

## **Impact Assessment of draft amendment and correction of ITS on Reporting and ITS on Disclosure**

### **Section 1: Procedural issues and consultation of interested parties**

- 1.1. According to Article 15 of the EIOPA Regulation, EIOPA conducts analysis of costs and benefits in the policy development process. The analysis of costs and benefits are undertaken according to an impact assessment methodology.
- 1.2. The assessment of the potential related costs and benefits from the draft amendments and corrections to the draft technical standard developed by EIOPA, builds upon experience from previous and current impact assessments undertaken by the European Commission.
- 1.3. The proposed amendments and corrections and their impact assessment are subject to consultation with stakeholders. Considering the low impact of the amendments/corrections the public consultation is being conducted during 6 weeks. In addition, it is being presented in a meeting of EIOPA IRSG and an open public event is being organised for April 2018. In the public event, EIOPA will communicate to the relevant stakeholders (mainly industry and other stakeholders) the process for assessing the proposed changes and the detailed content of the amendments/corrections.
- 1.4. It should be noted that the draft amendments/corrections focus mostly on corrections, even if some of them will be considered as amendments. They aim to improve the clarity of the current requirements, ensure the consistent application of technical standards and to facilitate the reporting as well as improving the quality of the information reported. The amendments/corrections proposed do not reflect a detailed review of the requirements, which should be planned for the next years and be done in close cooperation with the industry reflecting the lessons learned from the annual submission of information and from the use of information by supervisors in the Supervisory Review Process.

### **Section 2: Problem Definition**

- 1.5. In June 2017 COM adopted Commission Delegated Regulation (EU) 2017/1542 amending Delegated Regulation (EU) 2015/35 concerning the calculation of regulatory capital requirements for certain categories of assets held by insurance and reinsurance undertakings (infrastructure corporates). Therefore,

the supervisory reporting templates need to be adapted to reflect these changes.

- 1.6. On the last months, EIOPA has received a number of inputs addressing mistakes found in the Commission Implementing Regulation (EU) 2015/2450 with regard to the templates for the submission of information to the supervisory authorities and in the Commission Implementing Regulation (EU) 2015/2452, laying down implementing technical standards with regard to the procedures, formats and templates of the solvency and financial condition report (ITS on Reporting and ITS on Disclosure). The mistakes are mostly on the instructions (Annexes 2 and 3). These inputs have arrived to EIOPA through the Q&A tool on regulation, direct e-mails from relevant experts, e-mails to 'info@eiopa.europa.eu', e-mails to the 'xbrl' dedicated mailbox and others. EIOPA also performed an open call for input having received additional input from stakeholders.
- 1.7. The number of questions received on the Variation Analysis templates over the last months have been answered in a structured way, which has resulted in the publication of the Explanatory Notes on Variation Analysis templates. This document provides the answers to all questions received as well as a step-by-step explanation on the templates at stake while also providing better clarifications in the instructions. The document has been publicly consulted and discussed with the industry and is the source of a number of amendments.
- 1.8. When it comes to Reporting and Disclosure the transparency, awareness and swift amendments of the mistakes is very important as any mistake, even if minor, affects implementation.
- 1.9. From a legal perspective, the Q&A tool is a proper tool to be used during an interim period when the mistakes have not yet been amended, however the legal texts (in this case both ITS) are binding and prevail over other non-binding type of texts.
- 1.10. In the area of reporting and disclosure legal certainty and correctness are crucial. Reflecting the amendment and corrections in the legal text will facilitate reporting, strengthen the role of the Q&A tool while increasing the reporting quality. It is also important to note that mistakes identified have to be implemented by undertakings, sometimes with provisional updates of their IT solutions but most frequently by manual processes for every report, which implies costs to undertakings.
- 1.11. Considering that some amendments and corrections identified in the ITS on reporting impact the XBRL taxonomy, the Governance of Taxonomy Releases should be taken into account. The Governance of Taxonomy aims to provide to undertakings and other stakeholders certainty about the process and schedule of the XBRL taxonomy updates in order that can be foreseen and plan in advance when the IT reporting systems need to be updated. In case of business changes, the taxonomy is updated only once a year in July.

