NEWSLETTER
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New composition of the European Parliament and European Commission: the deck will be reshuffled

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NEWS FROM THE INSTITUTIONS

The 2019 European elections resulted in EPP and S&D loosing their majority. The new parliamentary legislature will start early July. The European Council agreed a new strategic agenda, and will meet again to discuss EU top jobs end of the month.

European elections

The European elections of 23-26 May 2019 elected 751 MEPs who will represent the European citizens in the European Parliament (EP). They yielded the highest turnout (50,62%) since the Treaty of Lisbon. EPP and S&D lost their majority: the EPP scored 24,23% (182 seats), 20,37% (153 seats) were for S&D, 14,38% (108 seats) for Renew Europe (ALDE) and 9,99% (75 seats) for the Greens. ECR, previously the third largest fraction, dropped to 62 seats. 37% of the new MEPs are women. For a complete overview of the results, see **here.**

The newly elected MEPs will meet in the Parliament's constituent plenary sitting in Strasbourg from 2 to 4 July to elect their President, 14 vice-presidents and five quaestors. They will also decide on the composition of EP's standing committees and subcommittees - thus launching the new legislative term. In the next weeks, the committees will hold their first meetings to elect their respective chairs and vice-chairs.

The new Commission

The new European Parliament is due to elect the Commission President during the 2nd plenary session on 15-18 July 2019. If successful, the President will during the summer put a team together based on nominees from national capitals. Latvia has nominated Valdis Dombrovskis, currently Vice-President also in charge of Financial Stability, Financial Services and Capital Markets Union as candidate for the European Commission. Dombrovskis recently decided to relinquish the seat he won in the European Parliament election and sit out the rest of the European Commission's mandate, thus ensuring continuity. The full College of Commissioners will only be elected at the end of October, once the commissioners-designate have been vetted by a series of parliamentary committee hearings in late September/October to assess their competence, suitability and experience for the assigned portfolios.

European Council 20 and 21 June 2019

The European Council met on 20 and 21 June in Brussels.

- It adopted a new Strategic Agenda 2019-2024 for the Union; with a follow-up discussion in October 2019. It focuses on four main priorities:
    - protecting citizens and freedoms;
    - developing a strong and vibrant economic base;
    - building a climate-neutral, green, fair and social Europe;
    - promoting European interests and values on the global stage;

- On the Multiannual Financial Framework, the European Council welcomed the work done under the Romanian Presidency and called on Finland's Presidency to pursue the work and to develop the Negotiating Box. The European Council will hold a further exchange of views in October 2019, aiming for an agreement before the end of the year. The outcome of the MFF talks will also have an effect on the chance to adopt the climate plan;

- On climate change, the European Council emphasised the importance of the United Nations Secretary General's Climate Action Summit in September for stepping up global climate action so as to achieve the objective of the Paris Agreement, including by pursuing efforts to limit the temperature increase to 1.5°C above pre-industrial levels. It welcomed the active involvement of Member States and the Commission in the preparations. Following the sectoral discussions held over recent months, the European Council invited the Council and the Commission to advance work on the conditions, the incentives and the enabling framework to be put in place so as to ensure a transition to a climate-neutral EU in line with the Paris Agreement that will preserve European competitiveness, be just and socially balanced, take account of Member States' national circumstances and respect their right to decide on their own energy mix, while building on the measures already agreed to achieve the 2030 reduction target. The European Council will finalise its guidance before the end of the year with a view to the adoption and submission of the EU's long-term strategy to the UNFCCC in early 2020. In this context, the European Council invites the European Investment Bank to step up its activities in support of climate action. But the Council failed to agree a landmark climate strategy for 2050 as four Member States disagreed with the mentioning of a specific date to slash greenhouse gas emissions significantly. But for a large majority of Member States climate neutrality must be achieved by 2050.

- The Council also discussed e.g. disinformation and hybrid threats, and external relations.

The European Council conclusions can be found here.

Regarding the distribution of the EU's top jobs, a new summit is planned for 30 June as no agreement could be found during the 20-21 June summit.

The Eurogroup meeting on 21 June agreed after months of hard work to the revision of the ESM Treaty aimed at broadening the competences of the ESM to be finalized by end 2019. The group also agreed on a budgetary instrument for convergence and competitiveness (BICC) for the euro area but more work needs to be done by the Commission and the Eurogroup (e.g. the size of the BICC in the context of the next MFF). The Member States are expected to have the first political discussion on the EU's long-term budget in October and reach an agreement by the end of the year. If the eurozone wants to have its own budgetary instrument, there needs to be an agreement by then.

Brexit

Ahead of the European Council (Article 50), the European Commission took stock in its fifth Brexit Preparedness Communication of 12 June 2019 – of the EU's Brexit preparedness and contingency measures, particularly in light of the decision the Council took on 11 April 2019 at the request of and in agreement with the UK, to extend the Article 50 period to 31 October 2019. In light of the continued uncertainty in the UK regarding the ratification of the Withdrawal Agreement – as agreed with the UK government in November 2018 – and the overall domestic political situation in the UK, a 'no-deal' scenario on 1 November 2019 very much remains a possible, although undesirable, outcome.

