

**Comments Template on CEIOPS-CP 57  
Consultation Paper on the Draft L2 Capital Add-on**

**Deadline  
11.09.2009  
4 p.m. CET**

Name of Company:	<b>PricewaterhouseCoopers LLP</b>	
Disclosure of comments:	CEIOPS will make all comments available on its website, except where respondents specifically request that their comments remain confidential.  Please indicate if your comments should be treated as confidential:	No
<p>Please follow the following instructions for filling in the template:</p> <ul style="list-style-type: none"> <li>⇒ <u>Do <b>not</b> change the numbering</u> in the column "reference".</li> <li>⇒ Please fill in your comment in the relevant row. If you have <u>no comment</u> on a paragraph, keep the row <u>empty</u>.</li> <li>⇒ Our IT tool does not allow processing of comments which do not refer to the specific paragraph numbers below. <ul style="list-style-type: none"> <li>○ If your comment refers to multiple paragraphs, please insert your comment at the first relevant paragraph and mention in your comment to which other paragraphs this also applies.</li> <li>○ If your comment refers to sub bullets/subparagraphs, please indicate this in the comment itself.</li> </ul> </li> </ul> <p><b>Please send the completed template, <u>in Word Format</u>, to <a href="mailto:secretariat@ceiops.eu">secretariat@ceiops.eu</a>. Our IT tool does not allow processing of any other formats.</b></p> <p>The numbering of the paragraphs refers to Consultation Paper No. 57 (CEIOPS-CP-57/09).</p>		
<b>Reference</b>	<b>Comment</b>	
General Comment		
1.		

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3.1.	We agree with the classifications of add-on and believe that maintaining two overall classifications will support the objective of supervisory convergence.	
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3.4.	It is unclear when transitional arrangements between Solvency I (or ICAS in the UK) to Solvency II will be addressed.	
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3.8.	CEIOPS envisages that using harmonised principles on supervisory review processes will help supervisory convergence. This is likely to take a number of years from the date Solvency II is implemented due to the time elapse from implementation date to SRP including consistency of	

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	supervisory actions.	
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3.28.	CEIOPS states that principles of proportionality should apply but an undertaking using the standard model may be required to develop its own full or partial model due to the risks it writes with the	

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	alternative being a capital add-on. This may result in some smaller or medium undertakings having to invest in systems and processes that are disproportionate to their operations.	
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3.37.	A capital add-on may be implemented if an undertaking does not derive a satisfactory SCR within a reasonable timeframe. A reasonable timeframe will vary between undertakings and jurisdictions and although we commend CEIOPS intentions regarding convergence, we think that this will be difficult to implement consistently in practice.	
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3.44.	We agree that there may be circumstances where the internal model will be inconsistent with the risk profile and think it is important for supervisors to appreciate that model updates will be performed periodically and not continuously in the cycle.	
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3.52.	Whilst we support development of a harmonised range or value, in particular option 3, it is difficult to envisage how supervisors will ensure consistency across such a large range. Also, setting a reference in Level 3 will allow the range to amended which is important given the early stage of the process.	
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3.55.	We support supervisors finding a common understanding of Level 3 guidance as we anticipate that this is likely to evolve as Solvency II gets bedded down.	
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3.71.	We agree that the second approach off offsetting overestimated and underestimated risks is not in the spirit of Level 1 Directive and concur with CEIOPS that option 1 is the most appropriate option.	
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3.82.	We agree with the level of own funds should not be taken into account in deciding whether or not undertakings should be subject to a capital add-on as it will provide an inaccurate position of the capital required commensurate with the risk profile.	
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3.86.	Whilst we agree and understand that prescriptive list of situations in which a capital add-on may apply will become outdated and more importantly may remove the onus from the administrative or management body in taking full responsibility for ensuring the model is fully aligned with the risk profile, we think that there is some merit in regular (annual) broad industry guidance or themes in the general areas which companies need to consider when performing model updates.	
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3.94.	See 3.52	
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3.109.	It would be helpful to have clarification on the other supervisory powers which could be imposed.	
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3.116.	It would be helpful to understand how CEIOPS envisages "measuring" governance deficiencies qualitatively.	
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3.118.	We envisage a significant deviation in governance could be judgemental and seek clarification of how supervisory authorities will ensure that the level playing field is achieved and upheld.	
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3.128.	We concur that using a traffic light system (for regulator reporting) is not appropriate as Level 1 and 2 guidance should be considered equally. However, undertakings will need to have systems and processes in place internally to monitor deficiencies.	
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3.133.	It would be helpful if CEIOPS could provide examples of other measures which the supervisory authority could adopt if the deviation was very significant.	
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3.135.	We would welcome further work on risk categorisation however, this should be provided at the earliest opportunity as companies are currently implementing changes to their systems and processed in order to meet current reporting requirements.	
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3.146.	In terms of reporting, it is not clear how the timeframe for add-ons will operate as in practice. It is likely that the reporting will be carried out within 3 to 4 months of the year end (or 3 to 4 weeks within the quarter end) with add-ons imposed including the possibility of holding additional capital e.g. 6 months after the year end. This may cause confusion as companies are forced to report early or alternatively the supervisory authorities enforcing a period which is almost expired.	
3.147.		
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3.149.	We concur with this option but consider that further guidance is needed to fully understand the requirements to be adhered to within the 6 month period.	
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3.154.	Whilst we understand why a notional split between life and non-life undertakings is required, this may result in a capital add-on being imposed inequitably within a group due to the approximations used in the calculations. It may also result in enhanced reporting for undertakings increasing burden of supervisory reporting.	
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3.167.	Whilst we understand the importance of using comparable data from undertakings with similar risk profile, it is important that the undertaking fully understands the reason for the capital add-on and is given adequate time to respond to challenges from the supervisory authority.	
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3.171.		
3.172.	See 3.167.	
3.173.	See 3.167.	
3.174.	See 3.167.	
3.175.	See 3.167.	
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3.188.	Although we understand the requirement to have comparable data for historical purposes, it is important that undertakings are not unduly burdened in providing such information.	
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3.196.	We would assume that as part of the internal model approval process, that supervisory authorities would inform undertakings of design assumption methodologies and inadequacies as the regime	

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3.229.	We agree with option 3 as it is flexible and proposes some degree of harmonisation.	
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3.232.	See 3.135.	
3.233.	It would be useful to have a consistently adopted process for follow-up of capital add-ons ensuring responsibilities are clear for supervisory authorities and undertakings.	
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3.244.	Allowing Member States discretion over the public disclosure over capital add-ons during the transitional period will not support and uphold the level playing field. We would support a consistent approach to disclosure of capital add-ons during the transitional period.	
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5.2	We support the need to develop common practices in terms of capital add-ons particularly in the early years of implementation of Solvency II.	
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