## Baseline

- 1.12. When analysing the impact of the proposed policies, the Impact Assessment methodology foresees that a baseline scenario is applied as the basis for comparing policy options. This helps to identify the incremental impact of each policy option considered. The aim of the baseline scenario is to explain how the current situation would evolve without additional regulatory intervention.
- 1.13. The baseline scenario is based on the Solvency II supervisory reporting as defined in Implementing Technical Standards on the templates for the submission of information to the supervisory authorities and considering the clarifications publicly provided via Q&A tool.
- 1.14. In particular the baseline scenario includes:
- The content of Directive 2009/138/EC (Solvency II) as amended by Directive 2014/51/EU (Omnibus II);
  - The Delegated Regulation 2015/35 and the amendments to it adopted by the European Commission on 30 September 2015 and June 2017;
  - Commission Implementing Regulation (EU) 2015/2450 (ITS on reporting) as amended by Commission Implementing Regulation (EU) 2016/1868 and Commission Implementing Regulation (EU) 2017/2189;
  - Commission Implementing Regulation (EU) 2015/2452 (Public Disclosure ITS) as amended by Commission Implementing Regulation (EU) 2017/2190;
  - Q&A published in EIOPA website (<https://eiopa.europa.eu/regulation-supervision/q-a-on-regulation>).

## Section 3: Objectives Pursued

1.

- 1.15. The proposed amendments to the technical standards aim to reflect in the supervisory reporting the amendments to the Delegated Regulation, provide legal certainty and reflection in the implementation tools of clarifications/interpretations provided through the Q&A tool, contribute to a better understanding of the current requirements, promote the consistent application of the technical standards and improve the quality of the information reported.
- 1.16. The proposed amendment with the proposed timing also aims to avoid the implementation of an adaptive revision of the Taxonomy, outside the existing Governance of Taxonomy schedule, which will have costs for all stakeholders, that does not reflect all issues identified until now. This would translate into more costs in a near future.
- 1.17. The proposed amendments in the ITS on reporting aim to:
- a) reflect in the supervisory reporting the amendments to the Delegated Regulation;
  - b) increase the consistency of the reporting framework; and

- c) facilitate processing, validation and analyses of the information by undertakings and NCAs.

1.18. These objectives are in line with the objective of the Solvency II Directive of harmonised supervisory methods, tools, power and reporting. It is justified and even expected that this type of minor corrections are needed regularly due to the nature of the supervisory reporting framework.

#### Section 4: Policy options

1.19. The draft ITS include a number of amendments and corrections. This impact assessment covers the amendments in the draft ITS on Reporting that might have an impact in implementation.

1.20. In the ITS on Disclosure only one minor correction (alignment with 2017 reporting clarification on scope of S.05.02) was identified. Therefore, an impact assessment is deemed not necessary.

1.21. The impact assessment covers the following amendments in the ITS on reporting, by order of templates:

- a) Introduction of a clarification to article 2 of Commission Implementing Regulation (EU) 2015/2450 regarding the signs of expression of data points;
- b) Introduction of a clarification to article 3 of Commission Implementing Regulation (EU) 2015/2450 regarding the exchange rate for historical data;
- c) Introduction of new option in the close list of S.01.02.R0220;
- d) In S.06.02 introduction of "Multiple ECAIs" in the closed list of ECAI at group level;
- e) Reporting of real estate held as collateral of the mortgages related to individuals in S.11.01;
- f) Introduction of new rows in S.26.01 to reflect DR 2017/1542 amendment;
- g) Amendments stemming from the Explanatory Notes on Variation analysis templates.

1.22. The options considered for each amendment are always to include or not to include the amendment. In section 5 the reasons for the amendment and impact of making or not making the amendments are detailed.

**Stakeholders are invited to provide their views on each amendment.**

#### Section 5: Analysis of Impacts

1.23. In this section, EIOPA describes the policy alternatives considered. The reasons for the amendment and impact of making or not making the amendments are detailed and input from stakeholders is welcome.