The Commission has concluded that there is **no need to amend any measures** on substance and that they remain fit for purpose. The Commission does **not plan any new measures ahead of the new withdrawal date.**

The Commission recalls that it is the responsibility of all stakeholders to prepare for all scenarios. Given that a 'no-deal' scenario remains a possible outcome, the Commission strongly encourages all stakeholders to take advantage of the extra time provided by the extension to ensure that they have taken all necessary measures to prepare for the UK's withdrawal from the EU. In the area of financial services, the Commission states that some residual issues remain. Insurance firms, payment services providers and other financial service operators which remain unprepared regarding certain aspects of their business (for example contract management and access to infrastructures) are strongly encouraged to finalise their preparatory measures by 31 October 2019. The Commission is working with EU level and national supervisors to ensure that contingency plans are fully implemented, and it expects that UK supervisors will not prevent firms from implementing such plans.
For the national websites with Brexit information, click here.

At the end of the meeting on 21 June 2019, the EU27 leaders briefly addressed the issue of Brexit. Presidents Tusk and Juncker updated the heads of state or government on the state of play. Leaders agreed that the EU27 look forward to working together with the next UK Prime Minister. They want to avoid a disorderly Brexit and establish as close a future relationship as possible with the UK. The EU is are open to talks on the Declaration on future UK-EU relations if the position of the United Kingdom were to evolve but at the same time they reiterated that the withdrawal agreement is not open for renegotiation. They were informed of the state of play of planning for a no-deal scenario.

CAPITAL MARKETS UNION

Focus is now shifting to the sustainable finance element of the CMU. The Commission issued its non-binding Guidelines on climate-related information, and extended the mandate of the technical expert group. The political discussion on the disclosure and benchmark regulation are finalised.

The **Capital Markets Union (CMU)** is one of the priorities of the Juncker Commission to develop and build deep and liquid capital markets, strengthen Europe's economy and promote a more integrated and stable financial system. Valdis Dombrovskis, the Commission's Vice President for the Euro and Social Dialogue, also in charge of Financial Stability, Financial Services and Capital Markets Union congratulated the Romanian Presidency on the progress made on the CMU: *'.. we have managed to reach agreement on 11 out of 13 proposals put forward during this mandate. That is 11 concrete steps towards a single market for capital that can deliver real benefits for Europe's citizens, companies, and for our economy. I count on the next European Commission to continue to champion this project.'*

Sustainable finance

The **non-financial reporting Directive (2014/95/EU)** (NFRD) requires large public interest entities with over 500 employees (listed companies, banks and insurance companies) to disclose certain non-financial information. In 2017 the Commission issued **non-binding guidelines** to help companies disclose relevant non-financial information in a more consistent and more comparable manner. These guidelines have now been complemented (based on Article 2 NFRD). On 18 June 2019, the Commission published a **Communication from the Commission — Guidelines on non-financial reporting: Supplement on reporting climate-related information** as part of the Sustainable Finance Action Plan. In practice, this climate-related information reporting consist of a new supplement to the existing guidelines on non-financial reporting, which remain applicable. The new Guidelines provide practical recommendations on how to report the impact that for example the activities of an insurer's is having on the climate as well as the impact of climate change on the insurer's business. The current climate reporting, thus the Commission, is inadequate. The Guidelines integrate the recommendations of **the Financial Stability Board task force on climate-related financial disclosures**. The Commission hopes that the information the Guidelines will facilitate will help direct further policies. About 6000 companies fall under the scope of the NFRD. During the next mandate of the Commission, the NFRD itself will highly probably be reviewed.

Regarding the three legislative proposals of May 2018, aimed to enable the financial sector of the Union to lead the way to a greener and cleaner economy, they are following their legislative course:

1. Establishing a unified EU classification system of sustainable economic activities ('taxonomy') (Proposal for a Regulation of the European Parliament and of the Council on the establishment of a framework to facilitate sustainable investment). The co-legislators are still deliberating on the unified EU classification system (taxonomy) to determine which economic activities are environmentally sustainable. The plenary voted on 26 March 2019 the joint ECON-ENVI report. The dossier is still under discussions within the Council Working Party on Financial Services – Sustainable finance – Taxonomy, which will next meet on 3 July 2019. It is expected that the Finish presidency will finalize the dossier.

2. Improving disclosure requirements on how institutional investors integrate environmental, social and governance factors in their risk processes: the European Parliament adopted on 18 April the provisional agreement in plenary, which was already endorsed by COREPER in March. The text is subject to the corrigendum procedure of the EP. Once the legal-linguistic experts have scrutinised the texts, and the EP plenary adopts the corresponding corrigenda, the Council should be able to approve the position of the European Parliament on that basis, thus bringing to a close the first reading for both institutions. Disclosure requirements will apply to insurance undertakings, IORPs, insurance intermediaries (except if employing less than 3 people), and optionally to manufacturers of pension products operating national social security schemes.

3. Creating a new category of benchmarks which will help investors compare the carbon footprint of their investments. Subject to technical finalization of the text, the political agreement was submitted to COREPER for endorsement. The EP adopted the proposal on 26 March 2019. The text is subject to the corrigendum procedure of the EP. Once the legal-linguistic experts have scrutinised the texts, and the EP plenary adopts the corresponding corrigenda, the Council should be able to approve the position of the European Parliament on that basis, thus bringing to a close the first reading for both institutions.

