MFSA

MALTA FINANCIAL SERVICES AUTHORITY

Risk Management – Guidance Paper

August 2012

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1. Introduction

On the 18 January 2012 the Malta Financial Services Authority (MFSA) issued a follow-up guidance paper on the System of Governance requirements under the Solvency II regime which deliberately did not address an important key function - ***Risk Management.*** This function, which forms part of the **Pillar 2** requirements, deserves a separate paper in view that the requirement for a robust Risk Management System (RMS) underpins much of the proposed Solvency II regime.

This guidance paper is being issued to provide a detailed perspective of the RMS requirements and to continue to support insurance and reinsurance undertakings (which in these guidelines is shortened to the term “undertaking(s)”) in their preparations for the Solvency II implementation.

Like all other Pillar 2 requirements, it is strongly advisable that undertakings consider the implications of the Risk Management requirement and continue to work steadily towards its implementation. This does not in any way imply that the Risk Management requirement does not already apply under the current regime. On the contrary, it is considered to be an essential element of the internal control environment and therefore falls within the scope of the existing regulatory framework. However, Solvency II demands an enhanced RMS as one of its main objectives is for undertakings to achieve a better understanding and management of risks. The requirement for undertakings to fully assess their risks is not considered to be a burden on undertakings but an exercise that should already be performed, even if not formalised.

In view that every undertaking will be required to conduct an Own Risk and Solvency Assessment (ORSA) as part of its RMS, this paper to some degree addresses ORSA; however it does not include any particular detail since this was addressed in the consultation paper issued by European Insurance and Occupational Pensions Authority (EIOPA) on the 7th November 2011[1]. May we iterate that further details on this consultation paper were notified by the MFSA on the same date and are available on the MFSA web-site. It should be noted that although drafting of the Level 3 Guidelines and Recommendations on the System of Governance is at an advanced stage, they are still being developed by EIOPA at the time of publication of this guidance paper and therefore changes may be effected.

2. General Governance Requirements

2.1 The responsibilities of the Board of Directors

The focal point of the governance system is the administrative, management or supervisory body. The term “administrative, management or supervisory body” refers to the board of directors in a one tier system, as is the case in Malta and will be shortened to “BOD” in this guidance paper. Any significant decision concerning the undertaking should have the support of at least two persons who are either legally responsible for running the undertaking or have major decision-taking powers.

The BOD is ultimately accountable and responsible to ensure that the undertaking complies with the requirements of the Solvency II Directive[2], particularly the Pillar 2 requirements in relation to governance which identify Risk Management as one of the key functions of an undertaking. Therefore good governance of the Risk Management function is the direct responsibility of the BOD. The BOD should designate at least one of its members with the specific responsibility to oversee the RMS and approve any periodic revision of the business strategy and policies in terms of any impact to the RMS.

[1] CP 008/2011 - Solvency II: Consultation Paper On the Proposal for Guidelines on Own Risk and Solvency Assessment – https://eiopa.europa.eu/en/consultations/consultation-papers/2011-closed-consultations/november-2011/solvency-ii-consultation-paper-on-the-proposal-for-guidelines-on-own-risk-and-solvency-assessment/index.html

[2] Article 40 of the Solvency II Directive – “the administrative, management or supervisory body of the insurance or reinsurance undertaking has the ultimate responsibility for the compliance, by the undertaking concerned, with the laws, regulations and administrative provisions adopted pursuant to this Directive.”

Delegating key functions to specialised committees does not in any way release the BOD from collectively discharging its duties and responsibilities. The BOD should therefore have regular and robust interaction with any board committee it establishes as well as with senior management and other key functions, requesting information from them proactively and challenging them when necessary. The RMS should inform the BOD of the range of risks assumed by the undertaking in implementing its approved business model/strategy and identify those risks that are mitigated, the mitigation tools that are chosen and those risks that are borne by the undertaking. Directors are expected to have a clear understanding of the risks involved and use such knowledge in their decision-making process. The ORSA further enhances the expected understanding of the undertaking of its risks and requires the undertaking to make its own assessment of its capital requirements using its own criteria and assumptions as regards the time horizon adopted for business planning purposes and the risks considered, regardless of whether such risks are included in the Solvency Capital Requirement (SCR) calculation. The ORSA is therefore considered to be an important management tool to be used in the development and on-going review of the business model/strategy.

2.2 Principle of proportionality

As noted in earlier guidance papers on the system of governance, undertakings should keep in mind the principle of proportionality [3] when considering the various aspects addressed in this paper so that their system of governance is designed in a manner that reflects their operations whilst still satisfying the regulatory requirements. The individual risk profile of the undertaking should serve as the primary guide in assessing the need to apply the proportionality principle. The risk-based approach and the principle of proportionality should support one another. Proportionality should not only be related to the size of an undertaking but also to the 'nature, scale and complexity' of its business model/strategy. Therefore a small undertaking with a complex business model/strategy may be faced by more risks than a large undertaking with a simple business model/strategy. The undertaking will be required to provide the MFSA with the assessment performed, explaining the criteria used in applying the proportionality principle.

