

INTERNATIONAL ASSOCIATION OF INSURANCE SUPERVISORS



Common Framework for the Supervision of Internationally Active Insurance Groups

Concept Paper

Invitation for Comments

1 July 2011



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Introductory remarks

Invitation for Comments on ComFrame Concept Paper

The IAIS is pleased to invite comments from Members and Observers, by 31 August 2011, on this Concept Paper, as explained in more detail under item 7.

With the Common Framework for the Supervision of Internationally Active Insurance Groups (ComFrame) the IAIS aims to:

- **Develop methods of operating group-wide supervision of Internationally Active Insurance Groups (IAIGs)** in order to make group-wide supervision more effective and more reflective of actual business practices;
- **Establish a comprehensive framework for supervisors to address group-wide activities and risks and also set grounds for better supervisory cooperation** in order to allow for a more integrated and international approach;
- **Foster global convergence** of regulatory and supervisory measures and approaches.

The Concept Paper reflects evolving thinking and open issues arising in the first year of building ComFrame. The draft Modules and Elements are not yet harmonised in their approach and presentation. The Concept Paper serves as a platform to further crystallise the needs and methodologies regarding the supervision of IAIGs.

This Concept Paper represents a new way for the IAIS to engage with its Members and Observers. This is an invitation to Members and Observers to comment about the direction developed to date.

1. Rationale for Developing ComFrame

In developing ComFrame, the IAIS is addressing a gap that exists today in the supervision of IAIGs. Although a number of individual jurisdictions and regions have developed methodologies of group-wide supervision for insurance groups there is currently no common framework that serves as a platform to supervise IAIGs globally.

The development of ComFrame is set against a background of the increasingly larger relevance of insurance groups including those that are internationally active. This begs a coherent, meaningful and sustainable policy response from the IAIS regarding IAIGs. IAIGs engage in activities in and across several countries and markets and aim at achieving commercial synergies in many regards including by the pooling of risks and by optimising financial efficiency. Synergies and efficiencies may also include the transferring of risks from one part of the group to another, often on a cross-border basis. In contrast to the increasingly global activities of groups, insurance supervision has to a considerable extent remained a



national matter focusing on solo supervision with some progress made in the direction of group supervision, but not in a globally coherent manner.

In order to fully understand the operations and risks of an IAIG and its entities in the involved jurisdictions, any one supervisor needs to cooperate and coordinate with other supervisors. In light of these insights and lessons learnt from the recent financial crisis it is considered necessary for supervisors to address regulatory gaps in a harmonised manner as opposed to individually and in isolation.

2. Characteristics of ComFrame

ComFrame is designed to **operationalise group-wide supervision for IAIGs**. It will also address issues relating to the supervision of financial conglomerates from an IAIG supervisor's perspective.

ComFrame will provide a framework to assist supervisors to **holistically address the risks arising in IAIGs** that may have many different roots, such as in the mixture of and development of businesses, in the corporate structures of the IAIG, in governance processes or in its financial condition. ComFrame thus applies a **multidisciplinary approach**. The differences in the normal course of business, stress scenarios and resolution situations will be considered. New risks that may emerge will be captured through the evolving nature of ComFrame. Accordingly, ComFrame aims to be more reflective of the actual, best business practices of IAIGs.

ComFrame will **address both the group-wide and host supervisors' perspectives** by defining roles for cooperation including through supervisory colleges - thus enhancing the dialogue, effectiveness and efficiency of group-wide supervision. A key to effective and efficient supervision of an IAIG is the ability of supervisors in each jurisdiction in which the IAIG operates to interact with each other. Supervisors should be able to establish, through the implementation of ComFrame, a common language and approach to the key tasks of supervision that are relevant to the IAIG as a whole.

Supervision of an IAIG will necessarily involve interaction with the IAIG. A more integrated, multilateral framework for the supervision of an IAIG is needed to form the bedrock of this interaction. The implementation of ComFrame should result in a streamlining of supervisory processes that will benefit both supervisors and IAIGs and reduce multiple uncoordinated regulatory processes for an IAIG.

As a result, ComFrame has the potential to advance the evolution of various roles in cross-border supervisory cooperation, going far beyond the traditional cross border exchange of information between supervisors. Developing **ComFrame will facilitate considerable information sharing and building of understanding** between the involved supervisors and IAIGs. **ComFrame will initiate the interaction between supervisors**, for example in identifying IAIGs, in assuming roles and responsibilities of group-wide and host supervisors, in cooperating and sharing information, in driving and using supervisory colleges actively and in preparing for crisis management. **ComFrame will also be able to serve as a point of reference for group-wide supervision** to involved supervisors and IAIGs.



3. *Technical aspects of building ComFrame*

ComFrame is not intended to be a collection of overly prescriptive, narrowly defined approaches. On the contrary, ComFrame will be **outcome-focused** and, whilst it will **not be rules-based**, its standards will be accompanied with the required parameters and specifications. This builds on the finding that the supervisory principles being implemented by different jurisdictions are often merely different approaches that achieve similar outcomes. ComFrame will also be ever evolving. There will be no point of perfection: the IAIS and its Members will continuously refine the framework to reflect changing circumstances and experience gained with ComFrame over time.

ComFrame will **become a comprehensive framework**. It will **not only cover that which is unique and specific to IAIGs**. ComFrame will also cover everything that is **relevant to IAIGs**. Some issues may be relevant to insurers or all insurance groups including IAIGs. ComFrame will need to address these issues. This does not mean that domestic groups or other groups that do not meet the definition of IAIGs are in the scope of ComFrame.

ComFrame is designed to be based on and complement the ICPs. ICPs are applicable at the legal entity and the insurance group level, unless otherwise specified. **ComFrame will be the practical application and elaboration of those ICPs with regard to IAIGs**. This will be built on existing experience in insurance group-wide supervision developed by IAIS members leading to identification of best practices and developing new practices as well. ComFrame is designed to create more commonality and comparability of approaches without being rules-based.

ComFrame also draws on the experience of several different supervisors by synthesising the various processes used by them under normal and stress conditions and complementing such processes where gaps have emerged.

4. *Structure*

ComFrame builds on several key Modules which are further elaborated by corresponding Elements. This structure has been designed to allow ComFrame to compartmentalise the various pieces of work and develop them separately yet in a well coordinated manner. Through the Modules following, this Concept Paper provides an in-depth overview of the framework.

The Modules of ComFrame are:

- Module 1 Scope of Application
- Module 2 Group Structure and Business
- Module 3 Qualitative and Quantitative Requirements
- Module 4 Supervisory Cooperation and Interaction
- Module 5 Jurisdictional matters

Module 1 is the basis of ComFrame in that it sets out the criteria and process of identification of IAIGs and the scope of supervision along with how insurance supervisors should interact with other sectoral supervisors where an IAIG is a financial conglomerate or is a sub-group within a financial conglomerate.



Module 2 addresses the structure and business mix of an IAIG from the risk management perspective. Changes in business and intra-group transactions are also considered from a risk management point of view. Furthermore, Module 2 sets out the pro-active steps expected from IAIGs such as contingency planning and protocols relating to handling emergency situations as well as the provision of information on applicable policyholder protection schemes.

Module 3 contains both qualitative and quantitative requirements applicable to IAIGs. Qualitative requirements capture corporate governance including the interaction between corporate bodies and fitness and proprietary requirements as well as the setting up and processes for risk management, actuarial, internal audit and other processes. Quantitative requirements address –based on a comprehensive Enterprise Risk Management Approach - liabilities and investments, valuation and capital adequacy.

Module 4 covers supervisory processes, including interaction among supervisors, supervisory activities and approaches to supervisory intervention, crisis management and resolution as well as reporting and disclosure obligations of IAIGs.

Module 5 sets out minimum criteria for all IAIS members to meet with ComFrame Prerequisites applying in the expectation that all IAIS members will at a minimum carry out the role of host supervisors of IAIGs. Increased ComFrame Prerequisites apply to those IAIS Members who carry out the role of group-wide supervisors.

Each Element is assigned a specific Priority - A, B or C - depending on the timing of delivery. Priority A Elements are further developed and are closer to their final form but are expected to be evolved further as other Modules and Elements of ComFrame evolve. Priority B Elements will be ready for consultation by the end of the second year (1 July 2012), and Priority C Elements by the end of the third year (1 July 2013) as indicated in the figure below.

ComFrame Standards set out the specific actions or requirements that IAIGs or supervisors need to meet (or comply with). ComFrame Parameters complement the Standards by providing a specific list or criteria that one can work off in complying with the Standard. Specifications illustrate or provide details and definitions to Parameters in terms of *specific numbers and/or items*. Where appropriate, Specifications alternatively provide or illustrate approaches on implementing Parameters in practice.

The ComFrame Concept Paper includes text for most Standards and Parameters. **Priority A Elements**, already comprising of specific ComFrame Standards, Parameters and Specifications, together with corresponding additional guidance in the form of ComFrame Commentary (both General and Technical), lend themselves to comments on the texts proposed. The **Priority B and C Elements** included in the Concept Paper are in general less advanced and thus less amenable for comments on the specific texts.

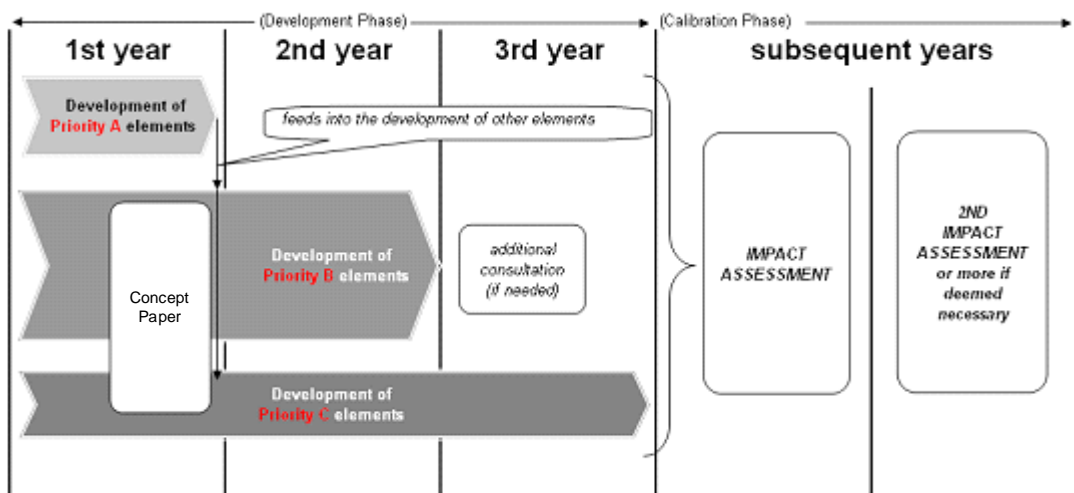
5. Changes to Structure since the start of the Development Phase

Those Members and Observers who have been following the development of ComFrame will note that the structure of Module 1, 3 and 4 has changed slightly. As ComFrame developed over the last year, some changes in structure were found to be desirable to create greater clarity in terms of the structure going forward. The changes are set out in Appendix 1.

It should be noted that the structure of ComFrame will be subject to further change in the process of developing and finalising it.

6. ComFrame Development Process

ComFrame is to be developed within 3 years (“Development Phase”) starting from July 1, 2010. This Concept Paper marks the end of the first year of development from the Starting Date. Immediately following the three-year Development Phase, impact assessments including those on calibrations (particularly for quantitative requirements) will be undertaken (“Calibration Phase”). See the figure below.



7. Invitation to Comment and Questions

Members and Observers are invited to provide input on:

- a. the Concept Paper as a whole
- b. the General Questions in Section 8 below
- c. the Specific Questions posed in relation to each Module and Element combined with comments on the text in those Modules and Elements having regard to the priority assigned.

When commenting on the Priority A Elements please provide comments on the structure, the principles of the Elements and the text itself. With regard to Priority B and C Elements, please be aware these Elements are less developed and the IAIS is seeking views on the structure and direction of development of these Elements rather than detailed comments on the text as drafted. The text in these Priority B and C Elements is only intended to be indicative at this Concept Paper stage.

The comments are to be provided through the use of survey templates available on the Consultation page of the IAIS Members and Observers website

<https://extranet.iaisweb.org/index.cfm?pageID=153> through separate links.

Comments from other stakeholders can be made through links to the survey templates on <http://www.iaisweb.org/Supervisory-Material-765>. Please note due to the tight timeframe



between the deadline for comments on 31 August 2011 and the ComFrame Dialogue and Technical Committee Meeting in Seoul that we strongly encourage the submission of comments early. Separate comment templates are provided for General Comments and each Module to facilitate partial submissions early in the comment period.

Please note that your comments will be made available to other IAIS Members and Observers at various opportunities, including, but not limited to, subsequent meetings.

8. General Questions about ComFrame

When responding to the General Questions, we invite suggestions, with explanation, both on areas of possible additions and deletions to the overall structure of ComFrame.

General Question

- GQ1) Do the Modules and Elements represent a comprehensive framework for the supervision of IAIGs?
- GQ2) Are all the potential material sources of risk for IAIGs addressed?
- GQ3) Are all the supervisory tools conducive to effective and efficient supervision of IAIGs included in the Concept Paper?
- GQ4) Are the supervisory processes included in the Concept Paper sufficiently streamlined?
- GQ5) Is ComFrame sufficiently structured and articulated to serve as a foundation which can be adopted by supervisors of IAIGs globally?

9. Timeline

1 July 2011	Invitation to comment on the ComFrame Concept Paper including Priority A Elements
31 August 2011	Comments and/or feedback due
26-28 September 2011	Discussion of comments received
October 2011 to June 2012	Further development of ComFrame with Technical Committee managing the development of the contents of the ComFrame
1 July 2012	Invitation to comment on the Priority B Elements (and revised Priority A Elements reflecting comments/feedback from the 2011 comment period and possibly more advanced questions on Priority C)
1 July 2013	Invitation to comment on the completed ComFrame Paper (which includes Priority C Elements for the first time, and revised Priority A Elements and Priority B Elements reflecting comments/feedback from the previous comment periods)

The Development Phase will immediately be followed by a Calibration Phase to test the impacts of the implementation of ComFrame in local jurisdictions.



Module 1

Scope of application

Specific Questions

- SQ1) Are the right criteria and combinations of criteria applied to identify IAIGs?
- SQ2) Are the tentative size thresholds for the criteria to identify IAIGs at the right level, or are there other proposals for the thresholds?
- SQ3) What thresholds for the international activity criteria would be appropriate to identify IAIGs?
- SQ4) Is the application of constrained discretion to allow groups to be included or excluded from ComFrame appropriate? No matter whether you believe this is appropriate, please answer the following questions as if constrained discretion would apply:
- For decisions to exclude from ComFrame groups that meet the **ComFrame Criteria**, how should the discretion exercised by supervisors be constrained?
 - For decisions to include groups within ComFrame that do not meet the **ComFrame Criteria**, how should the discretion exercised by supervisors be constrained?
- SQ5) Are there any justifiable examples of groups which do not meet the **ComFrame Criteria** that should be included in ComFrame and are there any justifiable examples of groups which meet the **ComFrame Criteria** that should be excluded from ComFrame?
- SQ6) While awaiting further development of the Joint Forum Principles on the Supervision of Financial Conglomerates, does Element 4 adequately set out a framework for dealing with an IAIG that is a financial conglomerate or is part of a financial conglomerate?

Module Specific Introductory Comments

In Module 1 the identification of IAIGs is done in several steps: As a first step, Element 1 covers the identification of IAIGs based on the consolidated financial statements by application of the size and international activity criteria as well as constrained discretion, followed by Element 2 which describes the process including regular reviews. In Element 3 it is addressed whether for supervisory purposes individual legal entities need to be added to the identified IAIGs and other considerations related to supervision. Element 4 addresses the ramifications that result if an IAIG is a conglomerate or forms part of a conglomerate. This process is graphically presented in Annex I.

Foundation

- ICP 23 Group-wide supervision
- Joint Forum principles for the supervision of financial conglomerates



ComFrame Standards	Parameters	Specifications
<p>Module 1, Element 1 Identification of internationally active insurance groups [developed by Insurance Groups and Cross Sectoral Issues Subcommittee]</p>		
<p>M1E1-1 ComFrame provides a framework for the supervision of internationally active insurance groups, IAIGs.</p>	<p>M1E1-1-1 For the purpose of ComFrame, an IAIG is a group headed by a financial institution or a financial holding company which directly or indirectly controls an insurer within that group and fulfils the ComFrame Criteria (see M1E1-1-2), assessed on the basis of its consolidated financial statements, unless the exercise of constrained supervisory discretion justifies otherwise (see M1E1-1-3).</p>	<p>M1E1-1-1-1 A “financial institution” is a bank, an insurer or a securities firm. A “financial holding company” is a holding company which directly or indirectly owns a financial institution. An “insurance holding company” is a holding company in which insurance activity is dominant.</p>
		<p>M1E1-1-1-2 Fulfilment of the ComFrame Criteria in M1E1-1-2 will be assessed on the basis of consolidated general purpose financial statements, prepared according to international financial reporting standards, if so applied, or national financial reporting standards, in the absence of application of international accounting standards. If there exists consolidated financial statements prepared according to supervisory reporting requirements or a national reporting format, they will be applied in lieu of the general purpose consolidated financial statements.</p>



		<p>M1E1-1-1-3 An IAIG does not necessarily, but may either be a financial conglomerate or part of a financial conglomerate. (The definition of a financial conglomerate is provided by the Joint Forum “Principles for the Supervision of Financial Conglomerates.”)</p> <p>Where a financial conglomerate has a sub-group headed by an insurance holding company or an insurer, it may be regarded as an IAIG under ComFrame provided the other parts of the group are supervised in the other sectors (see Element 4 for cooperation/coordination requirements in the supervision of a financial conglomerate).</p>
		<p>M1E1-1-1-4 There may be an ultimate parent which owns a parent of the insurer (an intermediate parent). For example, a financial holding company established in a home country may have an intermediate financial holding company which owns an insurer in/outside the home. (The financial holding company in the home country will be regarded as an ultimate parent and the intermediate holding company will be regarded as an intermediate parent.) In such a case, the ComFrame criteria in M1E1-1-2 are assessed at the level of an ultimate parent which is a financial institution or a financial holding company. (See Annex II)</p>
	<p>M1E1-1-2 The ComFrame Criteria referred to in M1E1-1-1 consist of the:</p>	<p>M1E1-1-2-1 “Insurance assets” are assets held by insurance companies within a consolidated group.</p>



	<p>(a) size criteria</p> <ul style="list-style-type: none">• insurance assets and/or insurance liabilities of not less than [A] [and/or]• gross written premiums of not less than [B] <p>and</p> <p>(b) international activity criteria</p> <ul style="list-style-type: none">• the number of countries [C or more] in which the group operates [and/or]• percentage of gross premiums written from outside the home market exceeding D% of the group's total gross written premium. <p>[Note: The combination of criteria (for example “and” versus “or” in the size criteria) and thresholds are tentative and will be fixed after the impact assessment study. The tentative thresholds for the criteria are: A – USD 20 Billion B USD 10 Billion C not specified D not specified.]</p> <p>See Questions SQ1) to SQ3)</p>	<p>If it is not possible to obtain total insurance assets on a consolidated basis (most likely when an IAIG is a financial conglomerate), insurance liabilities on a consolidated basis may be used as a proxy for the size criterion.</p> <p>“Insurance liabilities” are liabilities held by an IAIG on a consolidated basis as obligations for insurance contracts underwritten.</p> <p>“Gross premiums written” are insurance premiums before ceded reinsurance on a consolidated basis.</p> <p>“Gross premiums written outside the home country” are gross premiums written from subsidiaries/branch offices outside the home country and “gross premiums written directly from countries outside the home country” are premiums written without a physical presence of the group in the respective country(ies).</p> <p>“Operate” relates to both insurance and other financial business in the home and host countries of the IAIGs conducted either through subsidiaries/branches and/or on a cross-border provision of services basis without any physical presence.</p> <p>Although an insurance legal entity which has no parent or subsidiaries is legally not an insurance group, it is regarded as an IAIG if it operates either through branch offices in foreign countries or through cross-border underwriting and meets the criteria in M1E1-1-2 for the purpose of ComFrame.</p>
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		See General Commentary 2 and 3
		<p>M1E1-1-1-2-2 If an IAIG pursues insurance activities with an associate or through a joint venture, the gross premiums written/ other income earned through the associate/ joint venture taken into account correspond to the equity ownership or, if different, the income distribution and risk allocation arrangement.</p> <p>The terms “associate” and “joint venture” (or their equivalents) are defined in the accounting standards such as IAS 28/IAS 31.</p>
	<p>M1E1-1-3 Under specific circumstances, insurance groups that meet the criteria as set out in M1E1-1-1 may be excluded from ComFrame and others that do not meet the criteria may be included in ComFrame, depending on the nature, scale or complexity of the groups concerned which is assessed based on the group structures and business and the corresponding risks. This process is referred to as “constrained supervisory discretion” in M1E1-1-1.</p>	<p>M1E1-1-3-1 The following circumstances allow for the application of constrained supervisory discretion. (See Module 1, Element 2 and Annex I.) (to be completed) See Question SQ4 and SQ5</p> <p>Through the supervisory discretion process, other involved supervisors may request the group-wide supervisor to consider an insurance group as an IAIG if its business activities in the host countries are material as an IAIG, even if the group does not meet some of the criteria in M1E1-1-1.</p>



Module 1, Element 2 Process of identifying internationally active insurance groups [developed by Insurance Groups and Cross Sectoral Issues Subcommittee]

<p>M1E2-1 The group-wide supervisor, in cooperation with other involved supervisors as necessary, identifies IAIGs.</p>	<p>M1E2-1-1 The group-wide supervisor of an IAIG leads the process and has the responsibility to identify IAIGs in cooperation with other involved supervisors. Any involved supervisor may prompt the process.</p>	<p>M1E2-1-1-1 The process is illustrated in Annex I and implements the identification of IAIGs set out in Element 1. Where the IAIG is a financial conglomerate or part of a financial conglomerate, also refer to Module 1 Element 4</p>
		<p>M1E2-1-1-2 The group-wide supervisor, host supervisors and involved supervisors are defined in Module 4 Element 2.</p>
	<p>M1E2-1-2 The involved supervisors (especially group-wide supervisors) are accountable and capable of explaining the appropriateness of the identification of IAIGs in general and in the case where constrained supervisory discretion is applied in accordance with M1E1-1-3</p>	<p>M1E2-1-2-1 As a result of constrained supervisory discretion, some insurance groups even though meeting the ComFrame Criteria in M1E1-1-2 may not be deemed as IAIGs (i.e. excluded from ComFrame) while other insurance groups which do not meet the criteria may be considered as IAIGs (i.e. included in ComFrame).</p>