Technical Expert Group on Sustainable Finance

The Commission set up a Technical Expert Group on Sustainable Finance. The TEGSF mandate is to assist the Commission to work out further details for the May 2018 sustainable finance package (see previous paragraphs). The mandate has been extended till year-end instead of finishing end June 2019. There are 4 subgroups. Their outreach plans can be found here.

Three subgroups finished their reports, which were published by the Commission. Together, these three reports mark an important next step in the development of much needed common language, tools and instruments for mainstreaming sustainability in the financial sector.

- **Taxonomy technical report:** the expert group describes taxonomy as an implementation tool that can enable capital markets to identify and respond to investment opportunities that contribute to environmental policy objectives. It provides also practical guidance for policy makers, industry and investors on how best to support and invest in economic activities that contribute to achieving a climate neutral economy. With other words, the taxonomy is a dictionary to design and construct portfolio's and understand the exposures of the different asset classes. It aims to define which economic activities can be considered environmentally sustainable. It considered multiple environmental objectives at the same time, as well as the do no harm principle. The main report sets out technical screening criteria for 67 economic activities that can make a substantial contribution to climate change mitigation across sectors such as agriculture, forestry and manufacturing. It also includes a methodology and "worked examples" for evaluating contributions to climate change adaptation and identified 9 activities. Over time, it intends to be as comprehensive as possible and cover all relevant parts of the economy. As such, it is first necessary to establish a sector framework. The report is published as the Commission's proposal on taxonomy awaits agreement by the co-legislators. Users of the taxonomy are expected to be financial markets participants as well as Member States. See: **Webpage**; **Technical Report**; **User guide** (to be read first!); **2-page summary**.

  In terms of next steps, the TEGSF will launch a call for feedback by early July on those technical screening criteria of the taxonomy that have not yet been subject to public consultation. It expects further comments as the Taxonomy is a dynamic process. It will also refine and further develop "some incomplete aspects" of the proposed criteria, finish the adaptation work on the do no harm principle and make the user guide easier. It will deliver an adapted report by December after the feedback.

  The TEG's recommendations are designed to inform a proposed delegated act to implement the taxonomy. Under the draft regulation currently under discussion, this would be developed by the Commission and subject to full public consultation as required under standard procedures.

- **TEG Report - proposal for an EU Green Bond Standard:** this is the second report on an EU green bond standard (GBS). In the light of feedback on the interim report, the expert group has produced a revised version of the EU GBS, including a section on the expected impact of the EU GBS, as well as a template for the green bond framework. In particular, by linking it to the taxonomy, it will determine which climate and environmentally-friendly activities should be eligible for funding via an EU green bond. One of the recommendations is for investors, in particular institutional investors such as pension funds and insurance undertakings, to use the requirements of the EU-GBS as a tool when designing their green fixed-income investment strategies and to communicate their preference and expectations actively to green bond issuers as well as to underwriters of those bonds. But the tool does not dismiss investors from doing their due diligence. The TEG also recommends that the European Commission adopts an ambitious disclosures regime on green bond holdings for institutional investors. See: **Webpage**; **Report with a proposal for a EU Green Bond Standard**; **2-page summary**.

In terms of next steps, as the report is a proposal, it is up to the Commission to decide how the GBS will be implemented including the work done on ecolabels and accreditation.

- **TEG Interim report on EU climate benchmarks and benchmarks' environmental, social and governance (ESG) disclosures:** this report includes technical advice on minimum disclosure requirements to improve transparency and comparability of information across benchmarks on climate-related information *and* ESG indicators. It covers all benchmarks except interest rate and currency benchmarks. It provides technical guidance on minimum standards recommended for the EU climate transition benchmarks and the EU Paris-aligned benchmarks. This report relates to the Commission's proposal on low-carbon benchmarks. See: **Webpage**; **Interim report**; **2-page summary** .

In terms of next steps, there is a consultation outstanding till 2 August (see here), the final TEG report will be delivered end September, and will serve as a basis for the Commission for the drafting of delegated acts in accordance with the empowerments laid down in the amending regulation to Regulation (EU) 2016/1011. The delegated act is expected to enter into force Q1 2020.

The Commission has been hosting **a "stakeholder dialogue"** on climate-related reporting and the TEG reports on 24 June 2019.

Integrating of the Sustainability risks in the SII and IDD delegated acts

To assist the Commission, EIOPA delivered **its technical advice on the integration of sustainability risks and factors in the delegated acts under Solvency II and IDD** at the end of April, and it was published on 3 May 2019, following a public consultation (see infra sub Solvency II and IDD).

SOLVENCY II

EIOPA is working and consulting on the call for advice from the Commission on the Solvency II directive 2020 review. The amended delegated act has been published in the Official Journal.

Level 1 – Solvency II (SII) review

The Commission has given the starting signal for the review of the SII directive, to be carried out well ahead of the end of the transitional measures. On 11 February 2019 it sent a formal request to EIOPA for technical advice, far broader that the review of the LTG measures (see hereunder). **The Commission expects that advice from EIOPA by 30 June 2020.** The advice should include a robust and holistic impact assessment.