2.3 Key functions

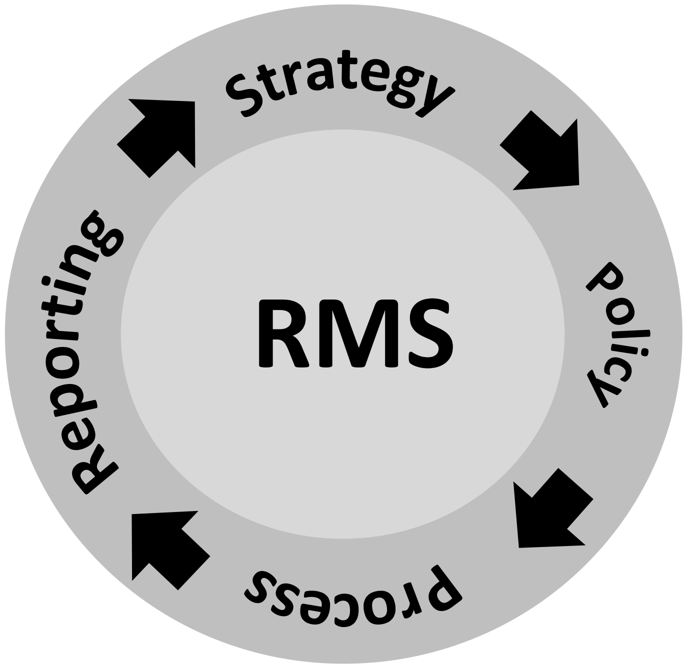
The BOD must ensure that the system of governance, encompassing at least all key functions, is internally reviewed on a regular basis and appropriate feedback procedures put in place. Any review of the written policies has to be appropriately documented. The documentation needs to record who conducted the review and to include any suggested recommendations and decisions subsequently taken by the BOD in respect of those recommendations as well as the reasons for them. Suitable feedback loops are necessary to ensure follow-up actions are continuously undertaken and recorded.

The BOD must also ensure that all key functions are operationally independent. This implies that there is no undue influence, control or constraint exercised on the functions with respect to the performance of their duties and responsibilities by other operational or key functions, senior management or the BOD itself. The functions have to retain the responsibility for taking the decisions necessary for the proper performance of their duties without interference from others.

The most effective way to safeguard operational independence is to segregate the responsibilities of the key functions; therefore, undertakings that do not want to keep key functions separate from each other have to demonstrate that in view of their risk profile it is proportionate for them to do so and that they have effective processes and procedures in place to ensure that operational independence is not compromised. However this does not apply to the Internal Audit Function which must be independent from any other key functions and operational processes.

[3] Article 41(2) of the Solvency II Directive – "The system of governance shall be proportionate to the nature, scale and complexity of the operations of the insurance or reinsurance undertaking." A consultation paper had been issued by CEIOPS in May 2008 - CEIOPS-DOC-24/08 – Advice to the European Commission on the Principle of Proportionality in the Solvency II Framework Directive Proposal

3. Risk Management System



3.1 The aim of a Risk Management System

Undertakings should have an effective RMS in place which embraces strategies, policies, processes and controls necessary to continuously identify, measure, monitor, manage and report risks which they are or could be exposed to, in a timely manner. The RMS should take into account the probability, potential impact and time duration of risks.

The essential components of a RMS are:

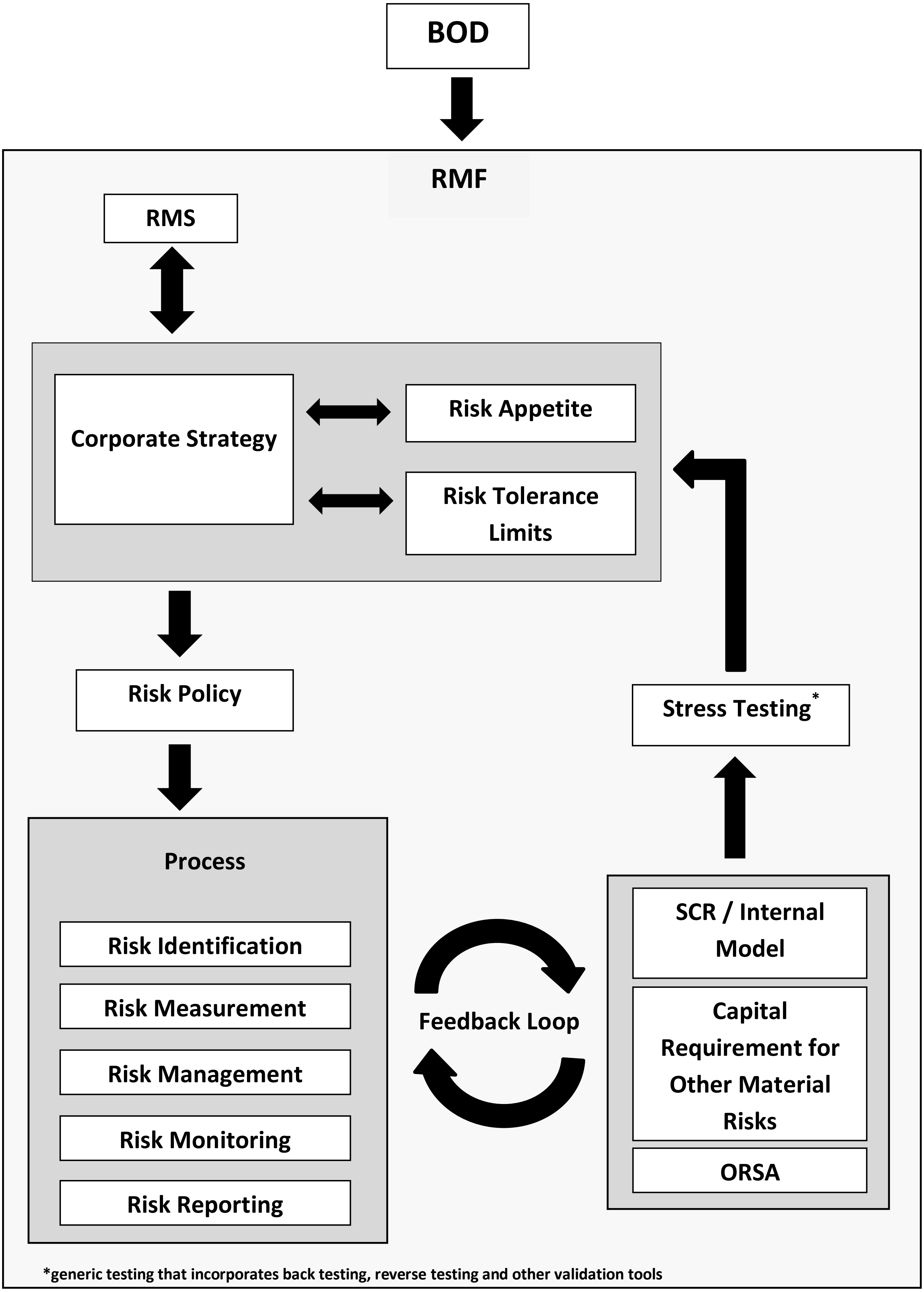
- ***risk management strategy*** which comprise details of an undertaking's objectives, its key risk management principles and its' general risk appetite. It also assists an undertaking to identify and assign risk management responsibilities.