<p>M1E2-2 The group-wide supervisor, in cooperation with other involved supervisors as necessary, reviews the continued appropriateness of which groups qualify as IAIGs.</p>	<p>M1E2-2-1 The review is carried out at least on an annual basis to determine if:</p> <ul style="list-style-type: none">• an insurance group still qualifies as an IAIG; or• there are new insurance groups that should be considered to be IAIGs based on the ComFrame Criteria.	
	<p>M1E2-2-2 The group-wide supervisor may, in cooperation with other involved supervisors as necessary, decide not to consider a group as being an IAIG anymore if the group does not meet the ComFrame Criteria for three consecutive years.</p>	<p>M1E2-2-2-1 When a group ceases to meet some of, or all the ComFrame Criteria due to certain temporary factors, for example a decrease in gross premium written due to a temporary shock to the economy, but is expected to resume meeting the criteria in a few years time, the group should still be considered as being an IAIG.</p>



Module 1, Element 3 Scope of ComFrame supervision [developed by Insurance Groups and Cross Sectoral Issues Subcommittee]

<p>M1E3-1 The scope of ComFrame supervision covers all the relevant entities of an IAIG.</p>	<p>M1E3-1-1 When determining which entities to capture within the scope of ComFrame supervision, both “control” and “risk” aspects need to be taken into consideration. In this context, the relevant entities should include not only the entities which are accounted for on the consolidated basis (“consolidated entities”) but also other entities (“non-consolidated entities also subject to supervision”) if they are relevant from the perspectives of “control” and/or “risk”. The entities can either be incorporated or unincorporated.</p>	<p>M1E3-1-1-1 “Control” exists if there is power to govern the financial and operating policies of an entity either directly or indirectly so as to obtain benefits from its activities.</p> <p>“Control” is, in general, described in two respects, namely participation (equity interest) and influence on decision making. It needs to be noted that supervisory assessment of control may lead to different results than the assessment under either international accounting standards or national accounting standards.</p> <p>“Consolidated entities” are determined from the “control” concept as applied in applicable international financial reporting, national financial reporting standards or supervisory reporting requirements that have been relied upon for producing the consolidated financial statements under which the IAIG is identified in Element 1. All consolidated entities constitute an IAIG.</p> <p>“Non-consolidated entities also subject to supervision” are entities which are non-consolidated but relevant from the perspective of risk or a supervisory definition of control</p> <p>See General Comment 4.</p>
	<p>M1E3-1-2 The relevant consolidated entities include:</p>	<p>M1E3-1-2-1 At a minimum, all the entities which are included in the</p>



	<ul style="list-style-type: none">• Operating and non-operating holding companies (including intermediate holding companies);• Insurers (including sister or subsidiary insurers);• Other regulated entities such as banks and/or securities companies;• Non-regulated entities (including parent companies, their subsidiary companies and companies substantially controlled or managed by entities within the group);• Special purpose entities; and/or• Branch offices etc.	group solvency calculation under Module 3 Element 5 should be included in the scope of ComFrame supervision.
	<p>M1E3-1-3 The relevant non-consolidated entities subject to supervision are identified by considering, at a minimum, the following elements:</p> <ul style="list-style-type: none">• direct or indirect participation (i.e. equity interest),• significant/dominant influence• other contractual rights and obligations;• risk exposure;• risk concentration;• risk transfer;• intra-group transactions and exposures; and/or• governance structure.	<p>M1E3-1-3-1 Significant/dominant influence is in general deemed to exist if there is power to participate in the financial and operating policy decisions of an economic activity.</p>



		<p>M1E3-1-3-2 All relevant non-consolidated entities subject to supervision should be identified to the extent they may have significant adverse impact on insurance legal entities within an IAIG or an IAIG as a whole. Any activities and circumstances listed in, but not limited to, M1E3-1-3 involving one or more entities within an IAIG need to be taken into consideration.</p>
		<p>M1E3-1-3-3 Governance structure varies as set out in Module 3 Element 1; some groups may centralise governance functions in one entity within the group, such as a holding company, to the extent that such structure meets laws and regulations. It is important for a supervisor to take into account the governance structure, including allocation of responsibilities, which a group takes.</p>
	<p>M1E3-1-4 Types of entities to which specific ComFrame requirements are applied or not applied are specified in the relevant Modules/Elements and Standards where necessary</p>	<p>M1E3-1-4-1 The ComFrame requirements are not necessarily applied on all types of entities within the scope of ComFrame supervision. Supervisory approaches and supervisory requirements on types of entities/activities within the scope may vary depending on, for example, the types of business, legal status of the entities and/or nature, scale and complexity of risks.</p>
	<p>M1E3-1-5 In determining the scope of ComFrame supervision, the principle of proportionality would apply. Individual entities may also be excluded from the scope of ComFrame</p>	



	supervision if the risks of/from that entity are negligible.	
<p>M1E3-2 The group-wide supervisor leads the process of determining the scope of ComFrame supervision in cooperation with other involved supervisors.</p>	<p>M1E3-2-1 The group-wide supervisor does not narrow the identified scope of ComFrame supervision due to lack of legal authority and/or supervisory power. In some countries, an insurance supervisor may not have the legal authority to supervise certain entities within the identified IAIG.</p>	<p>M1E-3-2-1-1 The entities over which insurance supervisors may not have powers could include entities regulated in another sector (see Element 4) and non-regulated entities.</p>
	<p>M1E3-2-2 The group-wide supervisor and other involved supervisors of an IAIG share any information needed for the identification of the scope of ComFrame supervision with the other relevant involved supervisors.</p>	<p>M1E3-2-2-1 An insurer and other entities within the IAIG should provide supervisors with any information needed for the determination of the scope of the group.</p>
	<p>M1E3-2-3 In determining the scope of ComFrame supervision, group-wide and other involved supervisors should capture all relevant material risks to which insurers within an IAIG are exposed.</p>	
	<p>M1E3-2-4 All involved supervisors (especially the group-wide supervisor) should be capable of explaining the appropriateness of, and be accountable for, the determined scope of ComFrame supervision.</p>	



	<p>M1E3-2-5 The involved supervisors should consult and agree amongst themselves on the scope of ComFrame supervision for the identified IAIGs to ensure that there are no gaps or unnecessary duplication in regulatory oversight between countries.</p>	
<p>M1E3-3 The group-wide supervisor, in cooperation with other involved supervisors as necessary, reviews the continued appropriateness of the scope of ComFrame supervision of an IAIG on an ongoing basis.</p>		
<p>M1E3-4 The group-wide supervisor requires that the group structure within the scope of ComFrame supervision be sufficiently transparent to the involved supervisors so that supervision of the IAIG will not be hindered.</p>	<p>M1E3-4-1 Entities within the scope of ComFrame supervision consists of the consolidated entities and the relevant non-consolidated entities subject to supervision (see M1E3-1-1 to 3).</p>	<p>M1E3-4-1-1 To achieve effective group-wide supervision, it is important that involved supervisors understand the IAIG's structure adequately; a complex group structure could hinder effective group-wide supervision. The structure and risk profile of the IAIG should not threaten any insurer's stability and solvency. For these reasons, an IAIG should make and keep its group structure transparent in order not to impede effective group-wide supervision (see Module 2 and M1E3-4-2).</p>
		<p>M1E3-4-1-2 Where the group-wide supervisor considers it necessary for the structure of the IAIG to be modified to ensure that supervision will not be hindered, the reasons for the decision will be made transparent to the IAIG.</p>



	<p>M1E3-4-2 The responsibility to have a transparent group structure rests with the entity where the group's decision-making takes place in practice.</p>	<p>M1E3-4-2-1 The entity with responsibility for the transparent group structure could be the ultimate parent entity. The responsibility may rest with non-insurance financial institutions or a holding company such as a bank or a bank holding company. In such cases, even if only the insurance part of the financial conglomerate is identified as an IAIG, the group-wide supervisor of the IAIG consults with supervisors of the other parts of the conglomerate to make the structure of the IAIG sufficiently transparent.</p>
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ComFrame Standards	Parameters	Specifications
<p>Module 1, Element 4 Conglomerate ramifications (this element applies only in the case where an IAIG is a financial conglomerate or is part of a financial conglomerate) [developed by Insurance Groups and Cross Sectoral Issues Subcommittee]</p>		
<p>M1E4-1 Where an IAIG is part of a wider financial conglomerate, the group-wide supervisor cooperates and coordinates with other involved sectoral supervisors, to identify and assess the scope of the conglomerate, the risks related to its businesses, risk and capital management and the supervisory practices across the financial conglomerate.</p>	<p>M1E4-1-1 The group-wide supervisor of the IAIG convenes or participates in a supervisory college among the involved sectoral supervisors to discuss matters related to the conglomerate. The roles and responsibilities of the various supervisors within the college will be based on their authorities and, to the extent possible, mutual consent among the members of the college.</p>	<p><i>See Technical commentary 2 and 3</i></p>
	<p>M1E4-1-2 In cases where an IAIG is part of a banking dominant financial conglomerate, the group-wide supervisor may not necessarily be the conglomerate-wide supervisor of the financial conglomerate. For such cases, the group-wide supervisor needs to cooperate/consult with the other involved supervisors including the conglomerate-wide supervisor of the financial conglomerate to the extent necessary.</p>	<p>M1E4-1-2-1 A conglomerate-wide supervisor is the supervisor who has the responsibility for supervising the financial conglomerate as a whole where the financial conglomerate's business is dominated by a sector other than insurance.</p>



	<p>M1E4-1-3 Important supervisory matters to be discussed among the supervisors include, but are not limited to:</p> <ul style="list-style-type: none">• Protocols for information exchange among the supervisors,• Areas of supervisory cooperation useful to the IAIG group-wide supervisor in fulfilling its role,• Range of supervisory practices, both tools and corrective actions, across the conglomerate,• Gaps in prudential supervision across the conglomerate,• Mitigating measures for such gaps in supervision,• Differing prudential requirements for similar risks across the conglomerate.	
	<p>M1E4-1-4 Important areas to be assessed with respect to a financial conglomerate and its relationship to the IAIG include, but are not limited to the,</p> <ul style="list-style-type: none">• Scope, structure and ownership of the conglomerate,• Nature and significance of the risks and risk mitigation techniques across the conglomerate,• Governance, risk and capital management practices across the conglomerate,• Risks which may impact on the IAIG,• Intra-group transactions and exposures,• Control,• Contagion risks,• Possibilities for regulatory arbitrage.	



	M1E4-1-5 “Financial conglomerate is to be defined once the Joint Forum principles for the supervision of financial conglomerates are finalised.	
M1E4-2 Where an IAIG dominates the financial conglomerate, the group-wide supervisor coordinates and cooperates with other involved cross-sectoral supervisors.	M1E4-2-1 Module 4 sets out the roles of supervisors and encompasses the relationship between the group-wide supervisor and all other involved supervisors, which by definition includes other sectoral supervisors.	



ComFrame Commentary

General

1. It is expected that the number of IAIGs will be limited to about 40 to 50 (to be confirmed) at the initial implementation of ComFrame so that the number is manageable. The number will be gradually increased thereafter.
2. Supervisors may include, through the constrained discretion process, certain insurance groups which do not necessarily meet the criteria under Element 1 of Module 1 or exclude groups which meet the criteria.
3. The criteria in Module 1, Element 1 should be interpreted as minimum benchmarks. However, it is not the intent of the criteria to, for example, distort the business operations of insurers. In other words, insurers must not change/rearrange their business activities in order not to meet the criteria.
4. The scope of ComFrame supervision as set out in Element 3 should be the same as that provided for in ICP 23. The scope of group-wide supervision in ICP 23 covers not only consolidated entities but equally non-consolidated entities also subject to supervision. The same should apply to the scope of ComFrame supervision.
5. When a decision is made to regard the sub-group of a financial conglomerate as an IAIG, that decision has to be explainable to all involved supervisors).

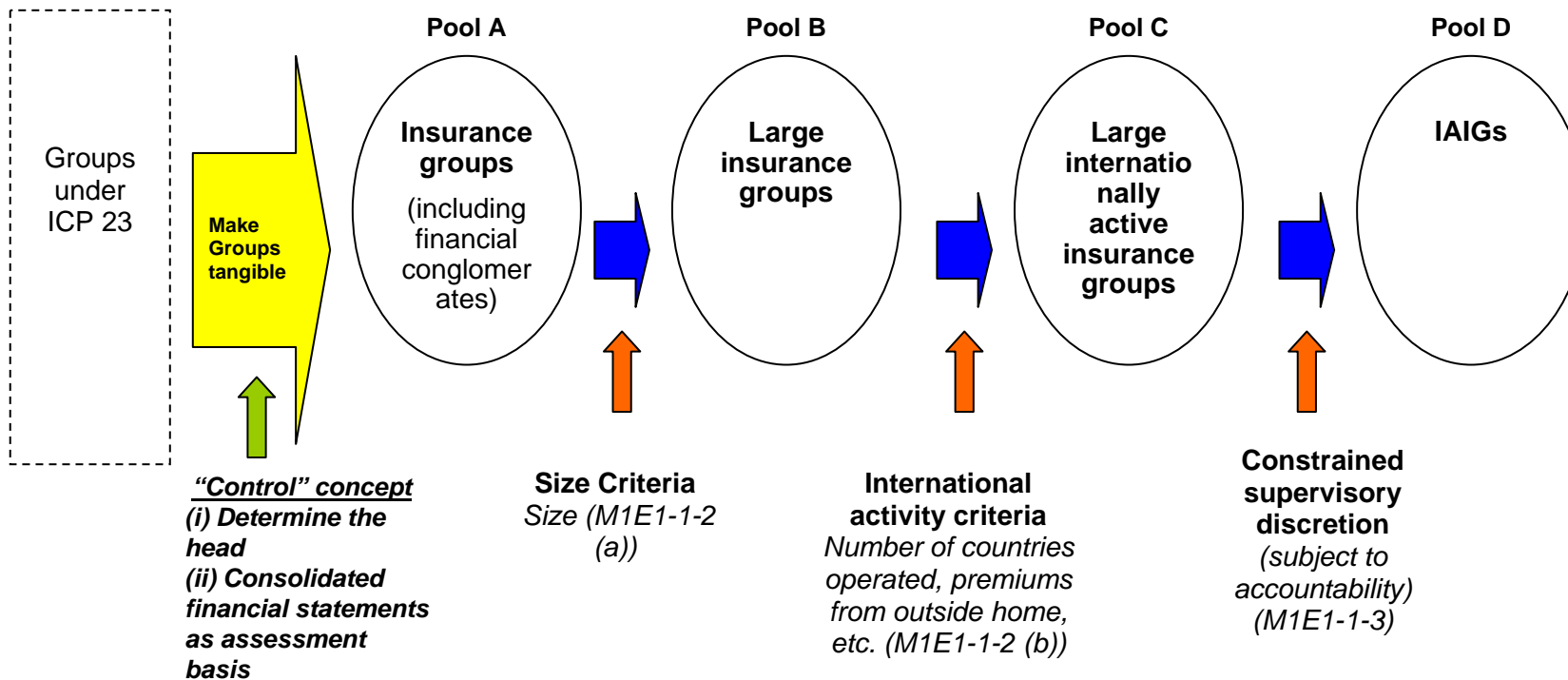
Technical Commentary

1. An ultimate financial holding company or an ultimate financial institution may have a parent non-financial holding company or non-financial operating company. In identifying an IAIG, such a parent non-financial holding company or non-financial operating company is not referred to, but they may fall within the scope of ComFrame supervision, if necessary.
2. The relationship between the group-wide supervisor of the IAIG and other involved supervisors will vary according to the structure of an IAIG. An IAIG may be:
 - An insurance group that only conducts insurance business
 - A financial conglomerate dominated by insurance business that also includes other financial business such as banking
 - Part of a wider financial conglomerate which is dominated by other financial business but the IAIG is a sub-group within the overall financial conglomerate.
 - Part of an industrial conglomerate
3. The relationship between the group-wide supervisor of the IAIG and other involved supervisors will vary depending on the structure of the IAIG in the following ways:
 - Where the IAIG is an insurance group, this Element does not apply and the role of the group-wide supervisor and host supervisors is set out in Module 4.
 - Where the IAIG is a financial conglomerate dominated by the insurance business, M1E4-2 sets out the role of the group-wide



supervisor which will also encompass the role of a conglomerate-wide supervisor.
- Where the IAIG is part of a wider financial conglomerate, M1E4-1 applies.

IAIG Identification (Selection) Process



(Note*) The final criteria and IAIGs will be decided upon after the impact assessment studies.

(Note**) Through supervisory discretion, some groups may be added to Pool D and some may be excluded from Pool D.



In ICP 23 (23.2.1), an insurance group is deemed to exist if there are two or more entities of which at least one has a significant influence on an insurer. Translating this into ComFrame, an insurance group is a group headed by a financial institution or a financial holding company which directly or indirectly controls an insurer.

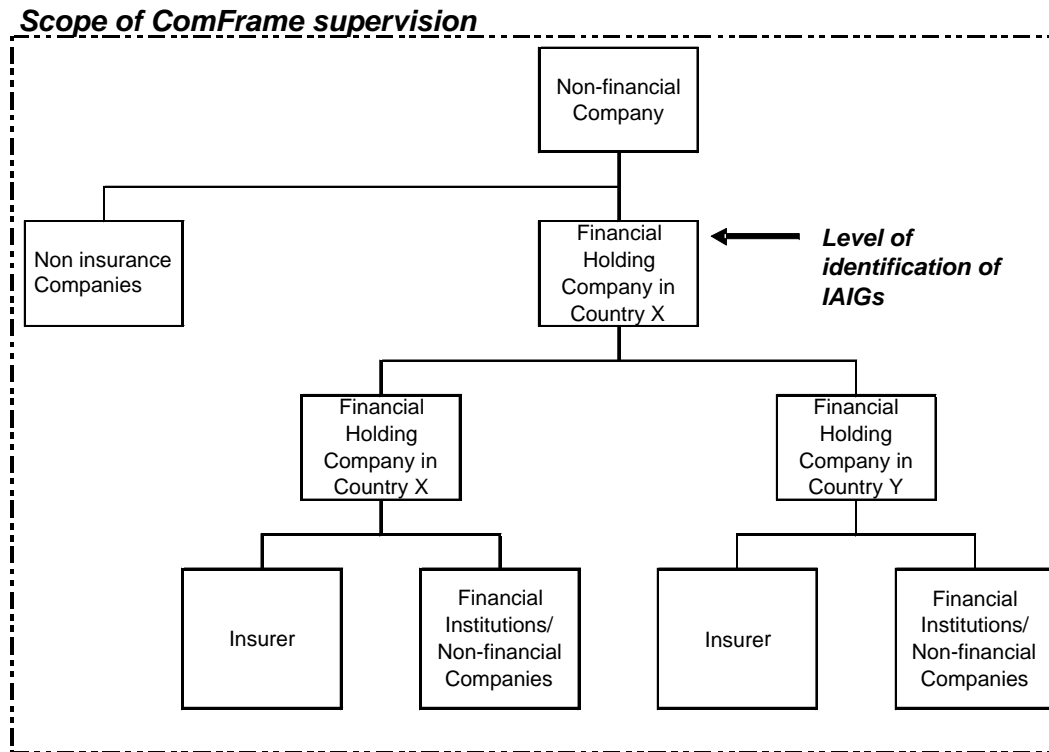
From the pool of the insurance groups defined generally under ICP 23, IAIGs are identified by applying the size and international activity criteria subject to constrained supervisory discretion.

A group headed by, for example, a bank or a bank holding company which owns an insurer may also be considered to be an insurance group for the purpose of group-wide supervision (under ComFrame as well as ICP 23).

The criteria and identification process is summarised as follows. The insurance groups in Pool A are filtered by the size criteria to derive Pool B insurers. The criteria for size as described in M1E1-1-2(a) are applied on the insurance groups in Pool A to identify large insurance groups (resulting in Pool B). The application of the criteria for international activity as described in M1E1-1-2(b) narrows down Pool B to large internationally active insurance groups (resulting in Pool C).

Constrained supervisory discretion may be applied to Pool C insurers in order to finally arrive at the IAIGs under ComFrame (Pool D is the outcome). This process for identifying IAIGs should be transparent. Not only Pool D but also Pool B and C should be identified based on clear and transparent benchmark/criteria. For the identification of Pool B, no judgments should be applied. Reasons should be provided if Group AA is in Pool X or if Group BB is not in Pool X.

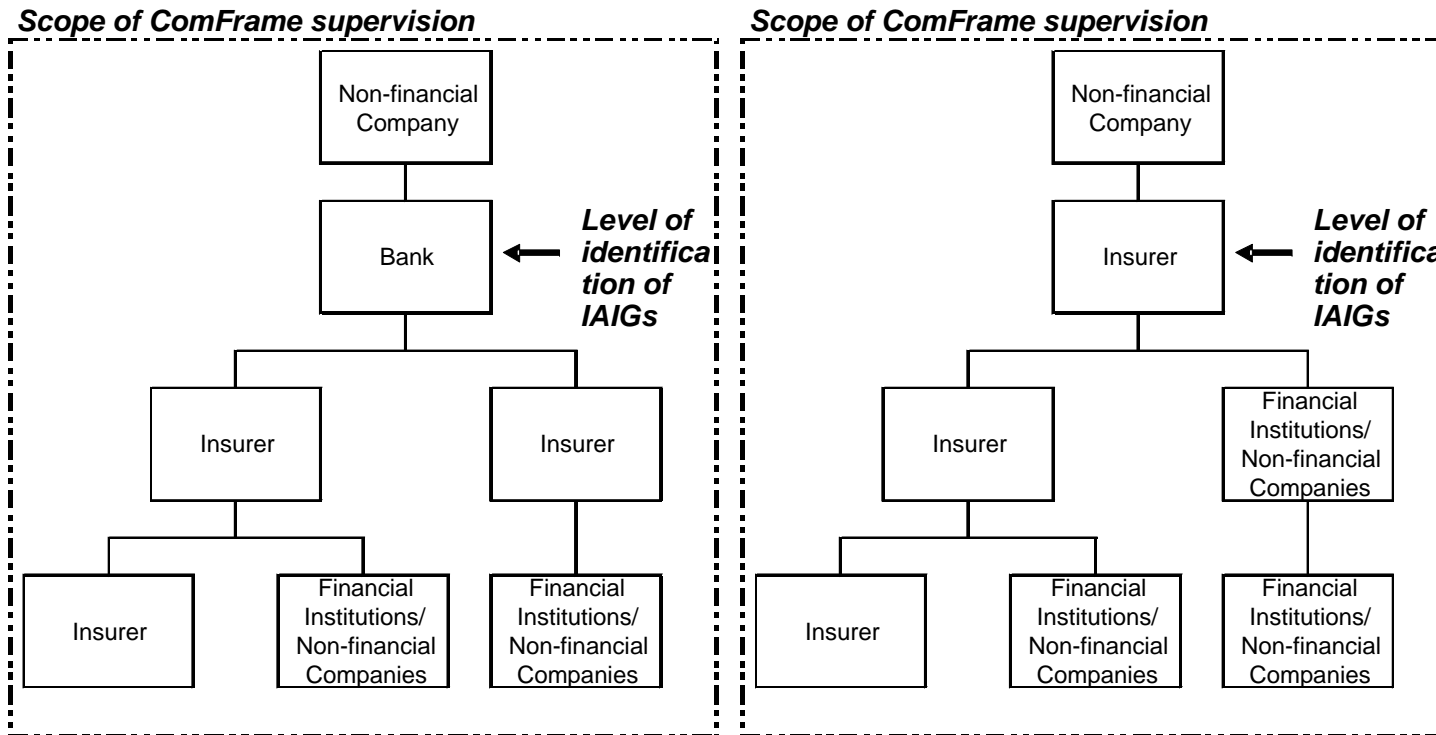
Scope of ComFrame Supervision and Level of Identification of IAIGs: Example 1



(Note) This is a simplified diagram. Any entities may have subsidiaries and/or associates etc.