To deliver its advice, EIOPA has started to issue a series of public and industry consultations; (Re)insurers will also need to carry out impact assessments in relation to areas affecting them. On 5-6 June 2019, a workshop on LTG, equity, systemic risk and insurance guarantee schemes took place.

Currently, the consultation period on EIOPA's Consultation Paper on an opinion on sustainability within Solvency II, issued on 3 June 2019, is running and it is open till 26 July 2019. The paper is intended to explore how sustainability can be introduced in the different Pillar 1 elements of SII, including underwriting. EIOPA is currently of the opinion that the most pressing need is for insurers to develop and embed long term scenario analysis in their risk management, governance and ORSA. EIOPA will consider the responses it receives to this Consultation Paper, and will finalise the draft opinion for submission to the European Union institutions, by 30 September 2019.

A public consultation on the draft technical advice for the 2020 review (covering all topics other than reporting and disclosure – for reporting and disclosure see next paragraph) is expected in **November 2019 running to January 2020**. From **November to December 2019** an information request to undertakings for an holistic impact assessment is foreseen. Experts in EIOPA are currently assessing the need for further requests in 2019.

Regarding reporting and disclosure, based on a Call for input on the Solvency II reporting and disclosure review 2020 which closed end March 2019, EIOPA expects to publicly **consult the conclusions** of this assessment in its draft advice on reporting and disclosure **between mid-July to mid-October 2019**. Aim is to assess, as part of the SII 2020 review, the supervisory reporting and public disclosure requirements (Pillar III): do these requirements remain fit-for-purpose, and in particular do they allow a risk-based and proportionate approach? EIOPA will include these findings in its final technical advice. It should be noted that the Commission, which consulted on the Fitness Check on Supervisory reporting in 2018, will carry out a further in-depth assessment of the responses received to that earlier consultation, while conducting other analysis to complete the fitness check of supervisory reporting for the whole financial sector. A Staff Working Document will be published with the results in 2019. Recommendations may be issued in the second half of 2019, for consideration by the next Commission.

Another separate workstream in the context of the SII 2020 review is the area of systemic risk and macroprudential policy in insurance. EIOPA published end March 2019 a discussion paper on "Systematic Risk and Macroprudential Policy in Insurance" aiming to develop a specific policy proposal for additional macroprudential tools or measures as part of the SII review. The deadline for comments is passed and EIOPA's work should now be turned into a specific policy proposal for additional macroprudential tools or measures where relevant, possibly as part of the SII 2020 review.

In follow-up of EIOPA's advice on the SII review, the Commission shall present **by 31 December 2020** a report to the European Parliament and to the Council, accompanied, where appropriate, by proposals for the amendment of this Directive, or of delegated or implementing acts adopted pursuant hereto; such legislative proposal can be expected at the earliest in 2021; For more information on SII, click here.

Level 1 – Long Term Guarantees (LTG) review

According to Article 77f SII, the Solvency II Directive requires a **review of the LTG measures and the measures on equity risk by 1 January 2021**. The review will consist of the following phases:

- **Annual reports** by EIOPA on the impact of the application of the LTG measures and the measures on equity risk to the European Parliament, the Council of the European Union and the European Commission. The earlier reports published by EIOPA can be accessed here;

- **an Opinion** of EIOPA on the assessment of the application of the LTG measures and the measures on equity risk to the European Commission in 2020;

EIOPA is preparing now its 4th Annual LTG Report as well as the Opinion. Insurance and reinsurance undertakings, as well as groups have reported results to their NSAs during the recent months. By end June 2019, group data must be reported by the NSAs to EIOPA.

Based on EIOPA's Opinion the European Commission will submit a report on the impact of the LTG measures and the measures on equity risk to the European Parliament and to the Council of the European Union as part of the 2020 Solvency II review)(for more info, see here).

Level 1 – Proportionality

On 11 April 2019, EIOPA issued a Supervisory Statement on the application of the proportionality principle in the supervision of the SCR. EIOPA identified potential divergences in the supervisory practices concerning the supervision of the SCR calculation of immaterial sub-modules. The standard formula for the SCR aims to capture the material quantifiable risks that most undertakings are exposed to. It might however not cover all exposed material risks of a specific undertaking.

Level 1 – SII amendments as part of the European System of Financial Supervision (ESFS) review

The ESFS review package, proposed by the Commission on 20 September 2017, foresees also amendments to the SII directive. On 21 March 2019, the trilogue parties, EP and Council, reached an agreement on the total package, far less ambitious than the Commission had proposed. The agreement had to be reached urgently so that the legislative process could still be completed before the European elections in May. The final text has been approved by the European Parliament on 1 April and endorsed by COREPER. However, the Council has announced that certain legislative files which have been approved in Parliament will undergo the corrigendum procedure in the Parliament. That list of files concerns also the ESFS review package. This means that the legal text, even if already endorsed by Parliament, will not yet be subject to formal adoption by the Council. After examination by the lawyer-linguists, which is ongoing, the Parliament, in its new configuration, will have to approve the corrigenda in plenary tentatively scheduled for 6 October 2019. The Council's formal adoptions will hence be delayed until the autumn. The text can still undergo technical corrections and will be published in the OJ not earlier than November 2019. Most measures are scheduled to be applied as of 1 January 2022. The changes to the SII directive relate to an enhanced role for EIOPA in internal model group supervision, the introduction of notification and collaboration platforms and a (last-minute) introduction of an appropriate threshold for the risk-corrected country spread for the activation of the country component.