1.24. The different analysed options could have an impact on insurance and reinsurance undertakings as well as insurance groups, which are subject to reporting requirements, and on the national supervisory authorities (hereinafter, "NSAs"), responsible for the collection, processing and analysis of the reported data, and EIOPA. None of the options is considered to have a

material impact on policyholders, insurance and reinsurance undertakings as well as insurance groups and NSAs.

1.25. The conclusion from the analysis of impacts and the preferred policy options will, after the consultation, be included in a Section 6 - Comparison of Options.

**a) Introduction of a clarification to article 2 of Commission Implementing Regulation (EU) 2015/2450 regarding the signs of expression of data points**

1.26. The introduction aims to clarify the signs in which data points shall be reported. It was noticed that the general rule on the use of positive or negative amounts created a number of misunderstanding.

1.27. Impact of amendment: this is not assessed to have a material impact as it only provides clarification on the default approach on the expression of positive or negative values. The exceptional approaches which do not follow this general approach were already included in the respective instructions and this point has already been clarified through Q&A. No extra information is requested. The clarification provided is intended to facilitate undertakings' reporting in a consistent manner and to enhance data quality, therefore allowing a better analysis of the data by the NSAs and EIOPA.

1.28. Impact of not amending: lack of clarity on the default approach. As a result, a number of doubts in some templates were identified that would continue to be observed if amendment is not introduced.

**b) Introduction of a clarification to article 3 of Commission Implementing Regulation (EU) 2015/2450 regarding the exchange rate for historical data**

1.29. The introduction aims to clarify the exchange rate for transitional data.

1.30. Impact of amendment: this is not considered as having a material impact as it only provides clarification on the exchange rate to be used for reporting of historical data and this point has already been clarified through Q&A. No extra information is requested. The clarification provided is intended to facilitate undertakings' reporting in a consistent manner and to enhance data quality, therefore allowing a better analysis of the data by the NSAs and EIOPA.

1.31. Impact of not amending: lack of clarity. The article was clear on all the other situations except for this one. As a result, there might be different reporting approaches that would continue to be observed if amendment is not introduced.

**c) Introduction of new option in the close list of template S.01.02. (Basic Information-General) R0220**

1.32. According to the general comments section of template S.06.02 (List of assets) and S.08.01 (Open Derivatives) the information regarding the external rating (C0320 in S.06.02 and C0290 in S.08.01) and nominated External Credit

Assessment Institutions ("ECAI") (C0330 in S.06.02 and C0300 in S.08.01) may be limited (not reported) in the following circumstances:

- a) through a decision of the NSA under Article 35 (6) and (7) of the Solvency II Directive; or
- b) through a decision of the national supervisory authority in the cases where the insurance and reinsurance undertakings have in place outsourcing arrangements in the area of investments that lead to this specific information not being available directly to the undertaking.

1.33. The new option introduced will align the instructions with the reporting data allowing clear identification of the cases in which ECAI is exempted of reporting. For that purpose, a new row R0220 is inserted in the template S.01.02, where the undertakings will report whether the exemption applies.

1.34. Impact of amendment: this is not considered having a material impact even if by introducing a new option in the close list. It is an item not addressing "business data" and therefore, should be relatively easy to implement. It will allow a better assessment of the use of this specific proportionality tool and will allow distinguishing the cases of exemptions from the cases of non-compliance with the reporting requirement. Therefore, it will contribute to enhance data quality.

1.35. Impact of not amending: if this item is not introduced, it will not be possible to identify the number of exemptions or the reasons for exemptions (based on article 35(6) and (7) or on outsourcing).

**d) In template S.06.02 (List of assets) introduction of "Multiple ECAIs" in the closed list of ECAI**

1.36. A Q&A was received on how ECAI is to be reported at group level in the case of use of a partial internal model. In this case, it could happen that for the same asset the group uses an ECAI when the asset is held by undertakings covered by the Internal Model and a different one when the asset is held by undertakings under the Standard Formula. The current design of the template does not reflect that possibility.

1.37. Impact of amendment: it will provide more clarity and address the specific situation in cases when there is more than one ECAI at group level for the same asset. It is a very specific situation and it is not expected to affect many groups.

1.38. Impact of not amending: lack of clarity and consistency on the information reported affecting the use of the information in this specific situation.

