSA Returns (PRU and INSPRU)	• Capital position forms will be different from current FSA Returns. There will be quarterly reporting of certain QRTs.
Internal Model Dislosure (for RTS only) Minimum qualitative information requirements will include: activities performed to verify ongoing compliance with regulatory requirements; reasons for any material changes with last year; sources of profit and losses for each major business unit; deviation of the risk profile of the undertaking from the assumptions underlying the SCR calculated with its internal model. plans for future developments steps of the internal model; information on the overall solvency needs; information on how capital allocation is done; information about future management actions; summary report of the validation results performed during the year; economic capital; capital add-on.	✓	×		• See the requirements section.

Appendix 4

CEIOPS considers the following could be subject to an external audit	Reference: In CEIOPS Draft Qualitative Reporting Requirements (QRR) or in the Quantitative Reporting Templates (QRT)
Own funds disclosure	
Structure, amount and quality of own funds	QRR
Own funds	QRT
Accounting reconciliation to regulatory own funds	QRR
Details on non compliance with MCR and significant non compliance with SCR	QRR
Assets, liabilities and capital requirements	
Balance sheet	QRT
Basis, methods and assumptions used for valuation of assets	QRR
Summary investments by class	QRT
Life - changes in own funds	QRT
Basis, methods and assumptions used for measurement of technical provisions	QRR
Life technical provisions	QRT
Life technical provisions roll forward analysis	QRR
Non-Life technical provisions	QRT
Non-life technical provisions roll forward analysis	QRR
Basis for measurement and other information on other liabilities	QRR
Expected maturities of assets and liabilities	QRR
MCR	QRT
SCR – standard formula	QRT
Income, expenses, gains and losses	
Basis and assumptions for revenue and expense recognition	QRR
Profit and loss account	QRT
Life revenue analysis	QRT
Life premiums and technical provision movements	QRT
Non-life technical account per class	QRT
Non-life development information	QRT
Profit distribution for with profit funds	QRT
Valuation basis non-life (quantitative assumptions)	QRT
Valuation basis life (quantitative assumptions)	QRT

Source: Extracted from CEIOPs CP 58/09 3.517

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