- ***risk management policy (RMP)***[4]**.** The RMP is essential because it defines and categorises both an undertaking's material risks and risk limits by type. An undertaking must also demonstrate how it will implement these on a day-to-day basis. The RMP must be well documented.

- ***processes and procedures*** which enable an undertaking to identify, manage, monitor and report its current risks and those risks it might be exposed to in the future.

- ***internal reporting procedures*** which generate the necessary information regarding risks. This implies that an undertaking should have adequate information systems in place to help it actively monitor this information.

[4] See Section 4. Risk Management Policy below


BOD
RMF
RMS
Corporate Strategy
Risk Appetite
Risk Tolerance Limits
Risk Policy
Stress Testing*
Process
Risk Identification
Risk Measurement
Risk Management
Risk Monitoring
Risk Reporting
Feedback Loop
SCR / Internal Model
Capital Requirement for Other Material Risks
ORSA
*generic testing that incorporates back testing, reverse testing and other validation tools

The RMS should be well integrated into the organisational structure and in the decision making processes of the undertaking. A RMS assists an undertaking to understand the nature and significance of the risks to which it is exposed, its sensitivity to such risks and the necessary action that should be taken to mitigate them. The RMS achieves this by defining relevant objectives, key principals and proper allocation of responsibilities for dealing with risk across the business areas and organisational units of the undertaking. To acquire an effective RMS, the undertaking should establish a common approach to risks and a common "risk language" across the whole organisation integrating the undertaking's *risk appetite* and its *overall risk tolerance limits.*

The BOD is ultimately responsible for determining the undertaking's *risk appetite* and its *overall risk tolerance limits.* The undertaking may choose its preferred method to define and describe these factors subject to the following provisions:

– The ***risk appetite*** should be sufficiently detailed to clearly express the high level objectives of the business strategy approved by the BOD. It is a measure of the attitude of the BOD towards the main categories of risk. The risk appetite may integrate a quantitative assessment of risk possibly in terms of capital. The method chosen to define risk appetite should satisfy the direction given by the BOD in this respect.

– The ***overall risk tolerance limits*** should reflect the restrictions imposed on the undertaking when assessing its capacity to retain risks. The undertaking should also take into account its risk appetite, its risk profile and all other factors that may even go beyond the requirements of the Solvency II framework. Any limits in terms of reference/guidelines used for daily operations and specific risk tolerance limits for each risk category must be aligned to the overall risk tolerance limits and endorsed by the BOD.

The RMS should incorporate a written process defining the BOD approval required for any deviations from the risk management strategy or the risk appetite and for settling any major interpretation issues that may arise.

3.2 Risk areas to be covered by the RMS

To be consistent with the calculation of the SCR[5], the RMS must incorporate at least the following risks:

- non-life underwriting risk
- life underwriting risk (not applicable to undertakings which only sell non-life products)
- health underwriting risk (applicable to those undertakings which sell health products)
- market risk
- credit risk (i.e. counterparty default risk)
- operational risk (this should include legal risks but exclude risks arising from strategic decisions and reputation risks)
- intangible risk

In addition, the RMS must also cover all other risks of the undertaking which are not or not fully included in the SCR calculation and must incorporate, at least, the following areas:

- underwriting and reserving
- asset-liability management
- investment, in particular derivatives and similar commitments
- liquidity and concentration risk management

[5] As set out in Article 101(4) of the Solvency II Directive – "The Solvency Capital Requirement shall cover at least the following risks: (a) non-life underwriting risk; (b) life underwriting risk; (c) health underwriting risk; (d) market risk; (e) credit risk; (f) operational risk. Operational risk as referred to in point (f) shall include legal risks, and exclude risks arising from strategic decisions, as well as reputation risks."

- operational risk management
- reinsurance and other risk-mitigation techniques
- reputational, strategic or emerging[6] risks, quantifiable or non-quantifiable
- the potential accumulation and interactions or interdependencies of risks
- the indirect effects of risks for example indirect exposure to liquidity risk relating to gearing, margin calls on derivatives or stock lending positions.