However, the major part of the ESFS package relates to changes in the roles of the European Supervisory Authorities (ESAs) where EIOPA's mandate and powers in the areas of consumer protection and environmental, social and governance risks (ESG risks) will be strengthened. The accountability of the ESAs towards the European Parliament will be increased.

Level 2 – delegated and implementing acts

Revision of the SII delegated act – 2018 SCR review

The amended Delegated Regulation laying down the implementing measures of the SII directive (Commission Delegated Regulation (EU) 2019/981 of 8 March 2019 amending Delegated Regulation (EU) 2015/35 supplementing Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II)) has been published in the Official Journal on 18 June 2019. The Regulation shall enter into force on the twentieth day following that of its publication. This means that it will be applicable as of 8 July 2019.

Points (50), (59) to (61), (66) and (74) of Article 1 shall apply from 1 January 2020. Point 66 includes the changed LOB calibrations of annex II. No national transposition measures are necessary.

Revision of the SII delegated act – Sustainable finance

EIOPA delivered its technical advice on the integration of sustainability risks and factors in the delegated acts under Solvency II and IDD end April, published 3 May 2019, following a public consultation. The feedback to the consultation's answers is included in the technical advice (p.56).

Regarding its advice, EIOPA proposes to consider sustainability risks with the same level of granularity as other risks so as to be consistent compared with other risks in the SII Delegated Regulation. Furthermore, whereas the call for advice targets life insurance products and, therefore, life insurance undertakings, EIOPA is of the opinion that from a prudential point of view, sustainability risks and factors would affect the investments of both life and non-life (re)insurance undertakings. More, the SII requirements are usually not for one or another type of undertaking, but for all (re)insurance undertakings. Finally, the call for advice focuses on integrating sustainability factors and risks in the investment decision process of undertakings. This would affect the key functions, in particular the risk management function, the prudent person principle, the written policies on risk management and the ORSA. But for non-life (re)insurance undertakings, sustainability risks will affect first their liabilities. Therefore, this advice reflects proposals on both sides of the balance sheet in all the areas assessed as relevant by the Commission: organisational requirements, operational conditions and risk management.

As to the role of the actuarial function, EIOPA is proposing to include a reference to sustainability risks in Article 272 of the Solvency II Delegated Regulation on the actuarial function in the context of the underwriting policy (see p. 25).

Amendments to the ITS on the mapping of credit assessments of ECAIs for credit risk

In October 2018 the Joint Committee of the three European Supervisory Authorities (EBA, EIOPA and ESMA - ESAs) launched a public consultation to amend the Implementing Regulations on the mapping of credit assessments of External Credit Assessment Institutions (ECAIs) for credit risk. The amendments were necessary to reflect the outcomes of a monitoring exercise on the adequacy of existing mappings, namely changes to the Credit Quality Steps (CQS) allocation for two ECAIs and the introduction of new credit rating scales for ten ECAIs. The Implementing Regulations are part of the EU Single Rulebook for banking and insurance.

For the new amendments linked with SII, a re-consultation on the Draft implementing technical standards amending Implementing Regulation (EU) 2016/1800 on the allocation of credit assessments of external credit assessment institutions to an objective scale of credit quality steps in accordance with Directive 2009/138/EC is required as the current mapping review exercise only considered those credit assessments officially published up to 1 December 2017. As a result of this monitoring exercise, the Implementing Regulation needs to be amended to reflect developments on credit rating scales and the allocation of credit rating types. Responses have to be submitted by email to CP-19-003@eiopa.europa.eu until Wednesday, 10 July 2019 at 23:59 CET.

Relevant Technical information for actuaries

- The monthly versions of the symmetrical adjustment of the capital requirement on equities, published by EIOPA, can be found **here**. The last one dates from May 2019. The calculation of the symmetric adjustment based on the behaviour of an equity index is built by EIOPA exclusively for that purpose.

- The **latest version** of the monthly technical information on the risk-free interest rate term structure (RFR) published by EIOPA dates from 6 June 2019. The calculation was adjusted on 18 June as the calculation for the Icelandic Kruna (ISK) government bond yields used for calculating the relevant risk-free interest rate term structures were incorrect. Therefore, EIOPA recalculated the risk-free interest rate term structures for the ISK to ensure that insurance and reinsurance undertakings can base their calculation of technical provisions on the correct technical information. The technical information related to all other currencies remains unchanged. This RFR information has been calculated on the basis of the last updated documents published on **EIOPA's website** .

- EIOPA published also on 21 May 2019 a **Report on the Calculation of the UFR for 2020.**

- **The Commission Implementing Regulation (EU) 2019/699 of 6 May 2019 laying down technical information for the calculation of technical provisions and basic own funds for reporting with reference dates from 31 March 2019 until 29 June 2019 in accordance with Directive 2009/138/EC of the European Parliament and of the Council on the taking-up and pursuit of the business of Insurance and Reinsurance** was published on 7 May in the OJ.

PENSIONS

IORP stress test submissions have been completed. The PEPP regulation awaits publication in the Official Journal.