Scope of ComFrame Supervision and Level of Identification of IAIGs: Example 2 & 3



(Note) This is a simplified diagram. Any entities may have subsidiaries and/or associates etc.



Module 2

Group structure and business

Specific Questions

<Element 1-6>

SQ7) Would Elements 1 to 6 enable involved supervisors to be adequately informed about the risks arising from the structure and businesses of an IAIG? Are there other tools required? Are there additional processes required?

SQ8) From an insurance group perspective, protection of policyholders is the key in a resolution scenario. What actions should be taken by IAIGs in good times in order to safeguard such policyholder protection in times of non-viability?

<Element 7>

SQ9) Should the standard include requirements for supervisors with respect to policyholder protection schemes and tied assets?

SQ10) By whom should disclosures be made?

SQ11) Under what timing and in what format should disclosures be made?

Module Specific Introductory Comments

To be developed

Foundation

- **ICP 10** Preventive and corrective measures
- **ICP 6** Changes in control and portfolio transfers
- **ICP 13** Reinsurance and other forms of risk transfer
- **ICP 12** Winding-up and exit from the market



ComFrame Standards	Parameters	Specifications
<p>Module 2, Element 1 Assessment of the IAIG’s legal and management structures from a risk management perspective [developed by Ad Hoc Group 1]</p>		
<p>M2E1-1 The IAIG identifies and keeps an inventory on an ongoing basis of the legal and management structures per each legal entity and their interrelations (IAIG Profile).</p>	<p>M2E1-1-1 The IAIG Profile provides basic corporate information on the legal and management structures of all entities of the IAIG and their interrelations.</p>	<p>M2E1-1-1-1 Basic corporate information per legal entity, backed by an organisation chart, as a minimum, includes:</p> <ul style="list-style-type: none"> • legal structure • interrelations/interlinkages (including financial and non-financial ties) with other entities • place of incorporation and head office • number of issued shares and shareholders whether internal or external (or controller of the company) • management structure including board and committee structure and their membership • executive management structure and key responsibilities • key financial figures and highlights <p><i>Reporting templates to be set out</i></p>
<p>M2E1-2 Based on the IAIG Profile, the IAIG assesses on an ongoing basis, from a risk management perspective, potential risks arising from the above legal and</p>	<p>M2E1-2-1 The IAIG Structure Risk Review measures the information provided by the IAIG Profile against all reasonably foreseeable relevant risks, including but not limited to operational (particularly those stemming from complexity and</p>	



<p>management structures, giving due regard to the combination of risk profiles and potential contagion effects (IAIG Structure Risk Review).</p>	<p>manageability), liquidity and contagion risk.</p>	
<p>M2E1-3 The <i>IAIG Profile</i> and <i>IAIG Structure Risk Review</i> are subject to annual supervisory reporting and annual supervisory review of its viability. Information gained under this process will be shared annually among all host supervisors by the group-wide supervisor.</p>	<p>Supervisory reporting requirements are set out in Module 4 Element 9.</p> <p>Sharing of information among involved supervisors is addressed in Module 4 Element 3.</p>	
<p>M2E1-4 Group-wide and host supervisors verify that risks identified herein, where appropriate, are captured by quantitative and/or qualitative requirements under Module 3.</p>	<p>See M4E4-2-1 for the role of the group-wide supervisor and supervisory college in assessing these risks.</p>	



Module 2, Element 2 Assessment of the IAIG’s business and business mix from the perspective of managing risk [developed by Ad Hoc Group 1]

<p>M2E2-1 The IAIG identifies and keeps an inventory on an ongoing basis of all business activities and operational structures (and their respective supervisors) per each legal entity.</p>		
<p>M2E2-2 Based on the above inventory, the IAIG assesses on an ongoing basis, from a risk management perspective, potential risks arising from the above business activities and operations, giving due regard to the combination of risk profiles and potential contagion effects (IAIG Business Risk Review).</p>	<p>M2E2-2-1 The IAIG Business Risk Review measures the information provided here against all reasonably foreseeable relevant risks, including but not limited to operational (particularly those stemming from complexity and manageability), liquidity and contagion risk.</p>	<p>M2E2-2-1-1 Basic information on business activities and operations per legal entity, backed by an organisation chart, as a minimum, includes:</p> <ul style="list-style-type: none"> • whether the entity is active or inactive • list of licensed (or authorised) areas of business, e.g. general, life or health insurance, reinsurance, other financial activities etc • non-regulated businesses • active business lines and its weight (or proportion) within that entity • respective supervisors <p><i>Reporting templates to be set out</i></p>
<p>M2E2-3 The <i>IAIS Business Risk Review</i> is subject to annual supervisory reporting and based on this an</p>		



<p>annual supervisory review of the viability of the IAIG. Information gained under this process will be shared annually among all host supervisors by the group-wide supervisor.</p>		
<p>M2E2-4 The group-wide supervisors in conjunction with the host supervisors verify that risks identified herein, where appropriate, are captured by quantitative and/or qualitative requirements under Module 3.</p>	<p>See M4E4-2-1 for the role of the group-wide supervisor and supervisory college in assessing these risks.</p>	



Module 2, Element 3 Assessment of changes to a IAIG’s business and its structure [developed by Ad Hoc Group 1]		
<p>M2E3-1 The IAIG identifies and keeps an inventory of material changes in their business and its structure, all of which are separately subject to the group-wide or host supervisor’s prior approval in conjunction with host supervisors.</p>	<p>M2E3-1-1 Material means “to be of substantial importance to and have a significant consequence on the IAIG”.</p> <p>Changes in business and its structure could result from expansion or reduction of business (in quantity and/or scope or geography) and can be organic or by design (i.e. via corporate/contractual transactions). Sources of business changes include:</p> <ul style="list-style-type: none"> • organic growth • discontinuation of existing business (i.e. run off) • mergers • acquisitions • disinvestments, divestitures and disposal of assets (including transfer or selling of control, shares, commercial rights and renewal rights etc.) • portfolio transfers • changes in primary business field (core competence) or mixture of business lines • geographical and/or business class (sector) changes etc • outsourcing (to external parties) • similar transactions 	<p>M2E3-1-1-1 Any business changes that result in an increase or decrease of more than [5?]% of assets of a relevant entity is considered material.</p> <p><i>Reporting templates to be set out</i></p>
<p>M2E3-2 This inventory is subject to annual</p>		



<p>supervisory reporting and review. Information gained under this process will be shared annually among all host supervisors by the group-wide supervisor.</p>		
<p>M2E3-3 The group-wide supervisor in cooperation with the host supervisors verify that requisite approvals have been given and that risks identified herein, where appropriate, are captured by quantitative and/or qualitative requirements under Module 3.</p>	<p>See M4E4-2-1 for the role of the group-wide supervisor and supervisory college in assessing these risks.</p>	



Module 2, Element 4 Assessment of intra-group transactions and exposures from a risk management perspective [developed by Ad Hoc Group 1]

<p>M2E4-1 The IAIG identifies and keeps an inventory of material intra-group transactions and exposures. All material transactions are subject to the group-wide or host supervisor’s separate prior approval.</p>	<p>M2E4-1-1 Material means “to be of substantial importance to and have a significant consequence on the IAIG”.</p> <p>Material intra-group transactions and exposures include:</p> <ul style="list-style-type: none"> • loans • guarantees • issuance of contingent capital • payment of dividends • cost sharing structures • service contracts • management arrangements and outsourcing within the IAIG • reinsurance • transactions among financial services entities of different sectors within the IAIG • investments within the IAIG • similar transactions 	<p>M2E4-1-1-1 Any intra-group transaction or exposure (or a group of them) that in value exceeds [5?]% of equity of the smaller party in that intra-group transaction is considered material.</p> <p><i>Reporting templates to be set out</i></p>
<p>M2E4-2 This inventory is subject to annual supervisory reporting and review. Information gained under this process will be shared annually among all host supervisors by the group-wide supervisor.</p>		



<p>M2E4-3 The group-wide supervisor in conjunction with the host supervisors verifies that risks identified herein, where appropriate, are captured by quantitative and/or qualitative requirements under Module 3.</p>	<p>See M4E4-2-1 for the role of the group-wide supervisor and supervisory college in assessing these risks.</p>	
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**Module 2, Element 5 IAIG Contingency planning for stress conditions (Flexibility in changing the IAIG’s structure and business)
[developed by Ad Hoc Group 1]**

<p>M2E5-1 The IAIG has in place, and regularly updates, recovery plans as part of its self-initiated risk management processes that provide for an orderly recovery of the IAIG, under stress conditions. These may include recovery initiatives driven by way of restructuring, downsizing or sale.</p>	<p>M2E5-1-1 Plans are based on and aligned with information and assessments thereof provided for by Elements 1 through 4 above and are proportionate to the level of stress.</p>	<p>M2E5-1-1-1 <i>Reporting templates to be set out</i></p> <p><i>The anticipated impact of the recovery initiative factoring in the severity of the stress in terms of</i></p> <ul style="list-style-type: none"> • <i>Cashflow</i> • <i>Capital needs</i> • <i>Revenue generation</i> • <i>Impact on ratings</i> <p>Establishment of realistic timelines. In identifying a recovery initiative it is expected that the timeline for implementation is estimated and impacts on delays are quantified.</p> <p>In prioritising recovery elements the IAIG establishes a list of elements that may be deployed which are commensurate with the severity of the stress.</p> <p>The recovery plan identifies critical legal entities or business units which are considered essential to maintain or hold.</p>
	<p>M2E5-1-2 In identifying what legal entities or business units may be subject to recovery initiatives the IAIG should as a minimum consider:</p>	



	<p>(1) Interlinkages and ties between legal entities and business units with regard to:</p> <ul style="list-style-type: none">• Financial linkages (in terms of shareholdings, loans, liquidity arrangements etc.)• Management and operational linkages (in terms of day-to-day management, control, business agreements etc.)• IT linkages• Legal linkages (including intra-group transactions etc.) <p>(2) Viability of legal entities or business units. The viability of the stand-alone position of critical legal entities and business units must be assessed to determine if the impact of applying the recovery initiatives creates an unacceptable impact on critical entities or business units in terms of:</p> <ul style="list-style-type: none">• Capital• Liquidity (as is)• Cash flow generation• Business systems (IT)• Core operational processes (in case of outsourced processes)	
	<p>M2E5-1-3 Recovery initiatives may include:</p> <ul style="list-style-type: none">• Scaling down of activities	



	<ul style="list-style-type: none"> • Sale of non-core business lines • Sale of portfolio • Sale (or liquidation) of subsidiaries • Sale or transfer of assets • Sale or transfer of liabilities • Restructuring of IGTs • Merger • Discontinuation of existing business (Run-off) • Increase shareholder capital • Issuance of hybrid / senior debts • Conversion of hybrids / senior debts /debts into equity • Reinsurance transactions • Alternative risk and/or capital transfer <p>Impediments to effective implementation of recovery initiatives need to be identified.</p>	
<p>M2E5-2 Recovery plans identify the legal entities or business units that may be subject to the recovery initiatives and allocate a priority to such an entity being subject to such an initiative. Prioritisation should reflect the level of stress.</p>		
<p>M2E5-3 Recovery plans identify legal, tax</p>		



<p>or accounting impediments that may impede or prevent recovery initiatives.</p>		
<p>M2E5-4 The recovery plan includes steps to reduce or remove impediments to the implementation of an effective recovery plan.</p>		
<p>M2E5-5 The IAIG, on an annual basis, consults the group-wide supervisor cooperating with host supervisors on their recovery plan (or contingency plan) and allows the supervisors to verify whether the IAIG’s plan is practical (i.e. implementable), adequate and accurately reflects the IAIG’s risk landscape.</p>		
<p>M2E5-6 The group-wide supervisor cooperating with the host supervisors verify that risks stemming from lack of adequate planning, where appropriate, are captured by quantitative and/or qualitative requirements under Module 3.</p>	<p>M2E5-6-1 See M4E4-2-1 for the role of the group-wide supervisor and supervisory college in assessing these risks.</p>	



Module 2, Element 6 Protocol and/or rules on contingency plans of the IAIG [developed by Ad Hoc Group 1]		
<p>M2E6-1 The IAIG, in line with its recovery plan above, has a protocol and timetable in place that, as part of self-initiated risk management processes, stipulates, and triggers when necessary, an order of actions (including people and organisations to notify and consult with) on its part; and provides its executive management with the power and authority to execute the IAIG's authorised recovery plan.</p>	<p>M2E6-1-1 Protocol is based on and aligned with information and assessments thereof provided for by Elements 1 through 5 above.</p>	<p>M2E6-1-1-1 The protocol identifies and maintains a list of all relevant people within the IAIG whose approval is needed to action the elements of the recovery plan.</p> <p>The protocol identifies and maintains a list of people external to the IAIG whose approval is needed to action the elements of the recovery plan.</p> <p>The protocol identifies and maintains a list of all relevant stakeholders to whom information will need to be provided and the timescales for providing such information.</p>
	<p>M2E6-1-2 The triggers for activation may include:</p> <ul style="list-style-type: none"> • The IAIG anticipates that it will fall below a defined capital threshold set by its group-wide supervisor within a defined time period • The IAIG falls below a minimum capital requirement as set by the solvency regime it operates under • Triggers established by a relevant college of involved supervisors • The IAIG is unlikely to meet obligations as they fall due (i.e. not meet liquidity needs) 	



	<p>M2E6-1-3 The protocol establishes who declares that the recovery plan needs to be initiated.</p> <p>The protocol establishes and maintains lists of relevant stakeholders whose approval is required to implement the recovery plan.</p>	
<p>M2E6-2 The IAIG, on an annual basis, consults the group-wide supervisor in conjunction with the host supervisors on the protocol backing their recovery plan (or contingency plan) and allows them to verify whether that protocol is practical (i.e. implementable), adequate and accurately reflects the IAIG's risk landscape.</p>		
<p>M2E6-3 Group-wide and host supervisors verify that risks stemming from lack of adequate processes backing the IAIG's recovery plan, where appropriate, are captured by quantitative and/or qualitative requirements under Module 3.</p>	<p>See M4E4-2-1 for the role of the group-wide supervisor and supervisory college in assessing these risks.</p>	



Module 2, Element 7 Approaches regarding policyholder protection schemes [developed by Market Conduct Subcommittee]

<p>M2E7-1 IAIGs and insurance legal entities are aware of which policyholder protection schemes apply to insurance policies that they issue, and how these apply to the respective policies.</p>	<p>M2E7-1-1 Comments will be added with regard to which group entities within the IAIG the standard should apply.</p>	
<p>M2E7-2 Insurance legal entities within the IAIGs disclose to policyholders the terms of policyholder protection schemes that apply to the insurance policies which they issue.</p>	<p>M2E7-2-1 Comments will be added with regard to which group entities within the IAIG the standard should apply.</p>	



ComFrame Commentary

General

<Element 1-6>

- The protocol (Module 2 Element 6) will assist the effective running of the College of Involved supervisors.

<Element 7>

- None to date

Technical

<Element 1-7>

- None to date.



Module 3

Qualitative and Quantitative requirements

Specific Questions

<Element 1>

- SQ12) Are all governance matters that should be considered relevant or pertinent for IAIGs covered in this first draft? What elements are missing?
- SQ13) What are the objectives of an IAIG's group-wide governance framework (both with respect to insurance and non-insurance entities)?
- SQ14) How should ComFrame address the possibility of different approaches to legal entity and group-wide risk-management functions, compliance functions, actuarial functions, internal audit and external audit functions and financial reporting processes? What governance and compliance matters should be covered at the group-wide level or legal entity level only?
- SQ15) If the IAIG does not combine or centralise the governance functions within the group, what requirements for governance should apply at the parent and group-wide level?
- SQ16) For which particular standards and parameters is it important to develop specifications?
- SQ17) What are examples of appropriate controls over intra-group transactions and related party transactions?
- SQ18) Should IAIGs be mandated to have particular types of committees at Board or management level? (Are there specific considerations for IAIGs in this respect?)
- SQ19) Are the minimum requirements related to suitability and competence of the Board, management and key persons in IAIGs adequate?
- SQ20) What requirements should apply with regard to independence of Directors in the context of an IAIG, including conflict of interest?
- SQ21) Is it appropriate to address the governance aspects related to ERM in Element 1 or should they be covered together with the technical/substantive requirements of ERM in Element 2?
- SQ22) Is it appropriate to address the qualitative requirements related to the actuarial function in Element 1 or would it be more pertinent to address them in Module 3 Element 3 in the new material to be developed relating to Liabilities?
- SQ23) What outsourcing policy would be appropriate for an IAIG? What arrangements need to be in place respectively, if the IAIG outsources externally, or internally? Where group-wide functions are centralised and outsourcing occurs internally, what requirements should apply?
- SQ24) Should requirements be specified regarding internal reporting to the Board and Management of the parent of an IAIG?
- SQ25) Is it appropriate to address basic standards on supervisory review and reporting in this Module, or in Module 4 on Supervisory review and reporting?



SQ26) What should be included in ComFrame regarding external audit?

<Element 2-5 (overarching questions)>

SQ27) Which (parts of the) Elements require specification? Provide reasonably detailed indications, if desirable for greater clarity or necessary to ensure consistency in treatment of the IAIG?

SQ28) Is there any terminology used that you feel could benefit from a further explanation (e.g. in the glossary)?

SQ29) Do you believe that the methodologies identified in these Elements of Module 3 are sufficiently comprehensive to enable an IAIG to satisfy the qualitative and quantitative requirements (for solvency purposes) in ComFrame?

SQ30) Do you believe that the balance between qualitative and quantitative aspects in this Module have been covered adequately and appropriately in this Module? If not, why not?

<Element 2>

SQ31) Is it appropriate to require a centralised approach to ERM? Are there areas that could/need to be delegated to decentralised entities or units?

SQ32) Do you think that there are any parts of “Enterprise Risk Management” missing in Element 2 of Module 3? If so, what?

SQ33) Do you believe that Module 3 Element 2 should list (describe) the minimum risks that the ERM should cover? If so, what should they be?

SQ34) Should all IAIGs be required to use an economic capital model (own model)?

SQ35) How should the role of the Group-wide Risk Management Function operate in relation to the ERM of individual legal entities within the IAIG?

SQ36) How should a supervisor ensure that the parent of the IAIG has implemented the IAIG ERM Framework throughout the group? Should different approaches to centralised and decentralised functions be tolerated? Is there a need to specify them accordingly?

SQ37) Do you believe that an IAIG’s ERM Framework should be subject to independent review? If so, would you consider independent to mean external to the function or the parent company of the group overall? Do you think that it should be specified in Module 3 Element 2 the nature of the review, who should perform it and how often?

SQ38) Do you believe that an ORSA should be conducted at a group-wide level as well as at each individual, legal entity? If not, why not?

SQ39) Should the IAIG be allowed to account for diversification in the group ORSA?

SQ40) Do you think that it would be helpful for a supervisor to prescribe a ‘template’ for an ORSA? Should this be within a jurisdiction or on a group-wide basis?

SQ41) What ERM requirements do you believe should be prescribed in advance in this Element (e.g. under ‘parameters’), which would benefit from guidance under ‘specifications’ and which should be left to supervisory discretion?

<Element 3>



SQ42) What aspects of liabilities do you think should be covered?

SQ43) Are there any aspects of "Assets/Investments" that you believe are not adequately covered here? If so which ones?

SQ44) What issues should the IAIS address with regard to the liabilities/technical provisions of an IAIG that are not covered under ERM or valuation?

<Element 4>

SQ45) Does Element 4 provide an appropriate basis for valuation of assets and liabilities in an IAIG context?

<Element 5>

For this Element it is important to note that where a corridor approach is mentioned options in a corridor should relate to specific modalities or specific levels e.g. the risk measurement, but not the basic methodologies.

SQ46) In ICP 17.1, a total balance sheet approach is required to assess the solvency of an insurer. For an insurance group, the capital adequacy assessment falls into two broad sets of approaches, a group level focus (consolidated group or aggregated group), a legal entity focus or a combination of the two (granular approach). Should there be any limitations of approaches for IAIGs, and if so what?

SQ47) Should ComFrame allow for different risk measurements (TAILVaR, VAR) and different confidence levels for determining the Capital Required, to be called a corridor approach?

SQ48) In ICP 17.6, regulatory capital requirements may be determined using a range of approaches, such as standard formulae, or other approaches more tailored to the individual insurers such as partial or full internal models. In determining the Capital Required for an IAIG, should ComFrame allow both a standardised and internal model approach? If a standardised approach is allowed what should be the nature of the standardised approach, and should there be an allowance for variations/optionality at the discretion of group wide supervisors. Under what circumstances should an internal model be allowed to be used to determine the Required Capital? Under what circumstances should a partial internal model be allowed?

SQ49) ICP 17.10 outlines a number of approaches a supervisor could use for the determination of capital resources. To what extent should the individual jurisdictions be in a position to allow additional capital resources to be recognised?

SQ50) In ICP 17.4 solvency control levels of the PCR and MCR are established. Do you see merits in establishing a PCR and/or an MCR for an IAIG? If you see merit in establishing a PCR and/or an MCR, on what basis should a PCR and/or an MCR for an IAIG be established?

SQ51) ICP 16.1.14 to 16.1.17 describe stress testing and scenario analysis. To what extent should an IAIG be performing stress testing and scenario analysis and to what extent, if any, should it impact an IAIGs capital adequacy requirement?

*Element 6-7 to be developed



Module Specific Introductory Comments

Element 1 includes a number of questions embedded in the text as placeholders for issues to be considered which are indicative of the evolving thinking on this Element. When commenting, please address the Specific Questions above but if you have an opinion in relation to the questions embedded in the text then it would be useful if that opinion could be communicated. Some of the questions embedded in the text are related to the Specific Questions above.