3.3 Assessment, documentation and reporting

The identification, measurement or assessment of risks referred to above should be documented. The RMS should be regularly reviewed to ensure that necessary modifications and improvements are identified and made in a timely manner.

Undertakings should also ensure that internal risk reporting is a continuous process across all levels of the organisation. The frequency and content of reporting should be sufficient to ensure the BOD has all the necessary information to take proper decisions in a timely manner.

As part of the RMS, undertakings should verify the appropriateness of external credit assessments however internal risk management methodologies should not rely solely on external credit assessments.

3.4 Integration of RMS with the Internal Model

Undertakings should also ensure that if they are to make use of a full or partial internal model, this should be widely integrated in their RMS in the following manner:

a) all material quantifiable risks identified by the RMS which are within the scope of the internal model are covered by the internal model;

b) the outputs of the internal model, including the measurement of diversification effects, are taken into account in formulating risk strategies, including the development of risk tolerance limits and risk mitigation strategies;

c) the relevant outputs of the internal model are covered by the internal reporting procedures of the RMS;

d) the quantification of risks and the risk ranking produced by the internal model trigger risk management actions where relevant; and

e) the policy for changing the internal model foresees that the internal model is changed, where relevant, to reflect changes in the RMS.

3.5 Stress Testing

An important feature of Solvency II is that it is not only risk based but it also applies a prospective and forward looking approach. Therefore the undertakings should consider future risks that they may face and assess the possible impact of such risks by considering different scenarios. Apart from the specific stress tests set by the supervisory regime, undertakings are expected to employ other stress tests as tools in their risk assessment process. The RMP should set out the frequency and content of

[6] Emerging risks are newly developed or changing risks which are difficult to quantify and which may have a major impact on the undertaking.

these stress tests. The undertaking needs to identify possible short and long term risks and possible events or future changes in economic conditions that could have an unfavourable effect on its overall financial standing. It also needs to calculate the capital impact. Following this, the undertaking needs to come up with regular risk-specific stress tests that are tailored for its risk profile. An undertaking may also make use of reverse stress testing which helps it to identify circumstances that would threaten the sustainability of the undertaking and take the necessary precautions to minimize the impact.

Choosing adequate scenarios to serve as a basis for its risk assessment process is crucial to an undertaking. This implies that scenario analyses should be based on an analysis of the most severe but plausible worst cases the undertaking could face.

If the undertaking forms part of a group, whilst the undertaking is responsible for its risk management strategy at a solo level, the entity responsible for governance at group level should provide steering in line with the group perspective. This steer should take into consideration the impact on and the compatibility with the solo risk management strategies following any incoherencies between the group perspective and the local market specificities.

Other issues to be considered at group level are being discussed under Section 9 below.

4. Risk Management Policy

4.1 General overview

As already noted earlier in this guidance paper undertakings are required to have written policies in relation to at least risk management, internal control, compliance, internal audit and, where relevant, outsourcing. These policies should be written in a way to assist employees to understand their risk responsibilities. They should also help to explain the relationship of the RMS to the undertaking's overall governance framework and to its corporate culture.

To reap maximum benefit from these policies, the undertaking should promote regular internal communication and provide continuous training on such. These written policies are to be reviewed at least annually and whenever there are material changes to the business structure. Such reviews should be subject to the approval of the BOD. Any review of the written policies has to be appropriately documented and should include recording of:

a. who conducted the review
b. any suggested recommendations and decisions subsequently taken by the BOD in respect of those recommendations along with the reasons for them.

It is recommended that this Section is read in conjunction with *Section 4 - Business Strategy and Board Policies*- of the follow-up guidance paper on the System of Governance issued on the 18 January 2012 by the MFSA. This paper is available on the MFSA website.

4.2 Features of the Risk Management Policy

The RMP should satisfy the general guidelines relating to written policies as specified under *Section 4 - Business Strategy and Board Policies* - of the previous guidance paper on system of governance. Additionally the RMP should include the following specificities:

a) a definition of the risk categories and the methods adopted to measure them;
b) an outline of how each risk category is managed;

c) a description of the correlation with the overall risk tolerance limits, regulatory capital requirements and solvency needs assessment as identified in the ORSA;
d) the risk tolerance limits for the different risk categories in line with the overall risk appetite; and
e) the frequency and content of regular stress tests and a description of the situations that would warrant special stress tests.

As an integral part of its RMP, an undertaking should also describe how its risk management links with corporate objectives, strategy and current circumstances. The RMP should consider a reasonably long time horizon, consistent with the nature of the undertaking's risks and the business planning horizon so that it maintains relevance to the undertaking's business going forward. This can be done by using methods, such as scenario models, that produce a range of outcomes based on plausible future business assumptions which reflect sufficiently adverse scenarios. The undertaking should monitor risks so that the BOD and senior management are fully aware of the undertaking's risk profile and how it is evolving. Where models are used for business forecasting, undertakings should perform where practicable, back-testing, to validate the accuracy of the model over time.

