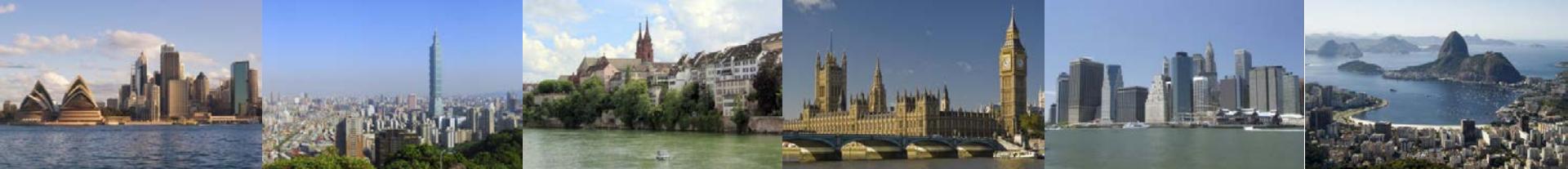


Field Testing of ComFrame M2E1 M2E2 Progress Report

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Stakeholder Session
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Introduction

- Qualitative Field Testing exercise launched in October 2014
- Phase 1 – the subject of this report: M2E1 and M2E2 (structural and corporate governance aspects of ComFrame Module 2)
 - Volunteer IAIGs submitted data to Supervisors by 31 December 2014
 - Supervisors submitted own answers and checked data from Volunteers by 31 January 2015
- Phase 2 – ERM aspects of ComFrame Module 2:
 - Volunteer IAIGs submitted data to Supervisors by 31 March 2015
 - Supervisors submitted own answers and checked data from Volunteers by 30 April 2015
 - Phase 2 analysis is ongoing.

Responses

Answers from 31 firms and 20 supervisors; it should be noted that:

- firms were requested to report gaps between what they do (whether required or not) and ComFrame; supervisors were requested to report gaps between their requirements and ComFrame
 - “Requirement” was defined broadly, i.e., a law, regulation, supervisory practice or other means that effectively causes a firm to comply
- Members were allowed to consider pending legislation as if currently in effect as long as these are finalised, published and have a clear implementation date no later than 31 Dec 2018
- Cost/benefit data was requested and analysed

Responses from members

		Partially Compliant or Non-Compliant Responses to the 38 Questions in the Field Testing Survey					As a % of Total Responses
		Number of Members Responding	Total	Range	Average		
Asia		4	25	0-17	6.3		16.44%
Europe		9	57	0-34	6.3		16.66%
North America		7	127	0-32	18.1		47.74%
	Total	20	209	0-34	10.5		27.50%

- Across jurisdictions, responses indicate that they are already compliant (either by law, regulation, or supervisory practice), or that any gaps will be addressed for reasons other than ComFrame
- Some supervisors question the need for certain group-wide control functions, especially a group-wide actuarial function

Responses from firms

- Detailed disclosure of results not presented today – will need agreement of volunteers – wait until revisions to ComFrame are released for consultation
- A high level of congruence between firm practices and ComFrame was observed
- For those areas where there was not congruence between firm practices and ComFrame there were:
 - some items needing clarity (e.g. issues involving group-level functions);
 - and potential discrepancies between ComFrame and emerging regional/global standards

Key findings

- There is a need for enhanced clarity in parts of the ComFrame text.
 - Field testing results indicate a need to confirm the intent of ComFrame with respect to group-level functions.
 - There may be a need to confirm and clarify what is intended by “requirement” and what (legal or supervisory) instruments or practices would constitute compliance with ComFrame.
 - The field testing exercise has raised questions as to whether or not ComFrame has met the IAIS’ expectations with regard to governance requirements applicable to IAIGs.
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Areas where more clarity is needed

A number of examples were noted:

- M2E1-3: The IAIG “takes account” of policyholder protection schemes...
- M2E1-2: Distinction between contingency plans, recovery and resolution plans, capital contingency plans, and business continuity plans
- M2E2-1: What is meant by a “code of conduct” and its purpose
- M2E4-2: What is meant by “independence” of members of the Governing Body and how it is intended to apply
- ...

Revisions to text will be considered by the relevant working groups

Group-level functions

- ICPs currently apply at both legal entity and group levels; thus, no gaps should have been expected relative to requirements for, or existence of, group-level functions
- Field testing indicates otherwise; some jurisdictions lack requirements, and some IAIGs do not maintain all of the indicated group-level functions
 - Example: group-wide actuarial function
- Phase 1 field testing found that gaps were not as pervasive as had been expected.
- ComFrame's text should be affirmed/clarified with respect to group-level functions

Comments will be considered by the Governance WG

What is meant by “requirement?”

- Supervisors were instructed to interpret broadly
- Responses indicate various means, from supervisory practices to “enforceable rules” or “explicit legal duty”
- ComFrame’s text is not uniform or clear in this regard across all standards/ parameters
- The IAIS’ intention with respect to the interpretation of “requirement” will be affirmed and the ComFrame’s text clarified accordingly

Cost-benefit information

- Very little cost data was provided and that cost data that was provided was only with respect to a minority of the standards and parameters of ComFrame and did not seem material with respect to an IAIG's operations
- Cost data reported by supervisors was especially minimal
- Benefit data received was very minimal, and rarely quantified
- Cost was not viewed as a significant factor with respect to whether a firm can comply with the proposed standards/parameters

Conclusions

- Relatively few gaps were reported compared to expectations based on prior consultations and communications with volunteers
- Phase 1 field testing found that gaps were not as pervasive as had been expected.
- ComFrame builds on the ICPs, which already apply at group level; nonetheless, more gaps were expected, particularly with respect to the existence of group-level functions
- Ongoing updates of ICPs will impact future iterations of ComFrame
- The maintenance of standards by thematic topics, whether in the ICPs, ComFrame, or supervisory measures applicable to GSIIIs, could better and more consistently address proportionality / rigor of standards applicable to GSIIIs, IAIGs, other groups, and legal entities