Foundation

- **ICP 5** Suitability of Persons
- **ICP 7** Corporate Governance
- **ICP 8** Risk management and internal controls
- **ICP 14** Valuation
- **ICP 15** Investment
- **ICP 16** Enterprise risk management
- **ICP 17** Capital adequacy (Note: this will also be a home for the internal models papers)



ComFrame Standards	Parameters	Specifications
<p>Module 3 Element 1a Principles of the corporate governance framework, including risk management and internal control systems [developed by Governance and Compliance Subcommittee]</p>		
<p>M3E1a-1 The IAIG establishes and implements a group-wide corporate governance framework which provides for sound and prudent management and oversight of the IAIG's business and adequately recognizes and protects the interests of the policyholders and other stakeholders of the group.</p>	<p>M3E1a-1-1 The IAIG implements a group-wide corporate governance framework and policies for its subsidiaries and, where appropriate, branches, that covers the corporate bodies and their roles and interaction, risk management, internal controls, actuarial functions, compliance, outsourcing, internal audit, external audit and includes proper documentation and disclosure thereof.</p>	<p>M3E1a-1-1-1 Specifications shall be drafted to operationalise the requirements and objectives of the group-wide framework</p>
<p>M3E1a-2 The Board of the parent of the IAIG is structured and operates in a manner that is appropriate to the operations of the IAIG.</p>	<p>M3E1a-2-1 The Board of the parent of the IAIG sets, and oversees the implementation of, the IAIG's overall business objectives and strategies for achieving those objectives.</p>	<p>M3E1a-2-1-1 In setting and overseeing the overall business objectives and strategies the Board should inter alia take into account:</p> <ul style="list-style-type: none"> • the long term financial safety and soundness of the IAIG as a whole • business objectives that may vary by entity • risks which may arise from doing business in a particular jurisdiction • legitimate interests and fair treatment of policyholders and other stakeholders regardless of jurisdiction. <p><i>What other issues should be particularly addressed by the Board of the parent of an IAIG?</i></p>



	<p>M3E1a-2-2 The Board of the parent of the IAIG should annually review the IAIG's overall business objectives and strategies to ensure they are appropriate in light of any changes in internal or external business and operating conditions.</p>	<p>M3E1a-2-2-1 This might e.g. include legal, market and business climate changes in a jurisdiction in which the IAIG operates that may affect the IAIG as a whole.</p>
	<p>M3E1a-2-3 The Board of the parent of the IAIG consists of an appropriate number of and mix of individuals to ensure that there is an overall adequate level of knowledge, skills and expertise at the Board level commensurate with the governance structure and business of the IAIG.</p>	<p>M3E1a-2-3-1 The Board should be knowledgeable about the structure of the IAIG and the jurisdictions in which it operates as well as the businesses pursued, including their insurance supervisory regimes. The Board should have appropriate qualifications and expertise with cross-border business and international transactions. Independence of Board members is an important element of governance in a group structure – <i>How can independence and conflict of interest be addressed in the context of IAIGs? How should independence criteria be specified? Are there other requirements that should be specified?</i></p>
	<p>M3E1a-2-4 To support the effective discharge of its responsibilities, the Board may determine that it is appropriate to establish various committees within the Board.</p>	<p>M3E1a-2-4-1 <i>Are there particular Board committees we would expect every IAIG to have? (E.g. Audit Committee?)</i> See Question SQ18) <i>What should be the mandate and composition of the various board committees (given the nature,</i></p>



		<i>scale and complexity of an IAIG)?</i>
<p>M3E1a-3 Board members, Senior Management, Key Persons in Control Functions and Significant Owners of an IAIG are expected to be and remain suitable to fulfil their respective roles</p>	<p>M3E1a-3-1 Board members, senior management, key persons in control functions, including in particular the risk management function, and significant owners must possess the necessary competence and integrity to satisfy the suitability requirements</p> <p><i>Should independence/independent judgment be addressed here?</i></p> <p>See Questions SQ19) and SQ20)</p>	<p>M3E1a-3-1-1 <i>What would be adequate fit and proper criteria for IAIGs and who should they apply to?</i></p> <p><i>Who are defined as the senior management, key persons in control functions in an IAIG?</i></p> <p>Criteria might include:</p> <ul style="list-style-type: none"> • Necessary qualities • Formal qualifications • Minimum requirements for competence, knowledge and experience <p>Suitability indicators may include:</p> <ul style="list-style-type: none"> • Financial indicators • Criminal indicators • Supervisory indicators <p><i>Any changes should be notified to the supervisor – to whom shall that requirement apply?</i></p>
<p>M3E1a-4 <i>Requirements for significant owners to be specified in a separate standard?</i></p>		
<p>M3E1a-5 The Board of the parent of the IAIG adopts, and oversees the effective implementation of, a group-wide remuneration policy which does not induce excessive</p>	<p>M3E1a-5-1 The remuneration policy shall be in line with the identified risk tolerance and long term interests of the IAIG, and have proper regard to the interests of the IAIG's policyholders and other stakeholders, The remuneration policy shall at a minimum cover</p>	<p>M3E1a-5-1-1 <i>What can be reasonably expected with regard to the remuneration policy in an IAIG?</i></p> <p><i>Should the parent of the IAIG be responsible for ensuring that the remuneration policy at legal entity</i></p>



<p>or inappropriate risk taking in any part of the IAIG.</p>	<p>the members of the Board(s) of the parent of the IAIG, Senior Management, key persons in control functions and other major risk-taking staff.</p>	<p><i>level complies with national requirements in the jurisdictions of the IAIG entities?</i></p>
<p>M3E1a-6 The parent of the IAIG establishes a group-wide corporate governance framework which includes systems of corporate bodies and their role and interaction regarding risk, risk management and internal controls</p>	<p>M3E1a-6-1 The group-wide corporate governance framework, on a group and on a legal entity level:</p> <ul style="list-style-type: none"> • promotes sound and prudent management and oversight of the IAIG’s business; • clearly identifies and addresses group-wide risks and the attention thereto; • adequately recognizes and protects the interests of policyholders and other stakeholders; and • have effective risk management, compliance, actuarial, and internal audit control functions. 	<p>M3E1a-6-1-1 The IAIG’s risk management system should:</p> <ul style="list-style-type: none"> • be clearly defined and well documented and take into account the IAIG’s overall business strategy, including relevant objectives, key principles, and the proper allocation of responsibilities across the activities and organisational units within the IAIG; • contain appropriate written policies that include a definition and categorization of the material risks, by type, to which the IAIG is exposed and the levels of acceptable risk for each type of risk, including internal risks arising from intra-group or related party pricing, transfers and transactions; and • take into account relevant local business risks as well as insurance group-wide risks.
		<p>M3E1a-6-1-2 The group-wide corporate governance framework is distinct from the corporate governance framework of each insurer within the IAIG.</p> <p><i>What governance matters should be covered at a group-wide level?</i></p>



	<p>M3E1a-6-2 An IAIG may locate the control functions in the ultimate parent company, in another group company or in a separate legal entity within the Group (an internal "service centre" or "competence centre")</p>	<p>M3E1a-6-2-1 Requirements will be different if there are centralised control functions than if the IAIG does not combine or centralise control. <i>What requirements should apply to a centralised control function?</i> <i>If the IAIG does not combine or centralise the control function within the group, what requirements for control should apply at parent and group-wide level?</i></p> <p>See also Questions SQ14) and SQ15)</p>
	<p>M3E1a-6-3 The IAIG's group-wide governance framework should, at the group-wide level and at the level of each legal entity (insurer) incorporate systems, strategies, policies, processes, and controls to meet the requirements and objectives of the group-wide governance framework, taking into account the nature, scale, and complexity of the overall operations as well as at legal entity level.</p>	<p>M3E1a-6-3-1 <i>What governance matters should be covered at the legal entity level only?</i></p>
	<p>M3E1a-6-4 The IAIG's internal controls system should:</p> <ul style="list-style-type: none"> • form a well integrated group-wide framework (covering risks from the process or transactional level to that of the entity level and to group level); • contain appropriate controls over intra-group transactions including related-party transactions; and • include processes of review to ensure the 	<p>M3E1a-6-4-1 <i>What are indications of a well integrated group-wide framework for the IAIG's internal control system?</i></p>



	<p>totality of controls form a coherent system that is checked regularly to ensure: (a) it works as intended; (b) fits properly within the overall governance structure of the IAIG; and (c) provides an element of risk control to complement the risk identification, assessment, and management activities of the IAIG</p>	
		<p>M3E1a-6-4-2 <i>What are examples of appropriate controls over intra-group transactions?</i></p> <p>See Question SQ17)</p>
		<p>M3E1a-6-4-3 <i>What special considerations should apply for related-party transactions?</i></p>
	<p>M3E1a-6-5 If the IAIG combines or centralises a control function within the group, it clearly segregates or identifies those functions as they relate to each (insurance) entity and ensures that such arrangements do not diminish each legal entity's responsibility and ability to fulfil its legal and regulatory obligations nor its obligation to policyholders.</p>	<p>M3E1a-6-5-1 <i>For what type of control functions is there a need for clear segregation of functions for each insurer (legal entity)?</i></p> <p><i>What are the characteristics of clear segregation of functions for each insurer (legal entity)?</i></p>
<p>M3E1a-7 The IAIG establishes group-wide risk management and internal controls systems appropriate to the nature, scale, and complexity</p>	<p>M3E1a-7-1 The IAIG's Board oversees the effective implementation of an adequate, well-defined and well-integrated risk management, internal control and compliance framework, including actuarial</p>	<p>M3E1a-7-1-1 <i>This part of the module needs to be aligned with the quantitative requirements in the rest of the module.</i></p>



<p>of its business, risks and obligations.</p> <p>This risk management system is integrated with the IAIG's organisational structure, decision making processes, business operations and culture.</p>	<p>and internal audit control functions.</p>	
<p>M3E1a-8 Supervisors assess the adequacy and effectiveness of the IAIG's group-wide governance framework.</p>	<p>M3E1a-8-1 Where necessary, supervisors require the IAIG to demonstrate its effectiveness and take any remedial action as appropriate.</p> <p><i>Should there be different roles for the group-wide supervisor and the host supervisors?</i></p>	<p>M3E1a-8-1-1 Refer to Module 4 Element 5 for a complete overview of supervisory review.</p> <p>See also Question SQ25)</p> <p><i>How would supervisors verify the adequacy and effectiveness of the IAIG's group-wide governance framework?</i></p>
	<p>M3E1a-7-2 Supervisors effectively communicate with other supervisors of the IAIG to ensure that governance systems, strategies, policies, processes, and controls are effectively implemented.</p>	
<p>M3E1a-9 The IAIG has an effective risk management function capable of assisting it to, in a timely way, identify, assess, monitor, manage and report on its key risks.</p>	<p>M3E1a-9-1 ERM Framework covered in Element 2.</p> <p><i>Should the risk management function be covered here or in Element 2? If here, what parameters should be included for a risk management function?</i></p>	<p>M3E1a-9-1-1 Requirements for heads of control functions (e.g. specify requirements for Chief Risk Officers) might include: The head of a control function should have the authority and responsibility to report periodically to the Board of Directors or one of its committees. Such reporting should be of sufficient frequency and depth and cover matters such as:</p>



- the policy (e.g. objectives, longer-term plans, overall strategy for achieving the objectives) of the control function;
- the function's operational plan, including specific annual or other short-term goals being pursued and the performance against such goals;
- information on its resources (personnel, budget, etc.), including an analysis on the appropriateness of those resources in light of the insurer's size, complexity, risk profile and compliance obligations;
- an assessment of the key risks the company faces and how such risks are being managed
- an assessment of how the various divisions, major business units, legal entities, or product areas of the company are performing against relevant standards and goals
- any issues involving senior management or persons in positions of major responsibility within the company, and the status of any investigations or other actions being taken in respect of these
- material violations or concerns involving any other person or unit of the company and the status of any investigations or other actions being taken in respect of these
- material fines or other disciplinary actions taken by any regulator or supervisor in respect of the company or any employee



		<i>Are these specifications applicable to any control function?</i>
<p>M3E1a-10 The IAIG has an effective compliance function capable of assisting it to meet its legal and regulatory obligations, and promote and sustain a corporate culture of compliance and integrity within the group.</p>	<p>M3E1a-10-1 The IAIG establishes a compliance function appropriate to the nature, scale, and complexity of its business, risks and obligations.</p>	<p>M3E1a-10-1-1 <i>What should be the specific roles undertaken by a group-wide compliance function? Should there be local compliance functions with competence in those markets?</i></p>
	<p>M3Ea1-10-2 The Board of Directors of the parent of the IAIG ensures that the compliance function is robust, well positioned, resourced, and properly authorised. Within an IAIG, such a function would normally be led by a Group Chief Compliance Officer (GCCO) or similar who should have access to the board of the parent of the IAIG.</p>	<p>M3E1a-10-2-1 The GCCO should report to the Board of the parent of the IAIG on matters such as:</p> <ul style="list-style-type: none"> • Key compliance risks, • Performance against compliance standards and goals, • Compliance violations and concerns, • Disciplinary actions by an insurer • etc
	<p>M3E1a-10-3 The GCCO should establish, implement and maintain appropriate mechanisms and activities to</p> <ul style="list-style-type: none"> • promote and sustain an ethical corporate culture, • identify key legal and regulatory obligations, • advise the Board of the parent Company on minimum group-wide compliance 	<p>M3E1a-10-3-1 Appropriate mechanisms and activities to promote and sustain an ethical corporate culture would include: Appropriate mechanisms and activities to identify key legal and regulatory obligations would include:</p>



	<p>standards and processes</p> <ul style="list-style-type: none"> • ensure appropriate monitoring and • address shortcomings. 	<p>Appropriate mechanisms and activities to ensure appropriate monitoring would include:</p> <p>Appropriate mechanisms and activities to address shortcomings would include:</p>
	<p>M3E1a-10-4 The GCCO should conduct regular assessments of the Compliance function.</p>	
<p>M3E1a-11 The IAIG has an actuarial function appropriate to the nature, scale, and complexity of the IAIG's business, risks and obligations.</p>	<p>M3E1a-11-1 The actuarial function is responsible for evaluating and providing advice to the Board of the parent of the IAIG including setting up minimum process requirements regarding technical provisions, premium and pricing activities, and capital adequacy including modelling of risk in the ORSA, internal models and standardised approaches</p>	<p>M3E1a-11-1-1 <i>What should be the requirements for actuaries of an IAIG?</i> <i>What should be the responsibilities of the Group Actuary?</i></p> <p>See Question SQ22)</p>
		<p>M3E1a-11-1-2 If those performing the actuarial function (or Group Actuary?) become aware of any matter that has or is likely to have a materially adverse effect on the IAIG's solvency reserves or financial condition, or that the IAIG does not or is unlikely to comply with relevant requirements or legislation, they should inform the Board and/or relevant Key Persons in Control Functions for suitable action.</p>

**M3E1a-11-2**

The **actuarial function** determines or provides advice on the IAIG's compliance with financial requirements at a group-wide level and legal entity level for certifications or statements of actuarial opinion.

M3E1a-11-2-1

What should the actuarial function provide advice and opinion on?

The **actuarial function** provides advice and opinion on (*the list may not be exhaustive*):

- the group-wide risks of the IAIG
- the investment policies and the valuation of assets
- the IAIG's solvency position, including a calculation of minimum capital required for regulatory purposes and liability and loss provisions;
- the IAIG's prospective solvency position, such as in utilizing stress and scenario tests
- risk assessment and management policies and controls;
- distribution of dividends or other benefits;
- underwriting policies; and
- reinsurance arrangements and other forms of risk transfer,
- adequacy, reasonableness, and/or fairness of premiums and discretionary benefits (or the methodology to determine the same) and determine or provide advice on product development and design, including the terms and conditions of insurance contracts.

- compliance with regulatory solvency requirements: *Are specifications needed in this module?*



<p>M3E1a-12 The IAIG has an Internal Audit Function appropriate to the nature, scale, and complexity of its business, risks and obligations, capable of providing the Board of the parent of the IAIG with independent assurance in respect of the Group's governance, risk management, and internal controls.</p>	<p>M3E1a-12-1 The authority and independence of the Internal Audit Function of the parent of the IAIG should be defined, as well as access to the Board of the parent of the IAIG and other boards within the IAIG as well as reporting requirements.</p> <p><i>Should there be a distinction between requirements at parent level and legal entity level?</i></p>	<p>M3E1a-12-1-1 <i>How should the internal audit functions be coordinated at group level and how should the IAIG ensure adequate coverage of the internal audit functions at individual legal entity level?</i></p> <p><i>What would be examples of expectations/main activities/requirements of the internal audit function of the parent of the IAIG, and what would be the requirements at legal entity level?</i> <i>E.g. if the IAIG has a centralised internal audit function, how is it expected to operate?</i></p> <p><i>If the function is decentralised, how are the decentralised functions expected to operate, and what are the expectations with regard to oversight by the parent of the IAIG?</i></p>
	<p>M3E1a-12-2 The IAIG's Internal Audit Function provides independent assurance—obtained through general and specific audits, reviews, testing and other techniques in respect of matters such as:</p> <ul style="list-style-type: none"> • the overall means by which the IAIG preserves its assets, and those of its clients, and seeks to prevent fraud, misappropriation, or misapplication of such assets; • the establishment of group-wide minimum requirements regarding internal audit, • the reliability, integrity and completeness of the accounting, financial reporting and management information systems; 	<p>M3E1a-12-2-1 <i>What activities is the internal audit function expected to carry out?</i> E.g.: The audit function is expected to carry out such activities as are needed to fulfil its responsibilities, including (note this is not an exhaustive list):</p> <ul style="list-style-type: none"> • establishing, implementing and maintaining a risk-based audit plan to examine and evaluate general or specific areas, including on a preventive basis • reviewing and evaluating the adequacy and effectiveness of the insurer's policies and processes and the documentation and controls in respect of these, both at a



	<ul style="list-style-type: none">• the information technology systems;• the risk management and compliance systems;• the design and operational effectiveness of the IAIG's individual controls in respect of the above matters, as well as of the totality of such controls (the internal controls system);• other matters as may be requested by the Board of Directors, management, or the Supervisor	<p>company or group-wide basis and on an individual subsidiary, business unit, business area, department or other organisational unit basis</p> <ul style="list-style-type: none">• reviewing levels of compliance by employees and organisational units with established policies, processes, and controls, including those involving reporting• evaluating the reliability and integrity of information and the means used to identify, measure, classify, and report such information;• ensuring that the identified risks and the agreed actions to address them are accurate and current;• evaluating the means of safeguarding company and client assets and, as appropriate, verifying the existence of such assets and the required level of segregation between company and client assets;• monitoring and evaluating governance processes;• monitoring and evaluating the effectiveness of the organisation's risk management, compliance, actuary and other control functions;• coordinating with the external auditors and, to the extent this is requested by the Board of Directors and is no inconsistent with applicable law, evaluating the quality of performance of external auditors;• reporting to the Board of Directors on the
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		<p>above as well as any control failures or deficiencies</p> <ul style="list-style-type: none">• conduct regular assessments of the internal audit function and audit systems and incorporate needed improvements
		<p>M3E1a-12-2-2 In carrying out the above tasks, the internal audit function ensures all material areas of risk and obligation of the insurer are subject to appropriate audit or review over a reasonable period of time, including but not limited to:</p> <ul style="list-style-type: none">• market, credit, liquidity, operational, and reputational risk• accounting and financial policies and whether the records pertaining thereto are complete and accurate• extent of compliance by the insurer with applicable law, regulations, rules, and directives from all relevant jurisdictions• intra-group transactions, including intra-group risk transfer and internal pricing• adherence by the insurer to the company's compensation policy• the reliability and timeliness of escalation processes and reporting systems, including whether there are confidential means for employees to report concerns or violations and whether these are properly communicated, offer the reporting employee adequate protection from retaliation, and resulting in appropriate follow up



		<ul style="list-style-type: none"> the extent that any non-compliance with internal policies or external obligations are documented and appropriate corrective or disciplinary measures are taken including in respect of individual employees involved <p><i>What areas should be subject to appropriate audit or review?</i></p>
<p>M3E1a-13 The internal audit function keeps careful records of all areas and issues reviewed so as to provide evidence of these activities over time.</p>		
<p>M3E1a-14 The parent of the IAIG has oversight and clear accountability for any material function or activity that is outsourced at the group level or by individual insurers or other entities as if these functions or activities were performed internally.</p>	<p>M3E1a-14-1 IAIGs that outsource any material functions or activities are required to have in place an appropriate policy for this purpose.</p> <p>An IAIG may outsource activities or functions out of the group as a whole (parent-level initiated) or to one or more legal entities within the group (intra-group outsourcing).</p> <p>There may also be scope to cover outsourcing by entities within the IAIG if there is a group-wide policy on outsourcing that needs to be followed</p>	<p>M3E1a-14-1-1 An IAIG may outsource functions or activities externally or internally to one of its legal entities.</p> <ul style="list-style-type: none"> set out the internal review and approvals required? provide guidance for the types of contractual and risk issues to consider, including in terms changing or terminating the outsourcing arrangement? <p><i>Should there be specific requirements related to centralised functions?</i></p> <p>See also Question SQ23)</p>



	<p>M3E1a-14-2 Outsourcing arrangements are subject to appropriate controls and periodic reviews by internal audit.</p>	<p>M3E1a-14-2-1 Risk concentrations, limits on the acceptable overall level of all outsourced activities and risks arising from outsourcing multiple activities to the same outsourcing provider should all be considered.</p>
	<p>M3E1a-14-3 Outsourcing relationships are governed by written contracts that clearly describe all material aspects of the outsourcing arrangement, including the rights, responsibilities and expectations of all parties. When entering into or varying an outsourcing arrangement, an insurer should include consideration as to, among other things, how it will:</p> <ul style="list-style-type: none"> • be affected in terms of its risk level; • comply with regulations, where applicable; • assess the service providers' service capability and financial viability; • assess the concentration and liquidity risk implications; and • ensure smooth transition when entering, ending or varying an outsourcing arrangement 	<p>M3E1a-14-3-1 <i>What requirements should be specified with regard to outsourcing contracts and arrangements?</i></p> <p><i>For internal outsourcing arrangements, how does intra-group outsourcing affect individual legal entities, and what governance arrangements need to be in place?</i></p>
<p>M3E1a-15 The Board of the parent of the IAIG ensures that outsourcing arrangements do not diminish the IAIG's or the individual insurer's ability to fulfil its obligations to</p>		



policyholders or supervisors.		
M3E1a-16 The Board and senior management of the parent of the IAIG remain responsible in respect of control functions that have been outsourced at the group level.	M3E1a-16-1 What particular issues would relate to responsibility for outsourcing at group level?	M3E1a-16-1-1 <i>What specific requirements should apply to outsourcing at the group level?</i>
M3E1a-17 The Board shall establish and senior management shall implement systems and controls which ensure appropriate, timely and effective communications with supervisors and relevant stakeholders on the governance of the IAIG.	M3E1a-17-1 Communications with the various supervisors and other stakeholders of the entities within the IAIG should provide information on not only the governance of the legal entity operating in one particular jurisdiction, but also the governance of the IAIG as a whole.	