4.3 Sub-policies

An undertaking should integrate the following sub-policies within its RMP:

- underwriting and reserving
- asset-liability management
- investment (in particular derivatives and similar commitments)
- liquidity and concentration risk management
- operational risk management
- reinsurance and other risk-mitigation techniques

4.3.1 Underwriting and Reserving

In this sub-policy, the undertaking should at least consider:

i. the classes of insurance business (i.e. the type of insurance risk) that the undertaking is willing to accept, possibly including internal underwriting limits for various products or classes of business;

ii. the undertaking's insurance obligations under its products including embedded options and guaranteed surrender values;

iii. any investment constraints that may have an impact on the terms and conditions of a new insurance product and on its premium;

iv. the pricing techniques to be adopted to ensure the premium income adequately covers expected claims and expenses;

v. the risk arising from expense control including claims handling and administration expenses;

vi. the impact of reinsurance or other risk mitigation techniques and any internal maximum exposure limits to specific risk exposures;

vii. actions to be taken by the undertaking to assess and manage the risk of loss or of adverse change in the values of insurance and reinsurance liabilities resulting from inadequate pricing and provisioning assumptions;

viii. consideration of the sufficiency and quality of relevant data in underwriting and reserving processes. Undertakings should give special attention to data used in the calculation of the technical provisions. This data should only be considered if at least the following conditions are met:
- data is free from any material errors;
- data from different time periods used for the same estimation is consistent;
- data is recorded in a timely manner and consistently over time.

ix. the adequacy of its claims management procedures including the extent to which they cover the overall cycle of claims. In conditions of high rates of inflation, claim amounts tend to be high for certain risks and therefore the undertaking must ensure that reserves are prudently administered on an on-going basis.

It is important that the undertaking implements controls to ensure that the policies and procedures established for underwriting and reserving are applied by all its distribution channels, including any intermediaries that are granted such powers, be they Agents, Brokers or Managers.

4.3.2 Asset-Liability Management

Asset-Liability Management (ALM) is the management of assets with specific reference to the characteristics of corresponding liabilities so as to optimise the balance between risk and return[7]. An ALM strategy is closely associated with the investment strategy. It defines how financial and insurance risks are managed in an asset-liability framework in the short, medium and long term. An undertaking might decide to combine the ALM strategy and investment strategy, if it considers this to be appropriate. An undertaking can choose from a number of ALM techniques to measure risk exposure, however it is necessary to rely on measurement tools that are in line with the risk characteristics of its lines of business and its overall risk tolerance limits. An undertaking also needs to ensure appropriate and continuous liaison between the different areas within its business involved in the ALM in order to provide effective management of assets and liabilities.

ALM does not imply that assets should be matched as closely as possible to liabilities but that mismatches are effectively managed. The ALM policy should recognise the interdependence between all of the undertaking's assets and liabilities and take into account the correlation of risk between different asset classes as well as the correlations between different products and business lines, recognising that correlations may not be linear. The ALM framework should also take into account any off-balance sheet exposures that the insurer may have and the contingency that risks transferred may revert to the insurer.

An asset liability mismatch risk could arise from a deviation in the expected values of asset and liability cash flows or prices. Such deviations may relate to different timings and/or differences in the amount of cash flows.

Undertakings might devise different strategies appropriate for different categories of assets and liabilities. One possible approach to ALM is for the undertaking to identify separate homogeneous segments of liabilities and obtain investments for each segment which would be appropriate if each liability segment was a stand-alone business. Another possible approach is to manage the undertaking's assets and liabilities together as a whole. The latter approach may provide greater opportunities for profit and management of risk than the former. If ALM is practised for each business segment separately, this is likely to mean that the benefits of scale, hedging, diversification and

[7] IAIS – Insurance Core Principals, Standards, Guidance and Assessment Methodology – 1 October 2011

reinsurance that can be gained from managing the different segments of assets and liabilities together, are ignored or receive less attention.

For some types of insurance business it may not be appropriate to manage risks by combining liability segments and therefore it may be necessary for the undertaking to devise separate and self-contained ALM policies for particular portfolios of assets that are "ring-fenced" or otherwise not freely available to cover obligations in other parts of the company.

Some liabilities such as certain types of liability insurance or whole-life policies may have particularly long durations. In these cases, in view that assets with sufficiently long duration may not be available to match the liabilities, a significant reinvestment risk might occur, such that the present value of future net liability cash flows is particularly sensitive to changes in interest rates. Unfortunately, many financial markets do not have long fixed-income assets to back long duration liabilities or there may be gaps in the asset durations available. Risks arising from mismatches between assets and liabilities require particular attention. The undertaking should give explicit attention within its ALM policy to risks arising from liabilities with substantially longer durations or other mismatches with assets available from the corresponding financial markets to ensure that they are effectively managed by holding adequate capital or having appropriate risk mitigation in place.

In view of the above, this sub-policy should:

i. describe the procedure adopted to identify and measure asset liability mismatches, at least with regard to terms and currency;

ii. describe any dependencies between risks of different asset and liability classes and between risks of different insurance and reinsurance obligations;

iii. describe the mitigation techniques used and their effect;

iv. describe the mismatches that deliberately will be left uncovered, and the content and frequency of stress-tests to monitor them;

v. describe the underlying methodology and frequency of stress-tests and scenario tests to be carried out;

vi. any off-balance sheet exposures of the undertaking; and

vii. where the undertaking applies the matching premium, the areas referred to in i, ii, iii, and vi above with respect to portfolio of insurance obligations and the assigned portfolio of assets that are ring-fenced shall be covered separately and shall cover actions to be taken by the insurance or reinsurance undertaking to manage and organise the portfolio of insurance obligations and the assigned portfolio of assets that are ring-fenced.