Occupational pensions

The Occupational retirement provisions directive (IORP II)

Directive (EU)2016/2341 (IORP II) updates the 2003 directive for workplace prefunded private pension schemes. The transposition deadline of IORP II was 13 January 2019. Currently 17 of the 28 Member States have transposed the directive. Cyprus, France, Greece, Ireland, Luxembourg, Malta, Poland, Portugal, Romania, Slovenia, Spain, Sweden have not yet communicated their transposition measures. For a full overview of IORP II transposition status, click here.

IORP-stress test

On 2 April 2019, EIOPA launched the 2nd IORP stress test exercise. Deadline for submission of data to NCA was 19 June. The next milestones are:

- 28 August: validation of submission by NCAs and submission to EIOPA
- End September: validation of submissions by EIOPA
- October-November: data analysis and drafting of the report
- December 2019: publication of the stress test report.

For the first time, a European stress test includes an assessment of ESG exposures. For specifications and further info, click here.

Prudent person rule

On 14 April 2019, EIOPA published the result of a peer review identifying areas for improvement in the supervision of Prudent Person Rule compliance by IORPs. The peer review examined supervisory practices of national competent authorities in their assessment of how IORPs invest their capital in the best interest of their members and beneficiaries. It found that a risk-based approach or a risk-based approach complemented with quantitative limits is more effective than a compliance-based approach. The review found also that supervisory approaches are largely determined by the manner in which the Prudent Person Rule is embedded in national legislation. Supervisory approaches also vary according to type of scheme (defined benefit or defined contribution) and maturity of the pension industry. The review resulted in 27 recommended actions for 19 NCAs in 16 countries. The review was conducted among 27 NCAs from 24 European Economic Area countries. See here for a shorter Executive Summary, the full report and the peer review methodology.

Proposal for a regulation on 'disclosures relating to sustainable investments and sustainability risks'

The Commission's Proposal for a regulation on disclosures relating to sustainable investments and sustainability risks and amending Directive (EU) 2016/2341 lays the foundation for an EU framework which puts ESG considerations at the heart of the financial system. It introduces disclosure requirements supplementing the rules enshrined in among other the IORP II directive, the Regulation on a pan-European Personal Pension Product (PEPP) and national law governing personal and individual pension products. In accordance with the IORP directive, IORPs should already ensure governance and risk-management rules apply to their investment decisions and the risks assessments. The investment decisions and the assessment of relevant risks, including environmental, social and governance risks, should be made in such a manner as to ensure compliance with the interests of members and beneficiaries of IORPs. Besides the development of further regulatory technical standards by the ESAs, the final text suggests also EIOPA to issue guidelines specifying how investment decisions and risks assessment by IORPs take into account environmental, social and governance risks.

The **text of the provisional agreement was voted** on by the Parliament at first reading on 18 April 2019.

However, the Council has **announced** that certain legislative files which have been approved in Parliament will undergo the corrigendum procedure in the Parliament. That list of files concerns also this disclosure regulation. This means that the legal text, even if already endorsed by Parliament, will not yet be subject to formal adoption by the Council. After examination by the lawyer-linguists, which is ongoing, the Parliament, in its new configuration, will have to approve the corrigenda in plenary. The Council's formal adoptions will follow thereafter.

Personal pensions

Pan-European Personal Pensions (PEPP) regulation

On 29 June 2017 the Commission adopted the Draft Regulation of the European Parliament and of the Council on a pan-European Personal Pension Product (PEPP). On 4 April 2019 the European Parliament adopted its position at first reading on the Commission proposal. The outcome of voting in the European Parliament **reflects the compromise agreement** reached between the institutions and should, therefore, be acceptable to the Council. The Council **approved** the text on 14 June 2019.

Following the signature of the adopted legislation on 20 June, the new measures for PEPPs will be published in the Official Journal shortly after signature and will enter into force 20 days later, probably around 20 July. Application is foreseen one year after the publication of all necessary delegated acts, for which EIOPA receives one year once the PEPP regulation enters into force. This means that application may at the earliest be expected 20 January 2021, and that before the first PEPPs appear in the market it may well be 2022. For PEPPs at a glance, click **here.**

In the meantime, EIOPA is composing an **Expert Panel on the PEPP Regulation**. As EIOPA is required to develop substantial policy and regulatory requirements for the effective implementation of the Regulation, these experts will assist EIOPA in the development of the PEPP Key Information Document (KID) and the conditions for its revision; the development of the PEPP Benefit Statement (PBS) and supplementary information; the Cost cap for the Basic PEPP and Risk-mitigation techniques. The experts will to inform EIOPA's policy work, test policy proposals and act as sounding board supporting EIOPA delivering on its mandate.

INSURANCE DISTRIBUTION AND PRIIPS

EIOPA delivered its technical advice on the integration of ESG considerations preferences in the insurance intermediaries directive (as well as in Solvency II). A solution has been found to avoid duplication of information requirements for investment funds (PRIIPs KID and UCITS KIID).

Insurance distribution directive (IDD)

Level 1 – IDD
The IDD's transposition date was 1 July 2018. Still 4 Member States have not communicated to the Commission their transposition measures. For the status of the transposition, click here.