Module 3 Element 1b Documentation of governance within the IAIG [developed by Governance and Compliance Subcommittee]		
<p>M3E1b-1 The group-wide governance framework is documented in a group-wide governance policy.</p>	<p>M3E1b-1-1 The fundamental parts of the documentation of a group-wide governance framework are...</p>	<p>M3E1b-1-1-1 <i>What should be included within each of those fundamental parts of the documentation?</i></p>
		<p><i>Should requirements be specified regarding internal reporting to the Board and Management of the parent of an IAIG?</i></p> <p>See also Question SQ24)</p>
<p>M3E1b-2 The Board of the parent of the IAIG ensures that there is a reliable and transparent group-wide financial reporting process for both public and supervisory purposes</p>	<p>M3E1b-2-1 The Board of the parent of the IAIG ensures that there is a reliable and transparent financial reporting process for both public and regulatory purposes which is supported by clearly defined roles and responsibilities of:</p> <ul style="list-style-type: none"> • the parent of the IAIG's Board • Senior Management • the external auditor for the parent of the IAIG's consolidated financial statements, and • auditors of the financial statements prepared by any entity within the group 	<p>M3E1a-2-1-1 <i>Should the individual Boards, or the Board of the parent of the IAIG ensure that the IAIG complies with the financial reporting and accounting requirements which may vary across the jurisdictions in which the IAIG operates?</i> Differences in such requirements should be taken into consideration by the governance structure so that significant findings and/or potential risks or weaknesses in one area of the IAIG can be appropriately communicated to the Board of the parent of the IAIG.</p>
<p>M3E1b-4 The IAIG sends written actuarial evaluation reports to the Supervisors if so required</p>	<p>M3E1b-4-1 The actuarial report for an IAIG should cover...</p>	<p>M3E1b-4-1-1 See Module 4 Element 9 on Supervisory Reporting for a complete overview of Supervisory Reporting.</p>



Module 3 Element 2 Enterprise Risk Management (ERM) [developed by Solvency and Actuarial Issues Subcommittee]		
<p>M3E2-1 The IAIG has a group-wide ERM Framework that addresses all relevant and material risks and enables it calculate its solvency requirements. It covers risks at both the legal entity and IAIG level, accordingly to their nature, scale and complexity.</p>	<p>M3E2-1-1 Through its ERM Framework, the IAIG provides for:</p> <ul style="list-style-type: none"> • determination of the IAIG’s risk appetite and risk tolerance • risk management • capital management • an IAIG’s own risk and solvency assessment (ORSA) incorporating an assessment of economic and regulatory capital as well as a continuity analysis 	<p><i>Please refer to the attached diagram in ComFrame commentary for a graphical illustration of the Risk Management approach.</i></p> <p>See Question SQ31)</p>
	<p>M3E2-1-2 The Board and Senior Management of the parent of the IAIG are accountable for implementation of the ERM Framework throughout the group. It ensures that its ERM Framework is effective and well integrated into the organisational structure and decision making process of the IAIG, and that proper considerations are made of those who have key functions, by:</p> <ul style="list-style-type: none"> • having a well defined operational and reporting structure so that information flows easily within the organisation • assigning sufficient resources to the formulation of group-wide ERM policy and 	<p>See Question SQ36)</p>



	<p>systems</p> <ul style="list-style-type: none"> ensuring group-wide participation and peer reviews. 	
	<p>M3E2-1-3 The IAIG's ERM Framework is responsive to changes in the IAIG's risk profile. It incorporates a feedback loop, which enables it to take the necessary action in a timely manner in response to changes in its risk profile. It is based on appropriate and accurate information, management processes and objective assessment.</p>	
	<p>M3E2-1-4 The IAIG comprehensively documents its group-wide ERM Framework, including its risk appetite and risk tolerance, its measurement of risks and how it manages risk. The IAIG supports its measurement of risk with accurate documentation providing appropriately detailed descriptions and explanations of the risks covered, the measurement approaches used and the key assumptions made.</p>	
	<p>M3E2-1-5 The IAIG ensures that its group-wide ERM Framework is independently reviewed on a regular basis.</p>	See Question SQ37)
	<p>M3E2-1-6 The IAIG establishes and maintains a risk appetite statement which:</p>	.



	<ul style="list-style-type: none"> • sets out its overall qualitative and quantitative risk tolerance and • defines risk tolerance limits which take into account all relevant and material categories of risk and the relationships between them. 	
	<p>M3E2-1-7 The IAIG must determine its risk appetite and make use of its risk tolerance levels in its business strategy. Its defined risk tolerance limits should be embedded in its day-to-day operations via its risk management policies and procedures.</p>	
	<p>M3E2-1-8 The IAIG pays appropriate attention to the risks arising from non-regulated entities.</p>	
<p>M3E2-2 Within the group-wide ERM Framework, the IAIG develops a comprehensive risk management policy which outlines how all relevant and material categories of risk are managed, both in the IAIG's business strategy and its day-day operations.</p>	<p>M3E2-2-1 The IAIG implements its ERM Policy by establishing procedures and monitoring practices to ensure the sufficiency and quality of relevant data used in the underwriting, pricing and reserving processes. The IAIG also has adequate procedures, systems and controls for setting and monitoring pricing and managing claims which cover the overall underwriting cycle.</p>	
	<p>M3E2-2-2 The IAIG's ERM policy pays particular attention to the risk from operating in different countries and different regulatory environments and considers operations through subsidiaries, branches and</p>	



	cross border.	
	<p>M3E2-2-3 The IAIG's ERM policy addresses the risks arising from intra-group transactions, and ensures there are appropriate qualitative restrictions on such exposures, including:</p> <ul style="list-style-type: none">• contagion and reputational risks• aggregation of exposures to external parties across the group,• transferability of assets, and• fungibility of capital.	
	<p>M3E2-2-4 Through its ERM Policy, the IAIG describes the relationship between the IAIG's tolerance limits, regulatory capital requirements, economic capital and the processes and methods for monitoring risk.</p>	
	<p>M3E2-2-5 The IAIG reviews its ERM Policy at least annually. Those policies are subject to prior approval by the parent of the IAIG and are to be adapted in response to significant changes in the system or area concerned.</p>	
	<p>M3E2-2-6 The IAIG includes in its ERM Policy an explicit asset-liability management policy (ALM Policy) which clearly specifies the nature, role and extent of ALM activities and their relationship with</p>	



	<p>product development, pricing functions and investment management.</p>	
	<p>M3E2-2-7 The IAIG's reflects in its ERM Policy an explicit Investment Policy which:</p> <ul style="list-style-type: none"> • specifies the nature, role and extent of the IAIG's investment activities and how the IAIG complies with the regulatory investment requirements. • establishes explicit risk management procedures with regard to more complex and less transparent classes of asset and investment in markets or instruments that are subject to less governance or regulation. 	
<p>M3E2-3 The IAIG establishes, within its ERM Framework, effective group-wide risk management systems which identify and measure risk.</p>	<p>M3E2-3-1 The ERM systems must cover at least the following risks and the management of these risks in a cross border context:</p> <ul style="list-style-type: none"> (a) insurance risk (b) market risk (c) credit risk (d) asset–liability mismatch risk (e) liquidity and concentration risk (f) operational risk (g) reinsurance and other risk-mitigation techniques. (h) group risks including contagion risk (i) strategic and reputational risk (j) pensions obligation risk (j) fraud risk 	<p>See Question SQ41)</p>



	<p>M3E2-3-2 The risk management systems comprise group-wide strategies, processes and reporting procedures necessary to manage and report on those risks and their interdependencies on a continuous basis, at both an individual and aggregated level.</p>	
	<p>M3E2-3-3 IAIGs are required to use techniques to build an economic capital model appropriate to the nature, scale and complexity of the IAIG's business and risks (e.g. with group operations in distinctly different jurisdictions and economic environments).</p> <p>The economic capital model:</p> <ul style="list-style-type: none">• demonstrates control processes with the input data• estimates capital needed in extreme adverse situations• can be used to drive or validate major management decisions• includes new business• enables deeper attention to owners' capital.	See Question SQ34)
	<p>M3E2-3-4 The IAIG performs capital planning in respect of economic capital and regulatory capital requirements over (at least) the insurer's business planning period.</p>	



	<p>M3E2-3-5 The IAIG develops its own internal ratings system which is able to rank and quantify risk in a consistent, reliable and valid manner. Rating and risk estimation systems and processes provide for:</p> <ul style="list-style-type: none"> • a meaningful assessment of borrower characteristics and transaction characteristics (e.g. collateral or structuring) • a meaningful differentiation of risk and • accurate and consistent quantitative estimates of risk. 	
	<p>M3E2-3-6 The IAIG's risk identification and measurement includes stress (and reverse stress) testing and scenario analysis using scenarios identified by the IAIG and as may be prescribed by the group-wide supervisor. It captures group risk, including risks from unregulated activities, and risk from international operations, taking note of differences in risk in the various countries in which it operates.</p>	
<p>M3E2-4 The risk management function as required under Element 1 coordinates the risk management activity across the group and is responsible for the consistent determination of group regulatory capital requirements and group economic capital.</p>	<p>M3E2-4-1 The IAIG ensures that its Group-wide Risk Management Function and risk management functions within entities or subgroups are independent from its risk-taking functions.</p> <p>See Question SQ35)</p>	



	<p>M3E2-4-2 The IAIG ensures that its group wide ERM Framework is effective and well integrated into the organisational structure and in the decision making processes of the IAIG. Proper considerations are made of the persons who effectively run the IAIG or have other key functions.</p>	
<p>M3E2-5 The IAIG regularly performs its ORSA to assess the adequacy of its risk management and current and likely future, solvency position.</p>	<p>M3E2-5-1 The IAIG performs a group-wide ORSA using both quantitative and qualitative approaches:</p> <ul style="list-style-type: none">• changes in group structure are considered• group-wide internal models are used where it is appropriate to do so.• risk aggregation takes into account the transferability of assets between countries and the fungibility of capital.• both economic capital and regulatory capital requirements are considered.	<p>See Question SQ38), SQ39) and SQ40)</p>
	<p>M3E2-5-2 Through its ORSA, the IAIG includes:</p> <ul style="list-style-type: none">• a determination of the overall financial resources that the IAIG needs to manage its business, given its own risk tolerance and business plans, and to demonstrate that supervisory requirements are met on a continuous basis• a basis for its risk management actions on consideration of its economic capital, regulatory capital requirements and financial resources	



	<ul style="list-style-type: none">• an assessment of the quality and adequacy of its capital resources to meet current and future regulatory capital requirements and any additional capital needs• the IAIG's analysis of its ability to continue in business, and the financial resources required to do so over the planning horizon• the significance with which the risk profile of the group concerned deviates from the assumptions underlying the regulatory capital requirements.	
	<p>M3E2-5-3 The IAIG ensures that its ORSA is an integral part of its business strategy and is taken into account on an ongoing basis in the strategic decisions of the group.</p>	
	<p>M3E2-5-4 Through its ORSA, the IAIG encompasses all reasonably foreseeable and relevant material risks including, as a minimum:</p> <ul style="list-style-type: none">• underwriting• credit• market• operational• liquidity risks	
	<p>M3E2-5-5 Through its ORSA, the IAIG identifies the relationship between risk management and the</p>	



	level and quality of financial resources needed and available.	
M3E2-6 The IAIG's ERM Framework facilitates communication of its risk appetite and tolerance, and approach to risk management, within the group and externally.	M3E2-6-1 The IAIG's culture supports the open communication of emerging risks that may be significant to the group and its members.	



Module 3 Element 3 Liabilities/ technical provisions and assets/investments [developed by Solvency and Actuarial Issues Subcommittee]		
M3 E3 Placeholder for Liabilities/technical provisions	M3 E3 Placeholder Liabilities/technical provisions	M3 E3 Placeholder Liabilities/technical provisions
See Question SQ42)		
M3E3-1 An IAIG is required to develop and implement an Investment Policy . It clearly defines the IAIG's investment objectives, ensuring that these are consistent with any legislative restrictions.	M3E3-1-1 IAIG's investment policy meets regulatory requirements that are applicable to the investment activities of the IAIG: <ul style="list-style-type: none"> • for the IAIG's portfolio of investments as a whole; • for the investments of an IAIG to be appropriate to the nature of its liabilities; • for the IAIG to only invest in assets whose risks it can properly assess and manage; and • on the use of more complex and less transparent classes of assets and investment in markets or instruments that are subject to less governance or regulation 	
	M3E3-1-2 The regulatory investment requirements are open and transparent and the objectives of those requirements are explicit.	
M3E3-2 The IAIG Investment	M3E3-2-1 There are restrictions to the IAIG's selection of,	



<p>Requirements address at a minimum, the:</p> <ul style="list-style-type: none">• Security;• Liquidity; and• Diversification; <p>of an IAIG's portfolio of investments as a whole</p>	<p>and/or exposure to, investments that have low security or whose security is difficult to assess.</p>	
	<p>M3E3-2-2. There are requirements for investing in low-quality assets that may be distributed around the group to avoid local investment restrictions.</p>	
	<p>M3E3-2-3 An IAIG monitors investments on a group-wide basis to ensure the IAIG is aware of global exposures and the possibility of an inappropriate level of exposure to certain investments, creating financial difficulties within the group if the value or liquidity of these investments decreases.</p>	
	<p>M3E3-2-4 There are minimum criteria for liquidity of investments to ensure payments to policyholders or creditors are able to be made as they fall due and assets are held in the appropriate location for their availability.</p>	
	<p>M3E3-2-5 An IAIG investigates and documents the nature of the potential legal and practical impediments to cross-border transfer of assets as well as any</p>	



	potential effect those impediments might have, particularly in a winding up.	
	<p>M3E3-2-6 An IAIG's assets are properly diversified in such a way as to avoid excessive concentration on any particular:</p> <ul style="list-style-type: none"> • asset; • issuer/counterparty or related entities of an issuer/counterparty; • market • industry; and/or • geographical area. 	
<p>M3E3-3 An IAIG invests in a manner that is appropriate to the nature of its liabilities.</p>	<p>M3E3-3-1 Investments appropriate to the nature of an IAIG's liabilities means investments that will enable the insurance legal entities within the IAIG to use the proceeds of these investments to pay the policyholders and other creditors, as and when the payments to them fall due.</p>	
<p>M3E3-4 An IAIG invests only in assets whose risks it can properly assess and manage.</p>	<p>M3E3-4-1 Where an IAIG centrally manages all or some investments within the group, the group-wide supervisor sets requirements to ensure the investment management unit has the requisite knowledge and skills to assess and manage the risks of these investments, and manages the investments with due regard to the needs of the insurance legal entities in addition to the IAIG as a whole.</p>	



	M3E3-4-2 IAIGs are aware of the limitations of using ratings from credit rating agencies and avoid placing undue reliance on them by developing their own internal rating systems.	
M3E3-5 There are quantitative and qualitative investment requirements, where appropriate, on the use of more complex and less transparent classes of assets and investment in markets or instruments that are subject to less governance or regulation.	M3E3-5-1 Any IAIG investments, including those in collective investment funds, are sufficiently transparent.	
	M3E3-5-2 The group-wide supervisor and host supervisors ensure that an investment in an off-balance sheet structure is only permitted if the investment is not set up in order to circumvent any regulatory investment requirements.	
	M3E3-5-3 There are requirements on the use of structured investment products and derivatives.	
M3E3-6 There are requirements on participations and investments in other entities within the same IAIG, related counterparties or interest	M3E3-6-1 <ul style="list-style-type: none">• Requirements on participations and investments in these entities have regard to their lack of liquidity;	



over which the insurer has some influence.

- contagion or reputational risk limitation
- valuation uncertainty; and
- potential reduction in quality of the entity's available assets.

**Module 3 Element 4 Valuation [developed by Accounting and Auditing Issues Subcommittee]****M3E4-1**

IAIGs value their assets and liabilities for solvency purposes on a consistent and economic basis, using International Financial Reporting Standards (IFRS) as a reference, with the valuation undertaken in a reliable, decision useful and transparent manner reflecting the risk-adjusted present value of cash flows in relation to each asset and liability.

M3E4-1-1.

The group-wide supervisor, in cooperation with other involved supervisors, considers the IFRS measurement criteria and sets out prudential adjustments and filters related to recognition and measurement, where required, and IAIGs disclose the application of those prudential adjustments and filters.

M3E4-1-2

An IAIG clearly sets out, in a written statement, its **Valuation Principles**, its approach to measurement and recognition for determining when a transaction gives rise to an asset or liability.

M3E4-1-3

The group-wide supervisor, in cooperation with other involved supervisors, considers the definition of a group for supervisory purposes as set out in Module 1 Element 3 compared to a consolidated group under IFRS. The group-wide supervisor, in cooperation with other involved supervisors, applies and IAIG discloses appropriate adjustments to consolidated group accounts where material differences in the composition of



	the IFRS Group and the IAIG for supervisory purposes and financial reporting purposes exist.	
	M3E4-1-4 The group-wide supervisor, in cooperation with other involved supervisors, ensures and an IAIG demonstrates that valuation practices (assumptions and modelling) are conducted on consistent and reliable bases, including ensuring consistent application of IFRS.	
	M3E4-1-5 The group-wide supervisor, in cooperation with other involved supervisors, establishes and an IAIG sets out a methodology for calculating the risk-adjusted present value of cash flows for the purpose of valuing assets and liabilities, including prudential adjustments or filters to be applied to amounts determined under IFRS.	
	M3E4-1-6 The group-wide supervisor, in cooperation with other involved supervisors, ensures that where IFRS allows the value of liabilities to reflect own credit standing, that appropriate prudential filters and adjustments are applied to remove the effect of own credit standing on the value of liabilities.	
	M3E4-1-7 An IAIG applies prudential adjustments or filters to remove own credit standing where IFRS allows the inclusion of own credit standing in the value of liabilities.	



	<p>M3E4-1-8 The group-wide supervisor, in cooperation with other involved supervisors, requires the valuation of technical provisions to exceed the current estimate of the cost of meeting the insurance obligations (Current Estimate) by a margin to reflect the inherent uncertainty of those obligations (Margin over the Current Estimate or MOCE), including the application of prudential filters and adjustments to the valuation of technical provisions under IFRS.</p>	
	<p>M3E4-1-9 In accordance with requirements established by the group-wide supervisor in cooperation with other involved supervisors, an IAIG values technical provisions by determining a Current Estimate and MOCE.</p>	
	<p>M3E4-1-10 The Current Estimate reflects the expected present value of all relevant future cash flows that arise in fulfilling insurance obligations, using unbiased, current assumptions.</p>	
	<p>M3E4-1-11 The MOCE reflects the inherent uncertainty related to all relevant future cash flows that arise in fulfilling insurance obligations over the full time horizon thereof.</p>	



	<p>M3E4-1-12 The group-wide supervisor establishes criteria for the determination of appropriate interest rates to be used in the discounting of technical provisions and an IAIG applies these criteria to determine discount rates used in valuing technical provisions.</p>	
	<p>M3E4-1-13 The group-wide supervisor, in cooperation with other involved supervisors, requires the valuation of technical provisions to make appropriate allowance for embedded options and guarantees. The group-wide supervisor, in cooperation with other involved supervisors, specifies, where required, methodologies to value any unbundled features or apply prudential filters and adjustments to values determined under IFRS to ensure the consistent valuation of these features. IAIGs apply these methodologies in valuing embedded options and guarantees.</p>	
<p>M3E4-2. Appropriate adjustments to IFRS are applied to ensure an economic basis for valuation.</p>		



Module 3 Element 5 Capital Adequacy [developed by Solvency and Actuarial Issues Subcommittee]

Module 3 Element 5a Total Balance Sheet Approach

M3E5a-1

The group-wide supervisor, in cooperation with other involved supervisors, applies a total balance sheet approach to assess all the risks to which the IAIG is exposed.

M3E5a-1-1

See question SQ46)



Module 3 Element 5b Capital Required

M3E5b-1

The group-wide supervisor, in cooperation with other involved supervisors, establishes **the Capital Required:**

- at a sufficient level so that, in adversity, an IAIG's insurance legal entity obligations to policyholders will continue to be met as they fall due
- based on appropriate target criteria and
- addressing all relevant and material categories of risk.

M3E5b-1-1

There are a number of options in determining target criteria.
Risk measurement could be based on:

- Value at risk
- Expected shortfall (TAILVaR)
- Other approaches

Regarding confidence level there could be established :

- A single point on a distribution
- allowance for different confidence levels out of a range to be determined (e.g. 95 to 99.5%)

See Question SQ47)

The group-wide supervisor will need to establish a time horizon but this will be addressed in the calibration phase.

M3E5b-1-2

There are standardised approaches and internal model based approaches.

For the standardised approach, ComFrame may:

- Fix a specific standardised approach
- Allow some variations/optionality at the discretion of group-wide supervisors



	<p>For the internal model approach, ComFrame may:</p> <ul style="list-style-type: none"> • Not permit internal models • Permit the use of internal models within certain parameters • Broadly allow the use of internal models <p>Refer to Question SQ48)</p>	
	<p>M3E5b-1-3 The group-wide supervisor, in cooperation with other involved supervisors, may vary Capital Required in limited circumstances providing the decision is made in a transparent framework and is appropriate to the nature, scale and complexity in terms of the target criteria.</p>	
<p>M3E5b-2 The group-wide supervisor, in cooperation with other involved supervisors, addresses all relevant and material categories of risk (including risk concentrations) in applying a total balance sheet approach, particularly:</p> <ul style="list-style-type: none"> • Insurance risk • Market risk • Credit risk • Liquidity risk • Operational risk 	<p>M3E5b-2-1 The group-wide supervisor, in cooperation with other involved supervisors, addresses insurance risks including risks arising from:</p> <ul style="list-style-type: none"> • Non-life insurance business • Life insurance business • Health insurance or other insurance business 	
	<p>M3E5b-2-2</p>	



	<p>The group-wide supervisor, in cooperation with other involved supervisors, addresses market risks including risks arising from:</p> <ul style="list-style-type: none">• Interest rate risk• Equity market risk• Currency risk• Other market risks	
	<p>M3E5b-2-3 The group-wide supervisor, in cooperation with other involved supervisors, addresses credit risks arising from investments and reinsurance.</p>	
	<p>M3E5b-2-4 The group-wide supervisor, in cooperation with other involved supervisors, addresses operational risks arising from all of the operations of the IAIG.</p>	
	<p>M3E5b-2-5 The group-wide supervisor, in cooperation with other involved supervisors, addresses liquidity risk arising from obligations to policyholders and other creditors.</p>	
	<p>M3E5b-2-6 The group-wide supervisor, in cooperation with other involved supervisors, addresses dependencies and inter-relationships between the risks.</p>	
	<p>M3E5b-2-7 The group-wide supervisor, in cooperation with</p>	



	other involved supervisors, should allow for risk mitigation, such as reinsurance, where it believes it is appropriate to do so.	
	M3E5b-2-8 The group-wide supervisor, in cooperation with other involved supervisors, addresses risks that are less readily quantifiable based on simple proxies for risk exposure, and/or stress and scenario testing.	
	M3E5b-2-9 The group-wide supervisor, in cooperation with other involved supervisors, addresses group specific risks arising from: <ul style="list-style-type: none">• diversification of risk across group entities• intra-group transactions• non-insurance group entities• cross jurisdictional entities• partial ownership and minority interests	



Module 3 Element 5c Available Capital Resources		
M3E5c-1 The group-wide supervisor, in cooperation with other involved supervisors, establishes the Available Capital Resources of an IAIG.	M3E5c-1-1 The determination of Available Capital Resources would generally require the following steps: <ul style="list-style-type: none">• the amount of capital resources potentially available for solvency purposes is identified;• an assessment of the quality and suitability of the capital instruments comprising the total amount of capital resources identified is then carried out• on the basis of this assessment, the final capital resources eligible to meet regulatory capital requirements and their value are determined.	
	M3E5c-1-2 Available capital resources consist of: <ul style="list-style-type: none">• Broadly, excess of assets over liabilities• Defined technical provisions and other liabilities, such as perpetual subordinated debt, may be treated as Available Capital Resources for solvency purposes.• Defined contingent assets	
	M3E5c-1-3 Capital resource items should be classified in accordance with quality criteria, and the eligible amount of those items to cover capital	



	requirements should be limited accordingly.	
	<p>M3E5c-1-4 Criteria for assessing the quality and suitability of capital resources take account of characteristics such as:</p> <ul style="list-style-type: none">• availability to absorb losses on both a going concern and wind-up basis (including considerations of subordination and priority)• the extent of the permanent and/or perpetual nature of the capital and• the existence of any mandatory servicing costs in relation to the capital. <p>See Question SQ49)</p>	
	<p>M3E5c-1-5 Key group-wide factors to be addressed in the determination of group-wide capital resources include:</p> <ul style="list-style-type: none">• multiple gearing• intra-group creation of capital• leverage• fungibility and transferability	



Module 3 Element 5d Capital Adequacy Assessment

M3E5d-1

The group-wide supervisor, in cooperation with other involved supervisors, requires the IAIG to maintain **Available Capital Resources** to meet the **Capital Requirements**.