4.3.3 Investment, in particular derivatives and similar commitments

To manage investment risk in an appropriate manner and protect the interests of policyholders, the RMS has to put in place and monitor internal quantitative limits for each type of asset (including off-balance sheet exposures) which an undertaking considers suitable per counterparty, geographical area or industry. The RMS should also incorporate the identification, measurement, monitoring, management and control of the investment risk inherent to the respective investment categories using suitable and acknowledgeable methods.

The investment policy should outline inherently risky financial instruments such as derivatives, hybrid instruments that embed derivatives, alternative instrument funds such as hedge funds, insurance linked instruments, etc. The investment policy should also consider the associated counterparty credit risk and set out the policy for safe-keeping of assets including custodial arrangements and the conditions under which investments may be collateralised or lent.

It is very important that the undertaking understands the source, type and amount of risk that it is accepting across all lines of business. For example, the undertaking should understand who has the ultimate legal risk or basis risk where there is a complex chain of transactions or where the investment is via external funds especially when such funds are not transparent.

The undertaking must ensure that it has the necessary competencies to manage the instruments it is investing in. For complex investment activities robust models of risks that consider all relevant variables may need to be used. Ultimately it is the undertaking's responsibility to ensure that the internal expertise and competence necessary are in place at all levels of the organisation to manage these risks effectively including the expertise to apply and vet any models used and to assess them against market convention. Also, an undertaking needs to have unambiguous procedures in place to be able to evaluate hidden and non-standard risks associated with complex structured products, especially new forms of concentration risk that may not be obvious.

Complex investment strategies tend to present liquidity and responsiveness risk to sudden market movements and therefore in view of this, stress testing and contingency planning for stressed situations are essential.

When considering the above, an undertaking should at least address the following in its RMP:

i. the level of security, quality, liquidity, profitability and availability the undertaking is aiming for with regard to the whole portfolio of assets and how it aims at achieving this;

ii. the internal quantitative limits on assets and exposures, including off-balance sheet exposures, that will help the undertaking achieve its desired level of security, quality, liquidity, profitability and availability for the portfolio;

iii. the financial market environment;

iv. conditions under which the undertaking can collateralise or lend assets;

v. the link between market risk and other risks in highly adverse scenarios;

vi. the procedure of appropriately valuating and verifying the investment assets;

vii. the procedures to monitor the performance and review the policy when necessary;

viii. how the assets are to be selected in the best interests of policyholders and beneficiaries;

ix. actions to be taken by the undertaking to ensure that the undertaking's investments complies with the "prudent person principle" as set out in Article 132 of the Solvency II Directive[8]. To summarize, this principle implies that:

    a. an undertaking shall only invest in assets and instruments whose risks can be properly identified, measured, monitored, managed, controlled and reported by the undertaking;

    b. all assets shall be invested in such a way to ensure the security, quality, liquidity and profitability of the portfolio as a whole. The undertaking should ensure that the localisation of these assets is to ensure availability;

[8] See Annex I for link to Solvency II Directive

c. assets to cover the technical provisions shall be invested:
   i. in a manner appropriate to the nature and duration of the insurance and reinsurance liabilities
   ii. in the best interest of all policyholders and beneficiaries

d. use of derivative instruments is allowed as long as they contribute to a reduction of risks or facilitate efficient portfolio management;

e. investment and assets which are not admitted to trading on a regulated financial market shall be kept to prudent levels;

f. proper diversification of assets to avoid reliance on any particular asset, issuer or group of undertakings, or geographical area and excessive accumulation of risk in the portfolio as a whole;

g. investments in assets issued by the same issuer or by the issuers belonging to the same group is not to expose undertakings to excessive risk concentration;

h. with respect to assets held in respect of life insurance contracts where the risk is borne by policyholders and where the benefits provided by a contract are directly linked to:

   i. the value of units in an Undertakings for Collective Investment in Transferable Securities (UCITS - as defined in directive 85/611/EEC) or the value of assets contained in an internal fund, the technical provisions in respect of these benefits must be represented as closely as possible by those units or by those assets (in case where units are not established)

   ii. share index or some other reference other than i. above, the technical provisions in respect of these benefits must be represented as closely as possible either by the units deemed to represent the reference value or by assets of appropriate security and marketability (in the case where units are not established) which correspond as closely as possible with this in which the particular value is based

   Where the benefits referred in i. or ii. above include a guarantee of investment performance or some other guaranteed benefit, the assets held to cover the corresponding additional technical provisions shall be subject to d, e, f and g above.

x. actions to be taken by the undertaking to ensure that the undertaking's investments take into account the nature of the undertaking's business, its approved risk tolerance limits, its solvency position and its long term risk exposure;

xi. undertaking's own assessment of the credit risk of counterparties of the investments (including central governments); and

xii. defining the objectives of and strategy underlying the use of derivatives or any other financial instrument with similar characteristics or effects and the way in which they facilitate efficient portfolio management or contribute to a reduction of risks. The RMP is also to include procedures to assess the risk of such instruments and the principles of risk management to be applied to them.