Level 2 – IDD - professional indemnity insurance
The Commission adopted on 13 May 2019 the Delegated Regulation amending the Insurance Distribution Directive ((EU) 2016/97) (IDD) with regard to regulatory technical standards (RTS) adapting the base euro amounts for professional indemnity insurance (PII) and for financial capacity of insurance and reinsurance intermediaries. The Delegated Regulation is now subject to 3 months scrutiny by the European Parliament and the Council after which it will be published in the Official Journal and become applicable.

Level 2 – IDD – integration of ESG considerations and preferences
EIOPA delivered its technical advice on the integration of sustainability risks and factors in the delegated acts under Solvency II and IDD end April, published 3 May 2019, following a public consultation. The feedback to the consultation's answers is included in the technical advice (p.56).

The IDD section of the advice covers conflict of interests (related to organisational requirements) and product oversight and governance (related to the target market assessment).

Regarding product oversight and governance, EIOPA is of the view that ESG considerations can be taken into account with regard to all insurance products, not only insurance-based investment products. EIOPA underlines that insurance undertakings are not required to take ESG considerations into account when designing and manufacturing insurance products, but that the proposals emphasise the manufacturer's discretion to do so, if wished.

Packaged Retail and Insurance based Investment Products (PRIIPs)

Level 1 – PRIIPs – review/deferral

The European institutions have managed to avoid the duplication of information requirements for investment funds (PRIIPs KID and the UCITS KIID) from 1 January 2020 onwards.

On 14 June 2019, the Council adopted **the Regulation of the European Parliament and of the Council on facilitating cross-border distribution of collective investment undertakings and amending Regulations (EU) No 345/2013, (EU) No 346/2013 and (EU) No 1286/2014.** The agreed regulation provides for two important amendments to the PRIIPs Regulation (EU) 1286/2014:

- A review by 31 December 2019 (amendment to Article 33)
- The extension of the exemption for UCITS and relevant non-UCITS funds until 31 December 2021 (amendment to Article 32).

But the PRIIPs derogation has not been extended and the review is still to be finished by end 2019. Finally, when conducting a wider review of PRIIPs, the Commission is considering taking an even broader approach than just the PRIIPs KID in isolation. Over the last few years, changes have been made related to MiFID, IDD and other pieces of legislation, and they should look how these can work together.

Level 1 – PRIIPs – treatment of bonds

On 14 May 2019, **the Commission replied** to a letter from the ESA's regarding the treatment of bonds under PRIIPs.

Level 2 – PRIIPs

The ESA's (EBA, EIOPA and ESMA) have initiated the revision of the PRIIPs delegated regulation in order to address the most pressing issues arising from the PRIIPs KID implementation concerning performance scenarios and past performance information. In this regard, the European Commission is looking for evidence on the new format for presenting PRIIPs information that will increase its helpfulness for retail investors in comparing and selecting the best products for their investment needs. It issued a call for tender to investigate on retail investors' preferred option within the Key Information Document under the PRIIPs framework. In close cooperation with the ESAs, the European Commission will come forward with several different options on performance scenarios and past performance information, including graphical representation thereof, within the PRIIPs KID. The European Commission aims to improve the presentation of this PRIIPs information by testing the presentation, comprehension and preference of these options.

INSURTECH

EIOPA is working on guidelines regarding cloud outsourcing. The European Commission is organizing this summer a pilot to test the Ethics Guidelines for Trustworthy Artificial Intelligence.

InsurTech - Cloudcomputing

EIOPA's Insurtech taskforce (**see mandate**) includes in the area of cloud computing the task to assess NCAs supervisory practices and expectations on outsourcing to cloud service providers and explore the need to issue guidelines. To that end, EIOPA organized on 11 April 2019 **its Fourth InsurTech Roundtable on The use of cloud computing** by (re)insurance undertakings. According to EIOPA, cloud computing technology has become increasingly widespread since the late 2000's and the use of cloud computing services has been growing in all sectors of the economy, including the financial sectors. In the (re)insurance sector, the cloud computing services are most extensively used by newcomers, within a few market niches and by larger undertakings mostly for non-critical functions. Moreover, as part of their wider digital transformation strategies many European (re)insurers are expanding their use of the cloud due to the advantages offered by this technology. For example, moving systems and applications to the cloud is: (i) a way to optimize IT expenses increasing the IT flexibility; and (ii) an enabler for innovation of business models and products. Although cloud services can offer several advantages, they also raise challenges and risks that shall be managed by the undertakings using such kind of services. In the European financial regulatory landscape, the purchase of cloud computing services falls within the broader scope of outsourcing (SII). EIOPA has decided to prepare its own Guidelines on Cloud Outsourcing aligned with the **EBA Recommendations** with minor amendments to reflect the (re)insurance specificities. The plan is to draft these guidelines during the first half of 2019, issue them for consultation in July and finalise/issue them by the end of the year. The roundtable discussion served as input. EIOPA's presentation can be obtained **here**.

Artificial intelligence (AI)

On 8 April 2019, the **Communication from the Commission to the European Parliament, the Council, the European Economic and Social Committee and the Committee of the Regions Building Trust in Human-Centric Artificial Intelligence** was published. The same day, the High-Level Expert Group on Artificial Intelligence (AI HLEG) published **its Ethics Guidelines for Trustworthy Artificial Intelligence (AI)**. To test the guidelines, the Commission will launch a targeted piloting phase designed to obtain structured feedback from stakeholders. All stakeholders are invited to pre-register for the piloting process that will be kicked off in summer 2019. To register for the piloting process, click **here.**

At the beginning of 2020, building on the evaluation of feedback received during the piloting phase, the AI high-level expert group will review and update the guidelines. Based on the review and on the experience acquired, the Commission will evaluate the outcome and propose any next steps.