M3E5d-1-1

The group-wide supervisor, in cooperation with other involved supervisors, has options in establishing solvency control levels that are appropriate in the context of the approach to group-wide capital adequacy that is applied.

With regard to a PCR, a group-wide supervisor may establish this as:

- a single group-wide PCR
- a single group-wide PCR based on a floor of the addition of MCRs or
- a consistent set of PCRs for insurance legal entities that are members of the IAIG

With regard to an MCR, there are different views as to whether the MCR is relevant at a group-wide level.

See Question SQ50)

M3E5d-2

The group-wide supervisor together with the other involved supervisors may take proportionate action (to be spelled out) if a solvency control level is breached.

This is to be addressed in Module 4.



<p>M3E5d-3 The group-wide supervisor, in cooperation with other involved supervisors, should carry out stress testing and scenario analysis as an adjunct to the capital adequacy assessment.</p>	<p>M3E5d-3-1 Stress testing measures the financial impact of stressing one or relatively few factors affecting the insurer.</p> <p>Financial stresses applied could include:</p> <ul style="list-style-type: none">• high inflation or high deflation;• prolonged low interest rates;• significant declines in equity markets; or• other low probability, high impact financial events. <p>Insurance stresses applied could include specified catastrophes.</p>	<p>See Question SQ51)</p>
	<p>M3E5d-3-1</p> <p>Scenario analysis considers the impact of a combination of circumstances which may reflect extreme historical scenarios which are analysed in the light of current conditions.</p> <p>Scenario analysis may involve several of the stresses applied in stress testing in a particular combination to reflect a particular scenario such as the great depression or the recent global financial crisis.</p>	

*Element 6-7 to be developed



ComFrame Commentary

General

<Element 1>

- None to date

<Element 2>

- The diagram in Annex III illustrates the IAIS standard ERM framework showing the key features of the framework as described in Element 2.
- Note that ICP 16.16 is specifically not covered here as it relates to supervisory review and reporting and will be addressed in Module 4

<Element 3>

- None to date

<Element 4>

- Element 4 is based on ICP 14 but with a reference point of IFRS. In essence, Element 4 provides a basis for adjusting general purpose financial reports prepared according to IFRS for use in IAIG supervision in accordance with ICP 14.

<Element 5>

- Note that standards 17.12 to 17.18 have not been specifically addressed at this point because the key question about the use of internal models in ComFrame needs to be addressed before moving forward with building material in ComFrame that is based on and elaborates these standards
- Standards 17.3 and 17.4 are not relevant to IAIGs as the same subject is covered in a group context in standard 17.5
- A significant amount of material is contained in the guidance within ICP 17 which could be used as the basis for further development, in an IAIG context, of parameters and specifications once the questions for this Element are addressed and there is a firm foundation and understanding on which to build the ComFrame quantitative requirements.

Technical

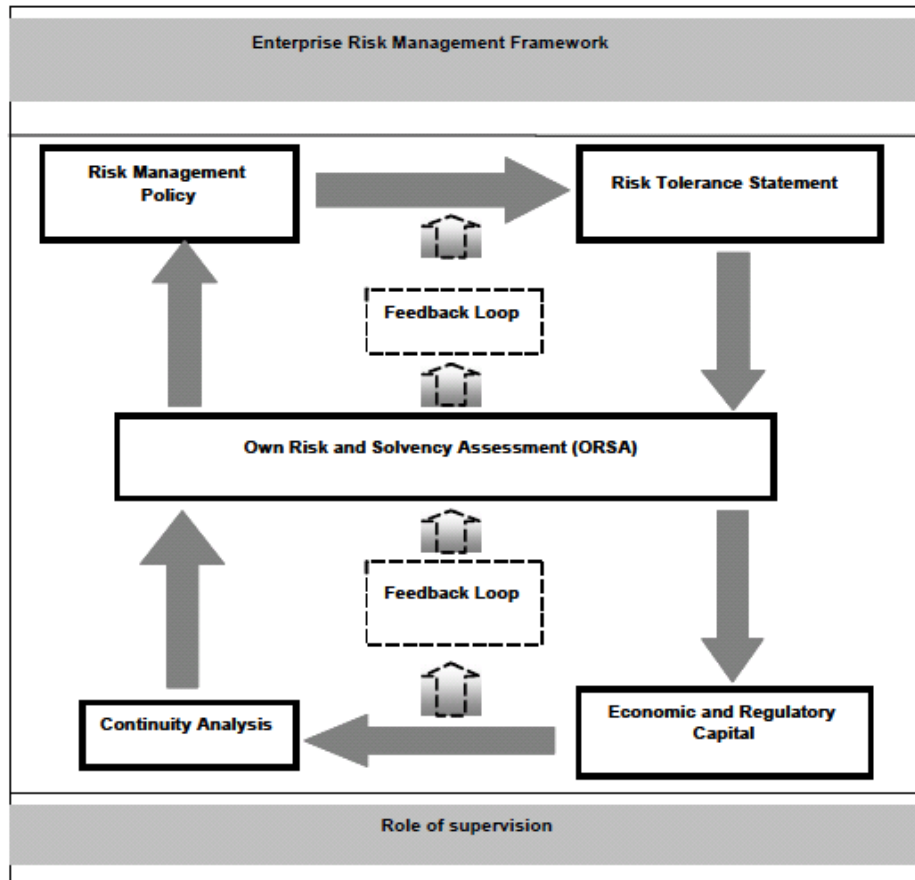
<Element 1-5>

- None to date.





IAIS standard ERM framework





Module 4

Supervisory cooperation and interaction

Specific Questions

- SQ52) Should the possibility of setting up core colleges be further discussed in ComFrame?
- SQ53) Are there situations in which it would be conceivable that there are two group-wide supervisors?
- SQ54) M4E8-3-3 indicates that the resolution plan of an IAIG should be developed by the IAIG concerned. Is this to be of general nature or to be related to particular areas of concern such as intra-group transactions and their interrelation with policyholder funds?
- SQ55) Should the IAIG Annual Supervisory Reporting Package be based on the calendar year-end or the reporting year-end that the IAIG uses for its general purpose financial reports? Should the quarterly reporting align with this reporting year-end (i.e. if an October year end the quarters would end on 31 January, 30 April, and 31 July)?
- SQ56) What would be a reasonable period of time, from the relevant reporting year end, in which an IAIG could prepare the IAIG Annual Supervisory Reporting Package?
- SQ57) Should M4E9-2 (IAIG Quarterly Supervisory Reporting Package) allow for a default to the quarterly general purpose financial reporting without prudential adjustments if that quarterly public financial reporting is required of an IAIG in its jurisdiction?
- SQ58) How much detail is it reasonable to have in the IAIG Quarterly Supervisory Reporting Package compared to the IAIG Annual Supervisory Reporting Package?
- SQ59) Where the head of an IAIG is not listed, should the public disclosures required be the same as for those IAIGs where the head is a listed company and must comply with securities law with regard to disclosures of a public company?
- SQ60) ICP 20 covers insurance legal entities and groups of all sizes and complexity based on their nature, scale and complexity. Should the specifications begin with the guidance in ICP 20 effectively made compulsory for IAIGs to follow? What additional disclosure obligations should be applied to IAIGs?

Module Specific Introductory Comments

To be developed

Foundation



- **ICP 3** Information exchange, supervisory cooperation and coordination
- **ICP 9** Supervisory review and reporting
- **ICP 11** Enforcement
- **ICP 20** Disclosure
- **ICP 23** Group-wide supervision



ComFrame Standards	Parameters	Specifications
Module 4, Element 1 Principles of coordination and interaction [developed by ComFrame TF Secretariat]		
M4E1-1 Group-wide supervisors and host supervisors interact and coordinate the supervision of IAIGs to effectively and efficiently supervise IAIGs in a holistic manner.	Parameters to be developed See General Commentary 1	



Module 4, Element 2 Identification of group-wide and involved supervisors [developed by Insurance Groups and Cross Sectoral Issues Subcommittee]		
<p>M4E2-1 Involved supervisors of IAIGs cooperate and coordinate on cross-border issues on a legal entity and a group-wide basis (including through the use of supervisory colleges as described under Element 4) to contribute to the comprehensive oversight of IAIGs. Insurance supervisors cooperate and coordinate with supervisors of other sectors. Involved supervisors make use of coordination arrangements and/or bilateral contracts (refer to ICP 25.1).</p>	<p>M4E2-1-1 Involved supervisors are supervisors involved in the supervision of an IAIG and include the group-wide supervisor, host supervisors (including those of major branches or branches relevant for the jurisdiction they are located in) and other relevant sectoral supervisors. Depending on the circumstances of the particular IAIG and the jurisdictions in which it operates it could include all, or only some, of the supervisors involved in the supervision of entities within the IAIG.</p> <p>A host supervisor is any supervisor from a jurisdiction where the IAIG undertakes activities other than the jurisdiction of the group-wide supervisor of the IAIG.</p>	<p>M4E2-1-1-1 Coordination arrangements can include ... (e.g. the IAIS MMoU).</p> <ul style="list-style-type: none"> • Responsiveness, communication channels and process <p>Supervisory programme (*need to define) being established through cooperation between group-wide supervisor and host supervisors:</p> <p>Overview of the forthcoming supervisory activities from a group-wide perspective but also legal entity/branch perspective with the purpose of a coordinated approach.</p>
<p>M4E2-2 The involved supervisors of IAIGs determine the group-wide supervisor and agree upon the supervisor to take on that role (refer to ICP 25.2).</p>	<p>M4E2-2-1 The group-wide supervisor is the supervisor(s) who has/have the responsibility for supervising the IAIG as a whole in conjunction with the other involved supervisors.</p> <p>See Technical Commentary 2</p>	<p>M4E2-2-1-1 If the IAIG is a financial conglomerate or part of a financial conglomerate refer to Module 1 Element 4.</p>
	<p>M4E2-2-2 In principle, the supervisor in the jurisdiction where the head of the IAIG is based and from where the insurance operations of the IAIG is actually</p>	<p>M4E2-2-2-1 The location of the IAIG's head office is most likely to be where the IAIG's board and senior management meets - ready access of the group-</p>



	<p>controlled and where that supervisor has the statutory responsibility to supervise the head of the IAIG should be first considered to take the role of the group-wide supervisor.</p>	<p>wide supervisor to the IAIG's board and senior management is an important factor.</p>
	<p>M4E2-2-3 After first considering the location of the IAIG's head office, other factors to consider in determining the group-wide supervisor of an IAIG would include:</p> <ul style="list-style-type: none">• where the registered head office is not the operational head of the IAIG, the location where:<ul style="list-style-type: none">• the main business activities of the IAIG are undertaken and/or• the main business decisions are taken and/or• the main risks are underwritten and/or• the largest proportion of the IAIG's balance sheet is located	
	<p>M4E2-2-4 The involved supervisors should strive for a joint decision on the group-wide supervisor. The emphasis should be on a joint decision between all involved supervisors to reach an acceptable outcome.</p>	



Module 4, Element 3 Group-wide and other involved supervisors' roles and supervisory cooperation tools [developed by Insurance Groups and Cross Sectoral Issues Subcommittee]

<p>M4E3-1 The group-wide supervisor takes the responsibility for initiating discussions on suitable coordination arrangements, including a supervisory college and acts as chair of the supervisory college.</p>	<p>M4E3-1-1 The group-wide supervisor understands the structure and operations of the IAIG. Other involved supervisors understand the structure and operations of parts of the IAIG at least to the extent they could affect the operations in their jurisdictions and how the operations in their jurisdictions may affect the IAIG as a whole. (see also Module 2)</p>	
	<p>M4E3-1-2 The group-wide supervisor is responsible for the coordination of information gathering and distribution in the college and among involved supervisors. This includes the compilation and dissemination of relevant IAIG related information.</p> <p>Further tasks of the group-wide supervisor in conjunction with other involved supervisors include:</p> <ul style="list-style-type: none">• Group-wide supervisory assessment to provide an assessment of the financial situation of the IAIG as a whole. This includes group-wide supervisory review and reporting.• To assess the compliance of the IAIG with regulatory criteria with regard to group-wide supervision (including solvency and governance requirements) (see Module 3).	<p>M4E3-1-2-1 The group-wide supervisor is responsible primarily for the communication with the head of the IAIG and any other senior officials of the IAIG, as appropriate.</p>



	<ul style="list-style-type: none">• Coordination and planning of supervisory activities (both for a going concern situation as well as crisis situations).	
<p>M4E3-2 The group-wide supervisor, in conjunction with the other involved supervisors, is responsible for group-wide supervision. The group-wide supervisor takes into account the entity assessments made by the involved supervisors as far as these are relevant to the IAIG as a whole.</p>	<p>M4E3-2-1 The group-wide supervisor and other involved supervisors consult to determine the appropriate scope of the IAIG in accordance with Module 1 Element 3.</p>	



Module 4, Element 4 Use of supervisory colleges [developed by Insurance Groups and Cross Sectoral Issues Subcommittee]		
<p>M4E4-1 A supervisory college is established for each IAIG for the purpose of facilitating group-wide supervision.</p>	<p>M4E4-1-1 Supervisory colleges are permanent platforms for cooperation and coordination among involved supervisors.</p>	<p>M4E4-1 -1-1 A supervisory college is organised in accordance with the nature, scale and complexity of the IAIG; the form of the college should be commensurate with the legal and organisational structure and business activities of the IAIG.</p>
		<p>M4E4-1-1-2 The supervisory college is based on coordination arrangements among supervisors. Coordination arrangements lay down the processes of the college. Coordination arrangements include effective procedures for information flows between involved supervisors on an ongoing basis and in emergency situations and for communication with the head of the IAIG.</p>
		<p>M4E4-1-1-3 The supervisory college provides involved supervisors with an opportunity for discussion of issues with management at the IAIG top level.</p>
		<p>M4E4-1-1-4 The supervisory college regularly assesses its effectiveness in achieving its role and functions.</p>
	<p>M4E4-1-2 The supervisory college consists of involved supervisors. See Module 1 Element 4 where an IAIG is a financial conglomerate or part of a</p>	<p>M4E4-1-2-1 The group-wide supervisor is responsible for the identification of all potential involved supervisors that could form a supervisory college and for</p>



	financial conglomerate.	determining appropriate membership criteria which take account of the relative importance of the IAIG companies within individual jurisdictions.
		M4E4-1-2-2 If an involved supervisor does not meet the criteria but in its opinion its participation in the college is a crucial issue, the supervisory college may decide to include this supervisor in its meeting.
	M4E4-1-3 Subgroup colleges are established as appropriate to enhance the overall effectiveness of the college.	M4E4-1-3-1 Adequate information sharing between subgroup colleges and general colleges is ensured.
		M4E4-1-3-2 Where subgroup colleges are established there is a regular assessment of the effectiveness of the coordination between the subgroup colleges and the main supervisory colleges for the IAIG done by the group-wide supervisor in consultation with other involved supervisors.
M4E4-2 The supervisory college is chaired by the group-wide supervisor. The group-wide supervisor establishes the key functions of supervisory colleges and other coordination mechanisms.	M4E4-2-1 The group-wide supervisor will be assisted in its tasks by the supervisory college and the other involved supervisors individually. These tasks include the production of an IAIG overview (structure) that also addresses the IAIG's strategy and financial/solvency situation as a whole. The overview would also address risk concentration and intra-group transactions and exposures as well as governance issues, internal control issues and a capital management assessment	M4E4-2-1-1 The key functions of a supervisory college are defined, and include assessment, on a group-wide basis, of risk exposures, capital adequacy and governance including risk management and internal controls.



	(qualitatively and quantitatively) of the IAIG.	
		<p>M4E4-2-1-1 In developing the IAIG overview the supervisory college will review the IAIG Profile provided for under M2E1-1 and IAIG Structure Risk Review in M2E1-2. In considering the IAIG's strategy and financial/solvency situation as a whole the supervisory college would consider the IAIG Business Risk Review in M2E2-2. The supervisory college will also consider the assessment of changes to an IAIG's business and its structure referencing material provided in accordance with Module 2 Element 3. In assessing intra-group transactions, the supervisory college will consider the information provided by the IAIG in accordance with Module 2 Element 4.</p>
	<p>M4E4-2-2 The roles and functions of the supervisory college and the respective roles of the involved supervisors are agreed and clearly defined to avoid unnecessary duplication of supervision. A workplan for the college is established.</p>	
	<p>M4E4-2-3 The supervisory college ensures that cooperation, exchange of information and consultation processes are put in place.</p>	<p>M4E4-2-3-1 Supervisory colleges facilitate information exchange as well as exchange of views and supervisory assessments in order to enhance the supervision of IAIGs. They also serve to gain common views of the risk profile of IAIGs and enhance legal entity supervision.</p>



		<p>M4E4-2-3-2 The supervisory college should agree on what information needs to be exchanged among involved supervisors and how frequently this needs to be done.</p>
		<p>M4E4-2-3-3 The supervisory college should discuss findings from the analysis of the group-wide supervisor or other involved supervisors in its meetings. On that basis, it might also discuss and coordinate appropriate measures.</p>
	<p>M4E4-2-4 A supervisory college aims to achieve common agreements and promotes common understanding on supervisory activities in relation to the supervision of IAIGs (refer to Element 3), despite not having legally binding authority as a decision body.</p>	
	<p>M4E4-2-5 It is vital that appropriate information sharing arrangements are in place between the members of the supervisory college to ensure that confidential information can be shared in a secure environment. (cross-reference to element 4)</p>	<p>M4E4-2-5-1 There are three principal methods by which information sharing could be achieved:</p> <ul style="list-style-type: none">– Each supervisor involved in the supervisory college establishes MoU on a bilateral basis with the other members of a supervisory college. In many instances such MoUs already exist.• All members of the supervisory college are signatories to the IAIS MMoU which requires the commitment to a strict confidentiality regime.



		<ul style="list-style-type: none"> Other MMOUs that facilitate information exchange may exist.
		<p>M4E4-2-5-2 Where confidential information exchanged within a supervisory college is also communicated to other supervisors there should be a formal mechanism in place with these supervisors to ensure the protection of the confidential information. Mechanisms could be included in MoUs or via direct arrangement.</p>
	<p>M4E4-2-6 A supervisory college meets at a frequency appropriate to the nature, scale and complexity of the IAIG, at least</p>	<p>M4E4-2-6-1 It is possible to coordinate through means other than physical college meetings (e.g. electronic communication). However, for supervisory colleges of IAIGs physical meetings are necessary.</p>
		<p>M4E4-2-6-2 The group-wide supervisor is responsible to convene a physical supervisory college meeting at least annually. Individual involved supervisors can choose to attend physically or via conference call.</p>
	<p>M4E4-2-7 A supervisory college meeting of involved supervisors shall also be called if there is a significant change or event that may affect the IAIG or of one of its legal entities or where other urgent circumstances make this necessary.</p>	<p>M4E4-2-7-1 In the case of a significant breach of capital requirements of the IAIG, the group-wide supervisor is responsible to convene a supervisory college either physically or by other means.</p>
		<p>M4E4-2-7-2</p>



		<p>In the case of a significant breach of capital requirements of one of the legal entities of the IAIG the relevant supervisor informs the group-wide supervisor immediately. The group-wide supervisor then sets up a supervisory college either physically or by other means.</p> <p>Need to set out:</p> <ul style="list-style-type: none">• scope and function of the college• requirements for group-wide supervisor, or other supervisor if appropriate, to lead supervisory college• organisation and performance requirements for operation of supervisory colleges
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Module 4, Element 5 Supervisory process/review [developed by Insurance Groups and Cross Sectoral Issues Subcommittee]		
<p>M4E5-1 Involved supervisors have the necessary powers, means and capacity to fulfil their mandate and achieve the objective of supervision in the context of IAIGs (e.g. policyholder protection).</p>	<p>M4E5-1-1 Supervisory process includes, among others, the verification of compliance of IAIGs with all relevant insurance rules and regulations and regarding the conduct of the business of IAIGs and their required solvency.</p>	<p>M4E5-1-1-1 The processes set out in this Element need to be conducted regularly.</p>
	<p>M4E5-1-2 Supervision is based on a forward-oriented risk-based approach. Involved supervisors verify the compliance of IAIGs with provisions set out in legislation and regulations on a continuous basis.</p>	
	<p>M4E5-1-3 Involved supervisors have access to the governance systems of the IAIG with regards to their relevant supervised legal entities/branches.</p>	
	<p>M4E5-1-4 Involved supervisors review the internal controls and check their adequacy with regards to their relevant supervised legal entities/branches.</p>	
<p>M4E5-2 Supervision of IAIGs and information gathering activities includes both off-site monitoring and on-site activities (including on-site inspections).</p>	<p>M4E5-2-1 Supervisors evaluate the strategies, processes and reporting procedures that are set up by IAIGs to comply with jurisdictional laws and regulations. This includes the assessment of qualitative requirements (e.g. governance) as well as the risks an IAIG encounters.</p>	



	M4E5-2-2 Involved supervisors pay particular attention to governance requirements, capital requirements, technical provisions, investment rules and internal model use in their evaluation.	
	M4E5-2-3 Supervisors possess appropriate monitoring tools to identify changes in the financial condition of an IAIG and to monitor how that could be corrected.	
	M4E5-2-4 Involved supervisors assess actions and methods of the IAIG to identify possible developments that could negatively affect the financial condition of the IAIG. The supervisors assess the ability of the IAIG to bear such changes.	
	M4E5-2-5 Involved supervisors verify information received from IAIGs within their jurisdiction on-site (both at the group and legal entity level).	
M4E5-3 Supervisors require all information necessary to conduct the supervision of IAIGs.	M4E5-3-1 Information which can be required includes what is necessary to make appropriate supervisory decisions. It also includes information necessary to assess the system of governance, valuation rules, risk management and the capital structure of IAIGs.	