4.3.4 Liquidity, Concentration and Credit Risk Management

4.3.4.1 Liquidity Risk

Liquidity ensures that obligations to policyholders can be met whenever they fall due. It is expected that the required degree of liquidity in the investment portfolio might differ between undertakings in view that this highly depends on the nature of insurance business and the prediction of the amounts and timing of claim payments. An undertaking must ensure that it has enough liquid assets to create an appropriate buffer for liquidity shortfall. Holding additional capital will not suffice. An undertaking should cater for both short term and long term liquidity. With regards to short term liquidity, the undertaking must consider the day-to-day cash requirements under normal business conditions, whilst with regards to long term liquidity, the undertaking must consider the possibility of various unexpected and potentially adverse business conditions where asset values may not be realised for current market values including situations where accelerated sales of assets reduce expected returns. The undertaking should also consider other particular liquidity issues that may arise from policyholder behaviour such as but not limited to unexpected or accelerated payments to policyholders as a result of large claims or surrenders (in case of life products).

In light of the above, the undertaking should consider embedding the following in its RMP:

i. the procedure for determining the level of mismatch between the cash inflows and the cash outflows of both assets and liabilities, including expected cash flows of direct insurance and reinsurance such as claims, lapses or surrenders;

ii. the total liquidity needs in the short and medium term including an appropriate buffer for liquidity shortfall. The undertaking should ensure that the composition of the assets in terms of their nature, duration and liquidity is appropriate in order to meet the undertaking's obligations as they fall due;

iii. the level and monitoring of liquid assets, including a quantification of potential costs or financial losses arising from an enforced realisation;

iv. the identification and cost of alternative financing tools;

v. the effect on the liquidity situation of expected new business; and

vi. where the undertaking applies the matching premium, the areas referred to in i. and ii. above with respect to the portfolio of insurance obligations and the assigned portfolio of assets that are ring-fenced shall be covered separately and shall cover actions to be taken where a surrender option is included

4.3.4.2 Concentration Risk

Concentration risk might seriously threaten the undertaking's solvency position or prejudice the best interests of policyholders and beneficiaries. In view of this, the undertaking should have processes and procedures in place to avoid such risks.

Concentration risk can arise in both the assets and liabilities sides of the undertaking's balance sheet as well as in off-balance sheet items. This type of risk can be initiated from a series of sources including but not limited to economic sectors, types of products, providers of services, reinsurance, etc. Undertakings should manage concentration risk by defining the sources of concentration risk relevant to their portfolios and make adequate use of internal limits, thresholds or similar concepts to establish an acceptable level of risk concentration.

The RMS should as a minimum consider concentration risk in the policies[9] on:

- underwriting and reserving;
- investments; and
- reinsurance and other risk mitigation techniques

4.3.4.3 Credit Risk

The undertaking should ensure that it has processes and procedures in place to identify changes in individual credit risks and credit portfolio risk. It should be also capable of evaluating relevant parameters where exposures are unrated.

Objective techniques according to generally accepted practices should be used to assess credit quality. Exposure to speculative grade assets should be prudent and if an undertaking faces larger credit risk exposures it has to be capable of hedging credit risk.

The undertaking must ensure that the credit risk exposure is suitably diversified. In view of this, it must have a process of credit risk management to ensure that exposure to any counterparty is managed and monitored with appropriate limits set in place. The process of risk management should be capable of mitigating any credit risk in relation to internally defined limits.

4.3.5 Operational Risk Management

Unlike other risks, operational risk tends to be more difficult to identify and assess. In view of this, it is even more important that an undertaking has a sensible approach to this type of risk in its overall risk management. When assessing operational risk, the undertaking must consider both internal and external sources/events that may give rise to operational risk.

Operational risk may emerge either from personnel execution errors, frauds and processing failures as well as from direct/indirect consequences of catastrophic losses (natural or man-made disasters[10]). The latter type represents the high impact/low frequency type of operational risks. These need to be considered when looking at scenario analysis since the impact of such events may be potentially catastrophic. The undertaking should pay particular attention to the identification of the sources of such events and develop an early warning system that allows for an effective and timely intervention. Prevention and corrective actions take precedence over the precise measure in such cases.

The controls and mitigation actions should be reviewed from time to time taking into account any changes in the operational risk. Undertakings should also put in place key risk indicators and set up a system for collecting and monitoring operational events. To produce more reliable estimates of operational events, undertakings might consider gaining access to external data which could supplement their collection of internal operational events. For each operational risk identified, the undertaking needs to come up with the cause of the event, the consequences of the event and actions that need to be taken or not on account of the event.

Operational risk stress scenarios should be based on the following approaches as a minimum:

- scenario based on the failure of a key process, personnel or system
- scenario based on the occurrence of external cause(s)

Using the two starting points of the different types of operational risk i.e. inadequate or failed internal processes, personnel or systems on one hand and external events on the other to develop a scenario

[9] These policies are being addressed in Section 4. Risk Management Policy

[10] Article 13(33) of the Solvency II directive defines 'operational risk' as "the risk of loss arising from inadequate or failed internal processes, personnel or systems, or from external events"

set, tends to give a more complete list of relevant scenarios. The undertaking is free to use either pre-defined typologies of operational risk and lists of its key processes or defines a categorization that it feels better suits its specific risks. The undertaking should also consider very severe and unlikely but not impossible scenarios when performing a stress scenario.

In light of the above, the undertaking should at least consider the following in this sub-policy:

i. identification of the operational risks the undertaking is or might be exposed to and the way to mitigate such risk;

ii. all activities and internal processes in place including the I.T. system supporting them; and

iii. risk tolerance limits with respect to the undertaking's key operational risk areas.

4.3.6 Reinsurance and other risk-mitigation techniques

Undertakings make use of reinsurance and similar mitigation techniques on an on-going basis to keep their risks within the scope of the approved risk tolerance limits. When using these techniques an undertaking should consider the potential new risks it carries such as the risk of counterparty default.