The AI HLEG serves also as the steering group for **the European AI Alliance's** work, interacts with other initiatives, helps stimulate a multi-stakeholder dialogue, gathers participants' views and reflects them in its analysis and reports.

Insurtech - Big data analytics (BDA)

On 8 May 2019, EIOPA published its report **on Big Data Analytics in motor and health insurance**. Data processing has historically been at the very core of the business of insurance undertakings, which is rooted strongly in data-led statistical analysis. Data has always been collected and processed to inform underwriting decisions, price policies, settle claims and prevent fraud. There has long been a pursuit of more granular datasets and predictive models, such that the relevance of Big Data Analytics for the sector is no surprise. In view of this, and as a follow-up of the Joint Committee of the ESAs cross-sectorial report on the use of Big Data by financial institutions, EIOPA launched a thematic review on the use, benefits and risks of Big Data Analytics focusing on motor and health insurance. The review revealed a strong trend towards increasingly data-driven business models throughout the insurance value chain. Traditional data sources (e.g. demographic data or exposure data) are increasingly combined with new sources such as online or telematics data, providing greater granularity and frequency of information about consumer's characteristics, behaviour and lifestyles. There is an extended use of data sourced from third-party data vendors (see **here** for press release).

As one of the follow-up actions of the thematic review, EIOPA will further assess the issue of supervision of AI/Machine Learning (ML) black box algorithms. On the one hand, the Joint Committee of the ESAs will look into the topic of artificial intelligence from a cross-sectorial perspective in 2019. In parallel, EIOPA will seek to further assess how AI and ML can be best supervised in practice, including assessing how their supervision differs from other models commonly used in insurance such as generalised linear modelling (GLM), generalised Bayesian model or decision trees. In this regard, different options will be considered, such as introducing specific governance requirements for specific BDA tools and algorithms. This could include reviewing the role that Solvency II's key functions (and in particular the actuarial function) should play in this context.

Cyberrisk

EIOPA organized a cyberrisk workshop on 1 April 2019, in which Gabriel Bernardino, EIOPA's chair **explained** the two challenges: quantifying cyberrisk and covering cyberrisk. He noted that the EU strategy for the digital single market intends making the EU's single market fit for the digital age and that this requires tearing down unnecessary regulatory barriers and moving from individual national markets to one single EU-wide rulebook. This challenge is also present in the cyber insurance area. *'We should work together to establish an EU framework for the insurance industry's role in cyber risk assessment, resilience and coverage. This would provide a further level of security for companies and consumers in the digital economy.'* A summary of the workshop is available **here.**

EUROPEAN AGENDA

30/07/2019	EU top jobs further discussion	European Council
01/07/2019	Start Finish Presidency of the Council	Council
2-4/07/2019	Constituent plenary sessions and election President, VP,…	EP
3/07/2019	Sustainable finance: taxonomy, Working Party on financial services	Council
Early July	Sustainable finance: taxonomy, start call for feedback on technical screening criteria of the taxonomy	Technical Expert Group (TEG)
8/07/2019	SII: date of application amended Delegated Act	
10/07/2019	SII: deadline public consultation on amendments mapping credit risk assessment of ECAIs	Joint Committee ESAs
15-18/07/2019	Election European Commission	EP
Mid July	SII: start reporting and disclosure draft assessment consultation	EIOPA
July 2019	Cloud outsourcing draft Guidelines for consultation (expected)	EIOPA
2/08/2019	Sustainable finance: deadline consultation TEG interim report on EU climate benchmarks and their ESG disclosures	TEG
30/09/2019	SII: deadline advice to EC on sustainability amendments in L1	EIOPA
Sept-Oct 2019	Vetting of commissioners-designate	EP
6/10/2019	ESFS review: tentative date for EP approval in plenary	EP
End October	Election of full European Commission	EP
October 2019	Further discussion on New Strategic Agenda 2019-2024	European Council
31/10/2019	New deadline Article 50 for Brexit	
Nov 2019	SII: start expected public consultation on EIOPA's draft technical advice	EIOPA
Nov 2019	SII: start information request for holistic impact assessment	EIOPA
Dec 2019	Pensions: report on pensions	HLG Pensions
Dec 2019	IORP II: publication stress test results	EIOPA
Dec 2019	SII: publication 4th long term guarantees review	EIOPA
31/12/2019	PRIIPs: In-depth review of the PRIIPs framework (proposed)	Eur. Commission
February 2020	IDD: Report on the application of the IDD	EIOPA
30/06/2020	SII: deadline technical advice L1 review to the Commission	EIOPA
31/12/2020	SII: Broader evaluation of L1 SII, report to EP and Council	Eur. Commission
31/12/2020	Brexit: end transition period if UK accepts Withdrawal agreement	
01/01/2021	IFRS 17: target application date	
20/01/2021	PEPP Regulation: possible earliest application date	
01/01/2022	ESFS review: application new ESA regulation	

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