	<p>M4E5-3-2 Involved supervisors have to determine the scope, content and frequency of the information they require from IAIGs. This includes ad-hoc data requests.</p>	Supervisory reporting requirements are set out in Element 8.
	<p>M4E5-3-3 Information can consist of quantitative and/or qualitative elements. It can be backwards, current or forward-oriented. Data may come from different sources.</p>	
	<p>M4E5-3-4 For the collection of information, supervisors require the IAIG to submit information in a timely manner.</p>	
	<p>M4E5-3-5 IAIGs have appropriate systems and structures in place to fulfil supervisory information needs.</p>	
	<p>M4E5-3-6 Involved supervisors periodically review reporting requirements.</p>	
<p>M4E5-4 Involved supervisors assess and take preventive and corrective action as warranted in a timely manner to ensure the IAIG complies with laws and regulations.</p>	<p>M4E5-4-1 The group-wide supervisor can require an IAIG to address identified weaknesses in a timely manner. Other involved supervisors are responsible for entities subject to their supervision.</p>	<p>M4E5-4-1-1 Supervisory actions follow the concept of a supervisory ladder. This allows involved supervisors to react flexibly and adequately to breaches of solvency capital requirements.</p>



M4E5-4-1-2

Involved supervisors consider where so warranted actions such as the following:

(1) directions regarding activities:

- prohibiting an insurer from issuing new policies,
- withholding approval for new business activities or acquisitions,
- restricting the transfer of assets,
- restricting the ownership of subsidiaries,
- restricting activities of a subsidiary where, in its opinion, such activities jeopardise the financial situation of the insurer

(2) directions to reinforce financial position:

- requiring measures that reduce or mitigate risks
- requiring an increase in capital,
- restricting or suspending dividend or other payments to shareholders,
- restricting purchase of the shares in any entity within the scope of supervision of the IAIG.

(3) other directions:

- arranging for the transfer of obligations under the policies from a failing insurer to another insurer that accepts this transfer,
- suspending or revoking the licence of an insurer,
- barring individuals acting in responsible capacities from such roles in future
- etc.



	<p>M4E5-4-2 Involved supervisors have effective means to address management and governance problems, including the replacement or restriction of the powers of board members, senior management, key persons in control functions, significant owners, external auditors and actuaries.</p>	
	<p>M4E5-4-3 The involved supervisors can take actions on the parts of the IAIG that are failing to meet prudential or other requirements. The involved supervisors have the power to take control of parts of the IAIG, or to appoint other specified officials or receivers for the task, and to make other arrangements for the benefit of the policyholders.</p>	<p>M4E5-4-3-1 There are sanctions by way of fines and/or other penalties against individuals and insurers where the provisions of the legislation are breached. The sanctions are proportionate to the identified breach.</p>
		<p>M4E5-4-3-2 Further measures that group-wide or involved supervisors could take include:</p> <ul style="list-style-type: none">• To prohibit the outsourcing of activities• Demand mitigation/hedging of risks• Freezing of assets• Order disposal of some assets• Suspend the operations• Participate/convoke corporate meetings• Appoint a special auditor• Appoint temporary manager• Require portfolio transfer• Suspend the authorisation of operations• Authorize intragroup transactions



		<p>M4E5-4-3-3 Concerning an IAIG in difficulty, measures that involved supervisors may consider include:</p> <ul style="list-style-type: none">• Taking preventive action• Requiring a correcting plan• Requiring higher technical provisions• Requiring a restoration plan for assets covering the technical provisions• Refusing or delaying the IAIG's requests or imposing conditions• Limiting business expansion• Restricting asset transfers• Restricting the IAIG to purchase its own shares• Restricting payments or asset transfer to a subsidiary• Restricting ownership or activities of a subsidiary• Require less risky investments• Restoration of adequate capital• Freezing of assets• Require a higher solvency margin• Reduce the value of some elements• Withdraw authorizations/licenses• Portfolio transfers• Limit dividend payments• Order a restructuring• Order winding up
	<p>M4E5-4-4 Involved supervisors take measures where IAIGs or legal entities do not meet the requirements.</p>	



	They can also take measures where a breach of solvency requirements is possible but has not yet occurred.	
	M4E5-4-5 Other involved supervisors are responsible for taking measures against insurers under their supervision in conjunction with other supervisors.	
M4E5-5 After corrective actions have been taken or remedial measures, directions or sanctions have been imposed, involved supervisors ensure IAIGs have taken necessary actions and assess their effectiveness.		



Module 4, Element 6 Reliance and Recognition [developed by Insurance Groups and Cross Sectoral Issues Subcommittee]		
<p>M4E6-1 The supervisors obtain and exchange supervisory information in respect of legal entities and groups, including relevant non-regulated entities of IAIGs.</p>	<p>M4E6-1-1 The information, both transmitted and received, is subject to confidentiality requirements.</p>	
	<p>M4E6-1-2 Involved supervisors have the legal power to obtain and exchange supervisory information on all IAIG entities in their jurisdiction including through a reasonable request from another supervisor.</p>	
	<p>M4E6-1-3 Supervisory information can include information relating to an insurer, individuals holding positions of responsibility in relation to insurers, transactional and prospective transactional customer information, reporting information within IAIGs and information on a solo and group-wide basis (including but not limited to branches, subsidiaries and non-regulated holding companies)</p>	
<p>M4E6-2 Involved supervisors, at their sole discretion and subject to appropriate safeguards exchange information with other involved supervisors.</p>	<p>M4E6-2-1 Other relevant involved supervisors may include, but are not limited to other insurance supervisors inside and outside the jurisdiction, other sectoral supervisors inside and outside the jurisdiction, relevant authorities for AML/CFT matters, and/or</p>	



	<p>law enforcement agencies. See Module 1 Element 4 where the IAIG is a financial conglomerate or part of a financial conglomerate.</p>	
	<p>M4E6-2-2 The group-wide supervisor has access to information relevant for the purposes of group-wide supervision. This might require cooperation with other involved supervisors.</p>	<p>M4E6-2-2-1 As far as these are subject to their supervision, group-wide supervisors and other involved supervisors should have legal authority to obtain information from regulated and non-regulated group entities in their jurisdictions.</p>
	<p>M4E6-2-3 Involved supervisors proactively exchange significant information that might be considered important for other supervisors as soon as it becomes available. The supervisor informs other supervisors within their jurisdiction and the supervisors of IAIG entities in other jurisdictions or sectors in advance of taking any action that will affect those IAIG entities. Supervisors shall consult other relevant supervisors with regards to decisions that are of relevance to these supervisors in advance.</p>	
	<p>M4E6-2-4 A supervisor permits supervisory information exchanged by it to be passed on to other relevant supervisors or other bodies in the jurisdiction of the recipient that it has assessed have the necessary confidentiality requirements.</p>	<p>M4E6-2-4-1 Confidentiality requirements include penalties for the wrongful disclosure of confidential information – the penalties should be specified. All persons gaining access to confidential information should be subject to the penalties.</p>



<p>M4E6-3 The group-wide supervisor can request information from other involved supervisors and can also request involved supervisors to collect that information from the IAIG entities under their supervision.</p>	<p>M4E6-3-1 The group-wide supervisor only requests information where it has a legitimate interest and a valid purpose. Valid purposes include but are not limited to licensing, fit and proper criteria, ongoing supervision, winding-up, anti-money laundering and combating the financing of terrorism, and countering fraud.</p>	
	<p>M4E6-3-2 In cases where information concerning a part of the IAIG that is not located within the supervisor's jurisdiction, the supervisor shall ask the relevant supervisory authority to carry out the verification or pass the task on to another appropriate party or to allow the requesting supervisor to do so.</p>	
	<p>M4E6-3-3 Supervisors have effective procedures to ensure that, where necessary to ensure effective supervision on a legal entity or group-wide basis, involved supervisors are asked to verify information or, subject to confidentiality provisions, to pass the task to a third party to undertake verification. Supervisors of parts of the IAIG have the legal power and effective procedures to carry out or facilitate such verification requests for entities subject to their supervision.</p>	
	<p>M4E6-3-4 Effective procedures include procedures to seek to ensure that coordination, cooperation and information exchange between involved</p>	



	supervisors take place in a timely and comprehensive manner.	
<p>M4E6-4 Involved supervisors also cooperate with other financial sector supervisors and with any other relevant supervisors if the IAIG is directly or indirectly involved in other financial sectors (especially banking and investments firms) or other sectors. This includes the exchange of relevant information if necessary confidentiality requirements exist.</p>	<p>M4E6-4-1 Involved supervisors identify suitable contact individuals at other supervisors if the IAIG is involved in other sectors in the jurisdiction, bearing in mind that the IAIG may be active outside the financial sectors. Supervisors cooperate to ensure effective legal entity and group-wide supervision. See Module 1 Element 4 when the IAIG is a financial conglomerate or part of a financial conglomerate.</p>	<p>M4E6-4-1-1 If there is a robust supervisory regime for certain parts of an IAIG, it may be possible for insurance supervisors to rely on that supervisory regime if deemed at least equivalent to ComFrame.</p> <p>For example, in the case of a banking dominant financial conglomerate, the banking parts will be subject to supervision by banking supervisors. In such cases, cooperation between insurance supervisors and the other relevant supervisors is necessary.</p>
	<p>M4E6-4-2 Where necessary, involved supervisors exchange certain information with government bodies responsible for the legislation of financial market institutions. In cases where information was received from other supervisors, express consent by those supervisors needs to be given.</p>	
	<p>M4E6-4-3 Confidential information provided by one supervisor to another remains the property of the providing supervisor. Therefore, the receiving supervisor obtains prior, express consent from the providing supervisor before disclosing confidential information to government bodies.</p>	



	<p>M4E6-4-4 Involved supervisors cooperate in the assessment of acquisitions of the IAIG or parts of it.</p>	<p>M4E6-4-4-1 Supervisors have effective procedures to ensure that any potential acquisition of a group or part of it is subject to coordination, cooperation and information exchange with other involved supervisors. These procedures include identification of relevant involved supervisors and the establishment of effective channels of communication.</p>
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Module 4, Element 7 Crisis management among supervisors [developed by Insurance Groups and Cross Sectoral Issues Subcommittee]

<p>M4E7-1 The group-wide supervisor together with the supervisory college develops and maintains emergency plans and tools for dealing with any crisis within the IAIG and involved supervisors seek to remove any practical barriers to efficient and internationally coordinated resolutions.</p>	<p>M4E7-1-1 An IAIG is considered to be in crisis when it requires any form of action by the public sector with or without private sector involvement to deal with serious problems in the IAIG that imperils its viability.</p> <p>Parameters to be developed possibly including:</p> <ul style="list-style-type: none"> • Simulation exercises • Communication programme 	<p>M4E7-1-1-1 Group-wide and other involved supervisors take account of contingency planning for stress conditions set out in Module 2 Element 5 and protocols and timetables for an IAIG's recovery plan as set out in Module 2 Element 6.</p>
	<p>M4E7-1-2 The group-wide supervisor meets regularly with other involved supervisors and if necessary other relevant authorities (such as government ministries or central banks, guarantee schemes or similar) to share and evaluate information relating to specific IAIGs and analyse and assess specific issues (including systemic implications) in non-crisis periods.</p>	
	<p>M4E7-1-3 The group-wide supervisor puts in place efficient cooperation procedures and shares relevant information regularly. Involved supervisors handle such information carefully and respect jurisdictional confidentiality rules.</p>	



	<p>M4E7-1-4 The emergency plan includes the measures to prepare for a crisis situation, assessment of the crisis, crisis management (including alert) as well as public communication.</p>	
	<p>M4E7-1-5 An involved supervisor informs the group-wide supervisor as soon as it becomes aware of an evolving crisis. The group-wide supervisor coordinates such that this information and any other relevant information that it has become aware of on its own is shared among other involved supervisors and other relevant authorities promptly.</p>	
	<p>M4E7-1-6 All involved supervisors share information as freely as practicable with other involved supervisors, subject to legislative requirements and confidentiality regimes, in a way that does not compromise the prospects of successful resolutions.</p>	
<p>M4E7-2 The group-wide supervisor coordinates crisis management preparations with other involved supervisors and ensures that other involved supervisors (at a minimum those where the IAIG is of considerable importance) are</p>	<p>M4E7-2-1 As far as legal frameworks and confidentiality regimes allow, involved supervisors share, at a minimum, with other involved supervisors information on the following (also refer to Module 4E7-3 below):</p> <ul style="list-style-type: none"> • IAIG structure (including legal, financial and operational intragroup dependencies), 	<p>M4E7-2-1-1 In a crisis situation, supervisors should consider to share the following information:</p> <ul style="list-style-type: none"> • Crisis description • Affected entities • Latest financial data • Significance of affected entities



<p>kept informed of the crisis management preparations.</p>	<ul style="list-style-type: none"> • interlinkages between the insurer and the financial system in each jurisdiction where it operates, • potential impediments to coordinated solution 	<ul style="list-style-type: none"> • Financial market impact • Assessment of systemic implications • Measures/responses taken by the IAIG • Possibly existing national safety nets
	<p>M4E7-2-2 The supervisory regimes require that IAIGs are capable of supplying, in a timely fashion, the information required by the group-wide supervisor in managing a financial crisis.</p>	
	<p>M4E7-2-3 The group-wide supervisor analyses and assesses the crisis situation and its implications as soon as practicable and co-ordinates involved supervisors to try to reach a common understanding of the situation.</p>	
	<p>M4E7-2-4 The group-wide supervisor coordinates public communication in a crisis situation at each stage of a crisis.</p>	
<p>M4E7-3 Involved supervisors cooperate to find internationally coordinated, timely and effective solutions.</p>	<p>M4E7-3-1 In case a fully coordinated supervisory solution is not possible, the involved supervisors discuss national measures as soon as possible with a view to reaching an appropriate and unified solution.</p> <p>Emergency plans and platforms [additional devices?] are in place to facilitate cooperation and</p>	



	interaction amongst involved supervisors during such times.	
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Module 4, Element 8 IAIGs and resolution [developed by Insurance Groups and Cross Sectoral Issues Subcommittee]		
<p>M4E8-1 The procedures for the winding-up and exit of an insurer from the market are clearly set out in legislation. A high legal priority is given to the protection of the rights and entitlements of policyholders. The procedures aim at minimising the disruption to the timely provision of benefits to policyholders.</p>	<p>M3E8-1-1 Describe tools to facilitate resolution for example recovery and resolution plans.</p>	<p>M4E8-1-1-1 Resolution mechanisms</p>
	<p>M4E8-1-2 The legislation provides for the determination of the point at which it is no longer permissible for an insurer to continue its business.</p>	
<p>M4E8-2 The body responsible for dealing with the insolvency of an insurer, and associated procedures, including the possible restructuring or portfolio transfer, and winding-up of the insurer are clearly set out in legislation.</p>		
<p>M4E8-3 The roles of the group-wide and involved supervisors in identifying ways to facilitate the resolution of</p>	<p>M4E8-3-1 Supervisors coordinate to understand resolution scenarios through simulation exercises.</p>	



IAIGs are established.		
	M4E8-3-2 Supervisors of the IAIG develop and maintain plans and tools for dealing with IAIGs in crisis and seek to remove as many practical barriers as possible and feasible to efficient and internationally coordinated resolutions.	
	M4E8-3-3 As a preparation for a crisis and potential resolution, an IAIG – further to what is set out under M2 -needs to have a resolution plan in place. See Question SQ54)	M4E8-3-2-1 Linkages between and separability of business units and legal entities.
		M4E8-3-2-2 Awareness of the resolution and insolvency regimes of the jurisdictions the group operates in.



Module 4, Element 9 List of supervisory reporting items [developed by Accounting and Auditing Issues Subcommittee]		
M4E9-1 The IAIG submits an Annual Supervisory Reporting Package (“ IAIG Annual Supervisory Reporting Package ”) to the group-wide supervisor.	M4E9-1-1 The IAIG Annual Supervisory Reporting Package addresses the quantitative and qualitative frameworks in Module 3.	
	M4E9-1-2 The IAIG Annual Supervisory Reporting Package is in a form suitable for the group-wide supervisor to share with host supervisors.	
	M4E9-1-3 The IAIG Annual Supervisory Reporting Package includes its annual public financial statements prepared in accordance with IFRS or equivalent GAAP included in the package or available publicly to the supervisor.	
	M4E9-1-4 The IAIG Annual Supervisory Reporting Package includes a detailed explanation of the differences between its reporting for solvency purposes and its annual public financial statements.	
	M4E9-1-5 Where an IAIG uses an Internal Model, the IAIG Annual Supervisory Reporting Package includes information necessary for supervisory review and	



	ongoing approval of the internal model	
<p>M4E9-2 The IAIG submits a Quarterly Supervisory Reporting Package (“IAIG Quarterly Supervisory Reporting Package”) to the group-wide supervisor addressing key aspects of the quantitative framework in Module 3.</p>	<p>M4E9-2-1 The IAIG Quarterly Supervisory Reporting Package addresses key aspects of the quantitative framework in Module 3.</p>	
	<p>M4E9-2-2 Where the IAIG has a quarterly public financial reporting requirement, the IAIG Quarterly Supervisory Reporting Package includes the public quarterly financial report prepared in accordance with IFRS or equivalent GAAP.</p>	
	<p>M4E9-2-3 The IAIG Quarterly Supervisory Reporting Package includes a detailed explanation of the differences between its reporting for solvency purposes and its quarterly public financial statements.</p>	
	<p>M4E9-2-4 Where an IAIG uses an Internal Model, the IAIG Quarterly Supervisory Reporting Package includes information on an exception basis about the model and the use of the model.</p>	
<p>M4E9-3 The IAIG provides timely updates</p>	<p>M4E9-3-1 The IAIG updates the group-wide supervisor</p>	



to the group-wide supervisor of any material changes to aspects addressed in the qualitative requirements in Module 3.	when any material changes relevant to the qualitative elements of Module 3 occur.	
M4E9-4 The IAIG responds in a timely way to information requests from the group-wide supervisor.	M4E9-4-1 The group-wide supervisor requests information relevant to the quantitative and qualitative requirements in Module 3 whenever needed.	
	M4E9-4-2 The group-wide supervisor and the IAIG agree a reasonable timeframe in relation to that information taking into account the context of the request.	
	M4E9-4-3 Host supervisors have the right to request information from the group-wide supervisor and when necessary the group-wide supervisor requests that information from the IAIG.	



Module 4, Element 10 List of public disclosure items [developed by Accounting and Auditing Issues Subcommittee]		
M4E10-1 The supervisory framework requires the IAIG to disclose relevant, comprehensive and adequate information on a timely basis in order to give policyholders and market participants a clear view of their business activities, performance and financial position.	M4E10-1-1 The IAIG's disclosures are expected to enhance market discipline and understanding of the risks to which the IAIG is exposed and the manner in which those risks are managed.	
M4E10-2 The IAIG submits an IAIG Disclosure Summary to the group-wide supervisor which details how it has met its disclosure obligations including directions to the relevant information.	M4E10-2-1 The IAIG's disclosure obligations are met in a variety of ways including through disclosures required by securities regulators and accounting standards.	
	M4E10-2-2 An IAIG discloses, at least annually, appropriately detailed quantitative and qualitative information in a way that is accessible to market participants on its profile, governance and controls, financial position, technical performance, and the risks to which it is subject. In particular, information disclosed must be: <ul style="list-style-type: none">• decision useful to decisions taken by market participants• timely so as to be available and up-to-date at the time those decisions are made	



	<ul style="list-style-type: none">• comprehensive and meaningful• reliable as a basis upon which to make decisions• comparable between different IAIGs operating in the same market• consistent over time so as to enable relevant trends to be discerned	
	<p>M4E10-2-3 Disclosure about the financial position of the IAIG includes appropriately detailed quantitative and qualitative information about the determination and adequacy of technical provisions. Technical provisions are presented by appropriate segment. This disclosure includes where relevant to policyholders and market participants, information about the expected future cash flow assumptions, the rationale for the choice of discount rates, and risk adjustment methodology where used or other information as appropriate to provide a description of the method used to determine technical provisions.</p>	
	<p>M4E10-2-4 Disclosure about the financial position of the IAIG includes appropriately detailed quantitative and qualitative information about capital adequacy. The IAIG discloses information that enables users of its financial statements to evaluate the IAIG's objectives, policies and processes for managing capital and to assess its capital adequacy. This information also encompasses the generic</p>	



	<p>solvency requirements of the jurisdictions in which the IAIG operates and the capital available to cover regulatory capital requirements. If an internal model is used to determine capital resources and requirements, information about the model must be provided having due regard to the proprietary or confidential information.</p>	
	<p>M4E10-2-5 Disclosure about the financial position of the IAIG includes appropriately detailed quantitative and qualitative information about financial instruments and other investments by class. In addition information disclosed about investments includes investment objectives, policies and processes, values, assumptions and methods used for general purpose financial reporting and solvency purposes, explanation of differences (where applicable) and information concerning the level of sensitivity to market variables associated with disclosed amounts.</p>	
	<p>M4E10-2-6 Disclosure about the financial position of the IAIG includes appropriately detailed quantitative and qualitative information about enterprise risk management (ERM) including asset-liability management (ALM) in total and, where appropriate, at a segmented level. At a minimum, this information includes the methodology used and the key assumptions employed in measuring assets and liabilities for ALM purposes and any capital and/or provisions held as a consequence</p>	



	of a mismatch between assets and liabilities.	
	M4E10-2-7 Disclosure includes appropriately detailed quantitative and qualitative information on financial performance in total and by segment. Where relevant, disclosures must include a quantitative source of earnings analysis, claims statistics including claims development, pricing adequacy, information on returns on investment assets and, where relevant, components of such returns.	
	M4E10-2-8 Disclosure about the financial position of the IAIG includes appropriately detailed quantitative and qualitative information on all reasonably foreseeable and relevant material insurance risk exposures and their management. This disclosure must include information on its objectives and policies, models and techniques for managing insurance risks (including underwriting processes). At a minimum, disclosures must include information about the nature, scale and complexity of risks arising from insurance contracts, how the IAIG uses reinsurance or other forms of risk transfer, an understanding of the interaction between capital adequacy requirements and risk and a description of risk concentrations.	



