

ComFrame Consultation

17 October 2013

Comments due by 16 December 2013

1 Overview: ComFrame Development and Consultation Processes

The Development Phase of ComFrame began in 2010 and is set to conclude following public consultation on this 2013 Draft ComFrame, which is the third draft on which the IAIS has consulted. Responses to this consultation will be used to develop a revised draft of ComFrame, which will then be further refined over the next four years during ComFrame Field Testing.

Comments received will be addressed on a thematic basis rather than at an individual level. Please bear this in mind when responding and provide comments that address significant matters of substance rather than addressing minor details of drafting.

Respondents are invited to provide comments on:

- a. The 2013 Draft ComFrame as a whole
- b. The Introductory Remarks
- c. Each Module
- d. Each Element
- e. Definitions used in the Glossary (including proposals for additional terms with a proposed definition)

Further, as testing of Module 1 will be initiated at the same time as this consultation, IAIS Members are encouraged to focus on the Module 1 questionnaire being separately provided rather than provide comments on Module 1 as part of this consultation.

Finally, when commenting on Module 2 Element 5 Capital Adequacy (M2E5), please take into account Section 3 below.

The IAIS has published a response to each comment received for the 2012 consultation, many of which were at a detailed level. Those who provided comments in 2012 are encouraged to take into account the IAIS responses when responding to this consultation.

The deadline for comments is 16 December 2013

Comments must be submitted through the survey tool on the IAIS website and not by any other means. Any comments submitted in a different format (whether by e-mail or letter) will not be taken into account.

For Members and Observers, please use the following link to the Members and Observers section of the IAIS website:

<https://extranet.iaisweb.org/consultations-1076?consultationID=8>

For other stakeholders, please use the following link to the public section of the IAIS website:

<http://www.iaisweb.org/Consultations-920?consultationID=8>

Please note that all comments will be made publicly available on the IAIS website. If you wish for any comments or information provided to remain confidential you must contact the Secretariat at IAISconsultation@bis.org to make arrangements for the confidential handling of that information.

Resolution of comments received

Comments will be grouped into key themes and resolved as follows:

- Early-2014: Discussion in Subcommittees
- March 2014: Revised draft of ComFrame developed
- March 2014: Final approval of responses and related drafting changes by the Technical Committee

The March 2014 version of ComFrame will then be taken forward into field testing.

2 Field Testing

Field Testing of ComFrame will consist of impact studies designed to assess the draft ComFrame. The IAIS Field Testing Task Force (FTTF)'s overall objective is to:

- Perform impact studies of all elements of the draft ComFrame resulting from the Development Phase, to test if they lead to effective group-wide supervision of Internationally Active Insurance Groups (IAIGs), are practical and do not lead to excessive costs to IAIGs and their supervisory colleges; and
- Assess the results of Field Testing so that the IAIS can determine any evidence-based changes that are necessary to the draft ComFrame in view of a target date of adoption at the 2018 General Meeting.

Field Testing of Module 1 will commence at the same time as this consultation, and all IAIS Members will be asked to participate. Field Testing of Modules 2 and 3 will be conducted with IAIG volunteers and their group-wide supervisors beginning in March 2014.

In recognition of how ComFrame will evolve during Field Testing further consultations will take place prior to adoption in 2018.

3 Capital Adequacy and ComFrame

In accord with its mission, the IAIS considers a sound regulatory and supervisory framework for the insurance sector, including a risk based global insurance capital standard (ICS), to be essential for protecting policyholders and supporting financial stability.

As recently announced, the IAIS has committed to develop the ICS within ComFrame and to build the ICS on the foundations set out in the current draft of Module 2 Element 5, Capital Adequacy Assessment. Accordingly, please provide comments on this Element during the consultation in the context of the future development of an ICS.

Through 2014 and integrated with Field Testing, the IAIS will also develop straightforward backstop capital requirements (BCRs) as a foundation for higher loss absorbency requirements applicable to G-SIIs for completion by late 2014.

The development of the ICS will begin in early 2014 and be completed by the 4th quarter of 2016. Field Testing will contribute to the development of the ICS as well as provide a testing platform for the BCRs, which will also inform the development of the ICS. Through to the 3rd quarter of 2018, the ICS will be further revised and tested with IAIGs for implementation in 2019. This will be concurrent with application of Higher Loss Absorbency to G-SIIs.

3.1 Balance Sheet

M2E5 requires a risk based total balance sheet approach as a starting point. However, it allows capital adequacy to be assessed on both a consolidated basis and an aggregated legal entity basis. The valuation basis for the balance sheet has not been specified in M2E5; however there are three basic methods which will be explored in Field Testing:

1. Valuation bases used in the IAIG's own economic capital models on a consolidated group-wide basis
2. Valuation bases used in the IAIG's own economic capital models on an insurance legal entity basis
3. Balance sheet prepared using generally accepted accounting principles¹ along with components of the balance sheet prepared on an adjusted basis and submitted separately

A number of Observers have provided inputs on principles for the use of the valuation bases in economic capital models and these will be considered for inclusion in the specifications of the first two approaches. For the third approach, the adjusted basis of valuation for certain components of the balance sheet will be a market-based valuation. The technical specifications setting out which components of the balance sheet will be subject to this adjusted basis of valuation and how it is to be prepared will be included in field testing. These technical specifications will be developed in close cooperation with field testing volunteers.

Both the BCRs and the ICS will need a comparable, risk sensitive balance sheet and hence that will be a focus of testing in 2014.

¹ Field Testing will review the practicality of addressing differences in accounting among jurisdictions with respect to transfer of risk for reinsurance. This is believed to be a potential issue for a small number of material retroactive or finite reinsurance arrangements that may have been entered into by some IAIGs.

Field Testing will also assess the capital adequacy of each individual insurance legal entity of an IAIG to see if the legal entities continue to meet their respective local minimum capital requirements after the scenarios. This approach will use the local accounting/regulatory reporting balance sheet and the local capital requirements.

The calibration and specification of the calculation of the capital benchmark are not included in the current draft of ComFrame. This will be subject to testing from 2015 after assessment of the valuation methods. The exact nature of this testing will be influenced by development of the ICS.

Field Testing will take into account any further convergence in accounting standards between the International Accounting Standards Board and Financial Accounting Standards Board.

4 Other Developments

4.1 Group-wide Supervision

ICP 23 and references to group-wide supervision throughout the ICPs are currently under review based on results of a peer review process conducted by the IAIS. This project focuses on increasing the clarity of the requirements for group-wide supervision in the ICPs and takes into consideration the Joint Forum's Principles for the Supervision of Financial Conglomerates. The process of ComFrame field testing and the review of ICP 23 will continue in parallel and changes in ICP 23 will be reflected as ComFrame evolves during the Field Testing Phase.

4.2 Crisis Management and Resolution

The work done to date on Module 3 Element 3 is not included in this consultation as the IAIS is considering the Financial Stability Board's *Key Attributes of Effective Resolution Regimes for Financial Institutions* (FSB Key Attributes), and in particular the final version of the FSB's consultative document *Application of the Key Attributes of Effective Resolution Regimes to Non-Bank Financial Institutions* particularly Appendix II Resolution of insurers. The general approach is to consider carefully whether and to what extent the FSB Key Attributes are appropriate for IAIGs and to align the terminology. The IAIS plans to consult on this element in 2014. In order to assist the IAIS with this work going forward, some questions have been included in this consultation.