**e) Reporting of real estate held as collateral of the mortgages related to individuals in template S.11.01 (Assets held as collateral);**

1.39. A number of Q&A received showed that the current instructions are not clear and provide room for different interpretations on reporting of real estate held as collateral for mortgages to individuals. One of the interpretations could lead to

a disproportionate level of detail being reported. The clarification introduced aims to avoid the reporting of a disproportionate level of detail.

- 1.40. Impact of amendment: not considered material. It avoids the reporting of disproportionate level of detail regarding the reporting of the real estate held as collateral of the mortgages related to individuals. It would allow a better understanding of the requirements (number of questions reveals uncertainty), consistency in data reported and improve the use for prudential purposes.
- 1.41. Impact of not amending: undertakings will report a disproportionate level of detail that does not benefit the use of the information.

**f) Introduction of new rows in template S.26.01 (Solvency Capital Requirement – Market Risk) to reflect the DR 2017/1542 amendment**

- 1.42. In line with the DR 2017/1542 amendment of DR (EU) 2015/35 in S.26.01 additional rows are introduced for qualifying infrastructure corporate equities as part of the Equity risk and for loans and bonds (qualifying infrastructure corporate investment) as part of the Spread risk.
- 1.43. Impact of amendment: It implies more granular reporting for those undertakings that hold this type of instruments, which benefit from a lower capital requirement after the modification of the Delegated Regulation. However, the impact is expected to be limited since undertakings that hold this type of instruments would need to adapt their systems in any case for the proper calculation of the capital requirement. For the undertakings that do not hold this type of instruments, the amendment will not have an impact. It is in line with previous amendments related to infrastructure assets and allows a proper reporting and supervision of the capital requirement of this type of instruments. On the spread risk, the availability of information depends on the method of calculation used by the undertaking.
- 1.44. Impact of not amending: if it is not implemented, the template will not be aligned with the DR 2017/1542 amendment and use of proxies would be needed.

**g) Amendments stemming from the Explanatory Notes on Variation analysis templates (templates S.29.01 to S.29.04)**

- 1.45. During the structured analysis of the questions received on the Variation Analysis templates and in the preparation of the Explanatory Notes on Variation Analysis templates, a number of amendments were introduced considering the instructions of the templates.
- 1.46. The amendments include mostly clarifications regarding the information to be reported but also a different approach on treatment of Unit-Linked and Index-linked business. The reporting of the index-linked and unit-linked business was discussed and all comments and concerns considered. The amendments reflect

the following treatment for the amounts related to index-linked and unit-linked business:

- In S.29.02 amounts related to index-linked and unit-linked business should be included as any other asset;
- In S.29.03 the amounts calculated with Best Estimate will be captured in the main table, including the amounts related to index-linked and unit-linked business;
- In S.29.03.R0300 the net impact of the amount of the assets held by index-linked and unit-linked business and of Technical provisions – index-linked and unit-linked (calculated as best estimate and risk margin or calculate as a whole), including the technical flows, should be reported for information;
- In S.29.03., the second table (R0310 to R0350) of the template reflects the technical flows affecting technical provisions but that are not reflected in the best estimate. This amounts should include the technical flows related to index-linked and unit-linked;
- In S.29.03.R0360, the amounts refers to gross total technical provisions, so including best estimate, risk margin, technical provisions calculated as a whole and the transitional measure on Technical Provisions, also related to index-linked and unit-linked business;
- In S.29.01., the amounts are related to index-linked and unit-linked business are then reflected in R0190 (assets) and R0200 (technical provisions).

1.47. Impact of amendment: it would allow a better understanding of requirements (number of questions reveals uncertainty) and consistency in information to be reported from the first time reporting as these templates are to be submitted the first time in relation to end 2017. However, it is acknowledged that clarification is being published close to the submission date and therefore a best effort approach is expected. The clarification provided is intended to facilitate undertakings' reporting in a consistent manner and to enhance data quality, therefore allowing a better analysis of the data by the NSAs and EIOPA.

1.48. Impact of not amending: lack of consistency on the information reported affecting the use of the information.