	<p>M4E10-2-9 Disclosure includes appropriately detailed information about the IAIG profile, including the nature of its business, a general description of its key products, the external environment in which it operates and information on the IAIG's objectives and the strategies in place to achieve them.</p>	
	<p>M4E10-2-10 Disclosures include the key features of the IAIG's corporate governance framework and management controls including how these are implemented.</p>	
	<p>M4E10-2-11 The group-wide supervisor must require an IAIG to produce, at least annually, audited consolidated financial statements and make them available to market participants.</p>	



ComFrame Commentary

General

1. The benefits of involved supervisors interacting and coordinating are:
 - It provides an efficient platform for information sharing across the group and for contribution of involved supervisors to group-wide decisions;
 - Broader exposure and greater influence for involved supervisors in examining group-wide situations than would be the case under legal entity reviews;
 - It facilitates comparison of supervisory methodologies and assumptions across the group;
 - Ability to share the application of group-wide methodologies and assumptions among involved supervisors;
 - It facilitates the application of coordinated decisions when appropriate.

2. M4E9-1-4 There may be significant differences between public reporting by a group and Supervisory Reporting where it has significant non-insurance operations. For instance, financial conglomerates which may have significant other financial business such as banking, investment management or securities dealing may require reporting that is quite different from the main public financial reporting by the group. For example, segment information may be more relevant than the principle public financial reports of the group. Further development of these ideas can occur once the work in Module 1 is in more final form and the Joint Forum work on financial conglomerates has advanced.

3. The Specifications in Element 9 can be filled out once the ComFrame requirements in other Modules, particularly Module 3 are settled. The specifications of what each of the reporting packages should contain must be clearly linked to ComFrame requirements and support the group-wide supervisor and other involved supervisor's assessment of compliance with ComFrame requirements.

Technical

1. Note the definition of a group-wide supervisor in **M4E2-2-1** is intended to be wider than the definition provided for in the IAIS glossary.



Module 5

Jurisdictional matters

Specific Questions

SQ61) Are the ComFrame Prerequisites comprehensive enough for all IAIS Members to be prepared to apply ComFrame?

SQ62) Are the Increased ComFrame Prerequisites comprehensive enough for the IAIS Members acting as group-supervisors to assume their role adequately?

Module Specific Introductory Comments

The translation of ICPs 1 and 2 for ComFrame is found in Module 5. Element 1 sets out ComFrame Prerequisites for all supervisors for operationalising ComFrame since nearly all of them at least have to assume the role of host supervisors. Increased Prerequisites applicable to those IAIS members carrying out the role of group-wide supervisor in relation to IAIGs addressed, too.

Foundation

- **ICP 1** Objectives, powers and responsibilities of the supervisor
- **ICP 2** Supervisor
- **ICP 3** Supervisory cooperation, coordination and information sharing
- **ICP 10** Preventive and corrective measures
- **ICP 11** Enforcement and sanctions
- **ICP 23** Scope of group, Supervisory power and Legal authority
- **ICP 24** Market analysis



ComFrame Standards	Parameters	Specifications
Module 5, Element 1 Applicability of ComFrame to all IAIS jurisdictions [developed by ComFrame TF and Secretariat]		
<p>M5E1-1 IAIS Members implement ComFrame on a pre-determined start date that follows the completion of the Calibration Phase by meeting either the ComFrame Prerequisites, or, in the case of group-wide supervisors, the Increased ComFrame Prerequisites.</p> <p>Requirements set out under Modules 2 and 3 will be subject to a transition arrangement (a phase-in period).</p>		<p>Transition arrangements will be developed once the contents of Modules 2 and 3 are established.</p>
<p>M5E1-2 All IAIS Members, at the time ComFrame comes into effect, meet prerequisites, collectively known as ComFrame Prerequisites necessary to implement ComFrame. Such ComFrame Prerequisites form the basis for all jurisdictions to implement ComFrame by assuming, as a minimum, the role of host supervisors of local operations of an IAIG. They cover the</p>	<p>M5E1-2-1 All IAIS members have adequate powers and responsibilities to implement ComFrame, evidenced by the following:</p> <ul style="list-style-type: none"> • Sound legal basis that specifies clearly their supervisory mandates, responsibilities and enforcement powers • Powers and responsibilities to supervise entities in a group context, including 	<p>M5E1-2-1-1 Legislation should be clearly defined and sufficiently extended to allow supervisors to carry out their mandate, fulfil their responsibilities and enforce their powers to implement and carry out the supervision of IAIGs under ComFrame, at a minimum as host supervisors regarding insurance legal entities in a group-wide context.</p> <p>Host supervisors must have direct powers to supervise insurance legal entities within their jurisdiction in a group context, including powers to</p>



<p>following areas:</p> <ul style="list-style-type: none"> • powers and responsibilities • technical competence and capabilities • organisational processes and • resources 	<p>supervisory cooperation</p> <ul style="list-style-type: none"> • Independence of any undue political, governmental and industry interference in the performance of supervisory responsibilities • Appropriate protection from being held liable for actions taken in good faith and within their mandates • Clear and transparent (to IAIGs and other supervisors) regulatory requirements and procedures 	<p>issue and enforce rules by administrative means and take immediate action</p> <p>IAIS Members must be given the operational independence to carry out their functions without undue political, governmental or industry interference. Being operationally independent includes having the discretion to allocate financial and human resources in accordance with ComFrame implementation objectives and the legal protection for actions taken in the performance of their functions.</p>
	<p>M5E1-2-2 All IAIS members have adequate technical competence and capabilities to act as host supervisors evidenced by the following:</p> <ul style="list-style-type: none"> • Sound technical competence and capabilities including: financial literacy and non-financial expertise; legal, regulatory and supervisory knowledge to undertake supervision of insurance legal entities of an IAIG in a group-wide context • Command of languages enabling them to communicate, interact and cooperate on a cross-border basis with their supervisory counterparts 	<p>M5E1-2-2-1 The IAIS Members' technical competence and capabilities, particularly those focusing on and/or relevant to IAIGs, are kept up-to-date and aligned with the latest developments in group supervision and other relevant fields.</p>



		<p>M5E1-2-2-2 A proficient command of English, in most cases relating to IAIG supervision, will prove crucial</p>
	<p>M5E1-2-3 All IAIS members have adequate processes to implement ComFrame as host supervisors on a cross-border basis to:</p> <ul style="list-style-type: none"> • liaise, interact, coordinate and cooperate (including sharing information backed by necessary confidentiality safeguards) with their supervisory counterparts regarding the supervision of IAIGs 	<p>M5E1-2-3-1 IAIS Members need to demonstrate that they have in place the minimum regulatory and supervisory infrastructure to implement ComFrame and put it in place.</p> <p>Examples are as follows:</p> <p>IAIS Members have in place processes that, as a minimum, address the elements identified under Module 2, 3 and 4 aimed to operationalise IAIG supervision including but not limited to:</p> <ul style="list-style-type: none"> • <i>[These will be developed once Modules 2, 3 and 4 are developed.]</i>
	<p>M5E1-2-4 All IAIS members have adequate resources commensurate to the operations of the IAIGs in their jurisdictions <u>evidenced by</u>:</p> <ul style="list-style-type: none"> • Necessary human resources • Technical infrastructure, such as means of communication, to effectively interact with other supervisors involved in the supervision of the IAIGs 	<p>M5E1-2-4-1 IAIS Members have:</p> <ul style="list-style-type: none"> • hiring (recruitment) policies to enable recruitment of staff able to interact in a cross-border context • sufficient staff in terms of numbers and specific skill-sets (comprising of proper expertise and competencies) • adequate and ongoing training programmes <p>IAIS Members have:</p>



		<ul style="list-style-type: none"> adequate IT and communication tools <p>[Comment: This is to be fleshed out further going forward.]</p>
		<p>M5E1-2-4-2 Where IAIS members outsource supervisory functions to third parties, IAIS members set expectations, assess their competence with regard to IAIG supervision, monitor their performance, and ensure their independence from the IAIG or any other related party. Outside experts hired by IAIS members are subject to the same confidentiality rules and professional standards as the staff of the IAIS members.</p>
		<p>M5E1-2-4-3 IAIS members ensure that where they do outsource supervisory functions this does not impede their ability to interact and share information about these supervisory functions with other involved supervisors.</p>
<p>M5E1-3 IAIS members acting or required to act as group-wide supervisors meet Increased ComFrame Prerequisites enabling them to assume that role.</p>	<p>M5E1-3-1 Increased ComFrame Prerequisites mean regarding powers and responsibilities</p> <ul style="list-style-type: none"> Sound legal basis that specifies clearly their supervisory mandates, responsibilities and enforcement powers to assume the role of group-wide supervisor where so warranted 	<p>M5E1-3-1-1 The role of the group-wide supervisor could be achieved either by direct means where supervisors have explicit authority and powers over entities within the group, including the head of the group, or via the use of an indirect approach where supervisors have adequate power and authority over the insurance legal entity to access information in respect of the head of the group and apply relevant requirements. [Please also see</p>



	<ul style="list-style-type: none">• Powers and responsibilities to undertake group-wide supervision and supervisory cooperation as a group-wide supervisor• Independence of any undue political, governmental and industry interference in the performance of supervisory responsibilities• Appropriate protection from being held liable for actions taken in good faith and within their mandates in carrying out the group-wide supervisor's role.• Clear and transparent (to IAIGs and other supervisors) regulatory requirements and procedures to act as group-wide supervisor	Commentary.]
	<p>M5E1-3-2 Increased ComFrame Prerequisites for group-wide supervisors relating to technical competence and capabilities to implement ComFrame are:</p> <p>(1) Group-wide supervisors have appropriate financial literacy and non-financial expertise, which is at a level sufficient to deal with <i>more intricate</i> cases often seen in group-wide supervision matters, that backs their capabilities to properly assess at a group level:</p>	



	<ul style="list-style-type: none">• the IAIG’s structure and business• the appropriateness and robustness of the IAIG’s corporate governance, risk management, actuarial oversight functions, internal controls, internal and external audits etc.• the IAIG’s financial condition. <p>Group-wide supervisors have sufficient and up-to-date knowledge regarding discussions and developments in related international fora that could have ramifications to the legal, regulatory and supervisory environment applicable to IAIGs</p>	
	<p>M5E1-3-3 Increased ComFrame Prerequisites for all group-wide supervisors relating to technical competence and capabilities to implement ComFrame require them to have:</p> <ul style="list-style-type: none">• appropriate financial literacy and non-financial expertise to carry out the ongoing group-wide supervision of an IAIG established in their jurisdiction (taking into account the impact of relevant group-wide risks)• capabilities to cooperate and coordinate with the local supervisors, focusing on, in particular, interaction and exchange with the local supervisors regarding the present state, developments of and changes of the IAIG	



	<ul style="list-style-type: none">• powers to take adequate actions where necessary based on the information provided by and decisions made in local supervisors	
	<p>M5E1-3-4 Increased ComFrame Prerequisites for Group-wide supervisors relating to organisational processes to implement ComFrame require group-wide supervisors to have:</p> <ul style="list-style-type: none">• the capability to lead, steer and coordinate the operational processes with other involved supervisors.	
	<p>M5E1-3-5 Increased ComFrame Prerequisites for Group-wide supervisors relating to Resources to implement ComFrame require group-wide supervisors to have:</p> <ul style="list-style-type: none">• appropriate and adequate resources to fulfil their leadership role in the supervision of the IAIG, particularly in terms of personnel skilled to perform group-wide supervision.	

*Elements 2-3 to be developed

ComFrame Commentary

General

- ComFrame aims to provide a **global and multilateral common frame of reference** for supervisors to look at and better understand – and hence better supervise - IAIGs given their continuously increasing importance and relevance in the context of insurance supervision.



- To this end, the IAIS recognises that the IAIG supervision needs to be better aligned and more consistent across jurisdictions, which in turn, is based on the premise that all IAIS members have in place (and are in compliance with) certain **prerequisites (ComFrame Prerequisites)** that provide for a common platform upon which to build.
- **ComFrame Prerequisites** address *basic capacity and abilities* of the supervisor and are to be distinguished from the *specific technical requirements* separately set out under Module 2, 3 and 4. ComFrame Prerequisites under Module 5 relate to: **powers and responsibilities; technical competence and capabilities; organisational processes; and resources**. Here, in terms of such prerequisites, *ComFrame Standards* set out the specific requirements supervisors need to meet (or comply with) to implement and operate ComFrame. *ComFrame Parameters* complement the Standards by providing a specific list or criteria that one can work off in complying with the Standard. Specifications provide or illustrate approaches on implementing Parameters in practice.
- The components of **ComFrame Prerequisites** are in many cases based on Insurance Core Principles (ICPs) but are complemented and tailored to the supervision of IAIGs. This is not unexpected as the underlying baseline in terms of conditions and infrastructure should not greatly differ between cases for insurance legal entity supervision or group supervision and IAIG supervision. It is however necessary for Module 5 Element 1 to list all prerequisites (tailored to IAIGs) *in the context of ComFrame* given some aspects hereunder are specified and more relevant to IAIG supervision and also to give IAIS Members and other relevant stakeholders a full picture.
- **ComFrame Prerequisites** under Module 5 aim to ensure that a certain level of commonality or standardisation regarding the basic supervisory framework – focusing on fundamental capacity and abilities – is secured and in place **among all IAIS Members**, for at least carrying out the role of a host supervisor, as it relates to the supervision of IAIGs.
- **Increased ComFrame Prerequisites** must be met by those supervisors who are acting as group-wide supervisors.
- The IAIS view is that all IAIS members should comply with **ComFrame Prerequisites** set out above under Module 5 in a **holistic fashion** having regard to the outcomes, rather than by way of a narrow ‘tick-box’ process. With this, approach the IAIS also recognises that, notwithstanding the principle of all IAIS Members being required to have in place common prerequisites for at least carrying out the role of a host supervisor (e.g. a supervisor in a jurisdiction that hosts one of the IAIG’s operations or affiliates), some of them should commensurate with the Member’s role as a group-wide supervisor (e.g. a supervisor where the head of the group or the entity that manages the group is located). **Increased ComFrame Prerequisites** are also addressed under M5E1. For jurisdictions that are both group-wide and host supervisors, in terms of M5E1, it will suffice to meet the prerequisites for group-wide supervisor because substantively they naturally include (and go beyond) the prerequisites for host supervisors.

Technical

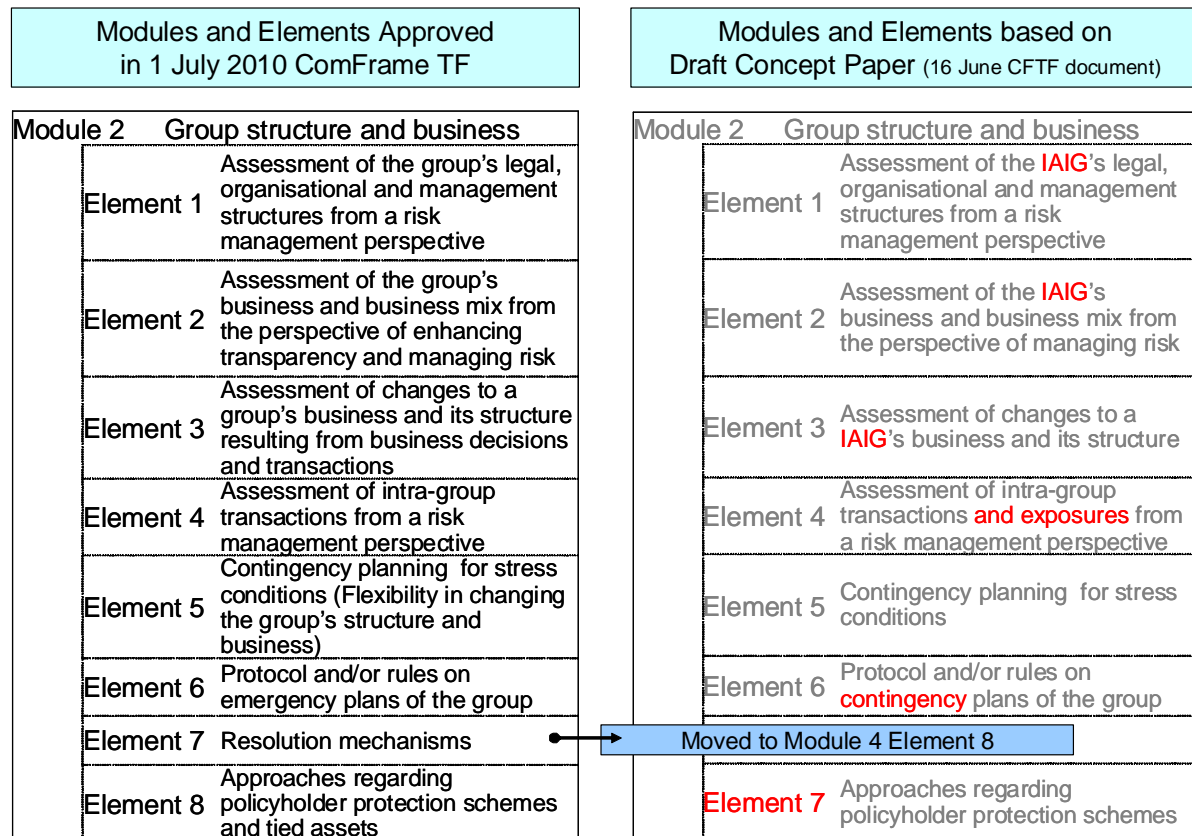
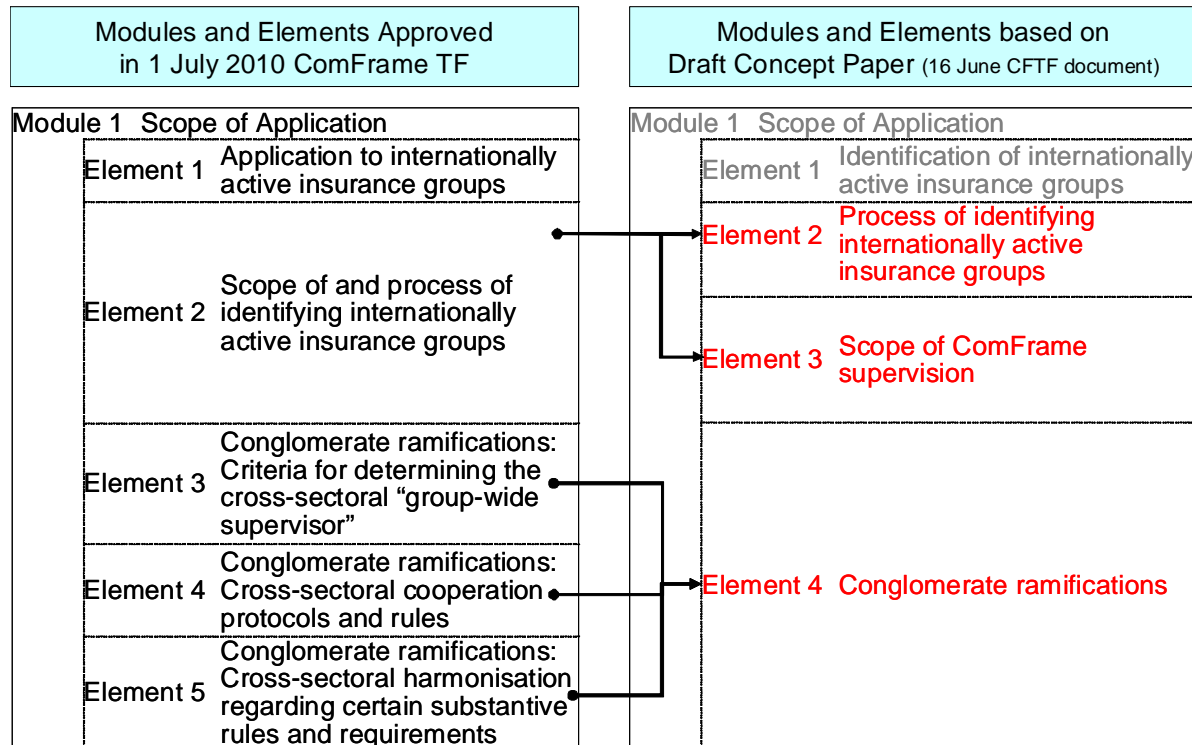
- It is recognised that the implementation of ComFrame may vary across jurisdictions depending on the supervisory powers and structure within a jurisdiction. There are **direct and indirect approaches to group-wide supervision**. Under the **direct approach**, the supervisor has the necessary powers over the parent and other entities in the insurance group and can impose relevant supervisory measures directly on such entities, including non-regulated entities. Under the **indirect approach**, supervisory powers focus on the



insurance legal entities and supervisory measures are applied to those insurance legal entities to address the group-wide risks posed by other entities within the group, including non-regulated entities. There may also be different combinations of elements of the direct and indirect approaches.

- Regardless of the approach, the supervisor must be able to demonstrate that in effect, the outcome is similar to having the supervisory requirements applied directly on those entities within the insurance group from which the risks are emanating. This is to ensure effective group-wide supervision, which includes ensuring that all relevant group-wide risks impacting the insurance entities are addressed appropriately.

Appendix 1: Restructuring of Modules





Modules and Elements Approved in 1 July 2010 ComFrame TF

Modules and Elements based on Draft Concept Paper (16 June CFTF document)

Module 3 Quantitative and qualitative requirements	
Element 1	Quantitative frame work/ methodologies
Element 2	Qualitative framework/ methodologies
Element 3	Calibrations and specific measurements regarding quantitative elements
Element 4	Approaches to utilise these benchmarks/parameters for supervisory recognition (including the reconciliation of certain quantitative outcomes and measurements)

Module 3 Qualitative and quantitative requirements	
Element 1a.	Principles of the corporate governance framework, including risk management and internal control systems
Element 1b.	Documentation of governance within the IAIG
Element 2	Enterprise risk management
Element 3	Liabilities/technical provisions and assets/investments
Element 4	Valuation
Element 5	Capital adequacy
5a.	Total balance sheet approach
5b.	Capital required
5c.	Available capital resources
5d.	Capital adequacy assessment
Element 6	Calibrations and specific measurements regarding quantitative elements
Element 7	Reconciliation and recognition

Modules and Elements Approved in 1 July 2010 ComFrame TF

Modules and Elements based on Draft Concept Paper (16 June CFTF document)

Module 4 Supervisory cooperation and interaction	
	Newly added element
Element 1	Identification of home and host supervisors, including their roles and supervisory cooperation tools
Element 2	Use of supervisory colleges
	Newly added element
Element 3	Protocol on the reliance on supervisory actions/decisions of supervisors of other jurisdictions
Element 4	Crisis management among supervisors
	Moved from Module 2 Element 7
Element 5	List of supervisory reporting items
Element 6	List of public disclosure items

Module 4 Supervisory cooperation and interaction	
Element 1	Principles of coordination and interaction
Element 2	Identification of group-wide and involved supervisors
Element 3	Group-wide and involved supervisors' roles and supervisory cooperation tools
Element 4	Use of supervisory colleges
Element 5	Supervisory process/review
Element 6	Reliance and recognition
Element 7	Crisis management among supervisors
Element 8	IAIGs and resolution
Element 9	List of supervisory reporting items
Element 10	List of public disclosure items

