



Federation of European Accountants
Fédération des Experts comptables Européens

Mr. Carlos Montalvo Rebuelta
Secretary General
CEIOPS
Westhafen Tower
Westhafenplatz 1
D-60327 Frankfurt Am Main

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11 September 2009

Our Ref.: INS/HvD/LF/ID

Dear Mr. Montalvo Rebuelta,

Re: FEE Comments to CEIOPS on Consultation Paper No. 56 Draft CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Tests and Standards for Internal Model Approval

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the Consultation Paper No. 56 Draft CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Tests and Standards for Internal Model Approval ("the Paper"), the adopted version of which will form the basis for the relevant supervisor's assessment and prior approval of an insurer's internal model.

General comments

- (2) Generally, we consider the Paper's proposals to be comprehensive and capable of practical and consistent application. This situation is reflective of the prior communication between CEIOPS and relevant stakeholder groups, information gathered through the QIS process, as well as the CEIOPS "Stock-taking Report on the use of internal models in insurance".

Detailed comments

We have the following comments on the Paper's detailed proposals.

Paragraph 3.13

- (3) We concur that the supervisor should use a principles-based assessment to assess compliance with the 'Use test' and that the foundation principle is "the undertaking's use of the internal model shall be sufficiently material to result in pressure to improve the quality of the internal model".

Paragraph 5.184

- (4) To avoid potential misunderstanding we suggest the term "falsifiable" be replaced by "verifiable", in the section under (a) on empirical testing.

Paragraphs 6.40 and 6.41

- (5) We support the proposed flexibility to be given to the supervisor in constructing "relevant benchmark portfolios" at a sector or national level, but, as does CEIOPS, would caution against frequent "automatic benchmarking".

Paragraphs 8.49 to 8.52

- (6) The CEIOPS decision to require the validation of the internal model¹ to cover both the quantitative and the qualitative process of the internal model is appropriate. We concur with the statement of the Paper where it notes "Independence within the validation proceeds is essential to effective validation as it creates objective challenges to the internal model".

Paragraphs 9.52

- (7) The overarching benchmark that documentation be such that "an independent knowledgeable third party could form a sound judgement", is appropriate.

¹ Validation is detailed in paragraph 8.15 and is "a set of tools and processes used by the undertaking to gain confidence over the results, design, workings and other processes within the internal model." (page 142 of the Paper)



For further information on this letter, please contact Ms. Saskia Slomp, Technical Director.

Yours sincerely,

A handwritten signature in black ink, appearing to be 'Hans van Damme', written over a horizontal line.

Hans van Damme
President