The undertaking should develop a written analysis of the functioning and inherent material risks of the risk mitigation used. Keeping in mind the principal of proportionality, the undertaking should document the risks that can derive from the risk mitigation, the actions adopted to face such risks and the potential consequences of the risks (i.e. in a worst case scenario). The following are examples of risks to be considered for this purpose – legal risks, counterparty default risk and operational risks specific to the technique.

An undertaking must always ensure that its reinsurance arrangements are adequate. Appropriate consideration should be given to the following:

a. the reinsurance programme provides coverage appropriate to the undertaking's level of capital, the profile of the risks it underwrites, its business strategy and risk tolerance;

b. the protection provided by the reinsurer is secure. The undertaking might address this by ensuring that the financial strength of the reinsurer is adequate, obtaining collateral (including trusts, letters of credit or funds withheld[11]), limiting exposure to particular reinsurers or holding adequate capital to cover exposure to the risk of reinsurer default. Undertakings should perform their own assessment of the financial strength of reinsurers and be careful not to place undue emphasis on external ratings; and

c. the effectiveness of the transfer of risk should be assessed for particular risk transfer arrangements to ensure that risk will not revert to the undertaking in adverse circumstances. The undertaking should review its arrangements if there is a possibility that it will provide support to the reinsurer in such circumstances.

The undertaking should consider at least the following in its RMP:

i. identification of the level of risk transfer appropriate to the undertaking's defined risk limits and which kind of reinsurance arrangements are most appropriate considering the undertaking's risk profile;

[11] Funds withheld: the capital which achieves both the objectives of reducing the probability of insolvency by absorbing losses on a going-concern basis, or in run-off, and of reducing the loss to policyholders in the event of insolvency or winding-up.

ii. principles for the selection of reinsurance counterparties and procedures for assessing and monitoring the creditworthiness and diversification of reinsurance counterparties;

iii. procedures for assessing the effective risk transfer;

iv. liquidity management to deal with any timing mismatch between claims' payments and reinsurance recoveries;

v. procedures for ensuring that policyholders continue to receive benefits in line with aims and objectives originally communicated to them; and

vi. the undertaking's own assessment of the credit risk of the risk mitigation techniques of the counterparties.

4.3.6.1 Other risks

In addition to the risks covered by the calculation of the SCR and the areas of risk mentioned above (which are referred to in Article 44(2) of the Solvency Directive II), the RMP should also cover all other material risks, particular attention given to *strategic* and *reputational* risks, where relevant, even though Article 44 does not explicitly mention these. This is due to the potential impact their crystallisation could have on the business of an undertaking.

Strategic risk is a function of the incompatibility between two or more of the following components:

- the undertaking's strategic goals
- the business strategies developed and the resources deployed to achieve these goals
- the quality of implementation
- the economic situation of the markets the undertaking operates in

Reputational Risk is a type of risk which relates to the trustworthiness of the business. Anything can impact reputation - either negatively (threats) or positively (opportunities). Reputation is based on stakeholders' perception of whether their experience of a business matches their expectations. In order to manage reputational risk, the undertaking should know its major stakeholders, how they perceive it and what they expect of it. In view of this, risk to reputation should be integrated into the undertaking's risk management framework so that it receives attention at the right level and appropriate actions are taken to manage it.

The undertaking should identify, assess and monitor the:

a. actual or potential exposure to strategic and reputational risks and the interrelation between these risk and other material risks; and
b. key issues affecting reputation considering stakeholder expectations and market place sensitivity

5. Risk Management Function

5.1 What is a Risk Management Function?

Undertakings should provide for a Risk Management Function (RMF) which shall be structured in such a way as to facilitate the implementation of the RMS. The RMF should be capable of assisting the undertaking to identify, assess, monitor, manage and report on its key risks in a timely way.

If an undertaking wants to maintain an effective RMS, it must nourish a robust RMF that is well positioned, resourced and properly authorised and staffed. The undertaking also needs to ensure that the RMF should have access to and report to the BOD as required on matters such as:

- assessment of risk positions and risk exposures and steps being taken to manage them;
- assessment of changes in the undertaking's risk profile;
- assessment of pre-defined risk limits (where appropriate);
- risk management matters in relation to strategic affairs such as corporate strategy, mergers and acquisitions and major projects and investments;
- assessment of risk events and the identification of appropriate remedial actions.

5.2 What should a RMF achieve?

The RMF should establish, implement and maintain appropriate mechanisms and activities to:

a) assist the BOD and senior management in carrying out their respective responsibilities, including providing specialist analyses, performing reviews of the RMS and advising on possible improvements;

b) identify the risks the undertaking faces;

c) assess, aggregate, monitor and help manage/mitigate identified risks effectively; this includes assessing the undertaking's capacity to absorb risk with due regard to the nature, probability, duration, correlation and potential severity of risks;

d) gain and maintain an aggregated view of the risk profile of the undertaking at a legal entity level and at the group-wide level (if applicable);

e) evaluate the internal and external risk environment on an on-going basis in order to identify and assess potential risks as early as possible. This may include looking at risks from different perspectives, such as by territory or by line of business;

f) consider risks arising from remuneration arrangements and incentive structures;

g) conduct regular stress testing and scenario analyses;

h) regularly report to senior management, key persons in control functions and to the BOD on the undertaking's risk;

i) document material changes to the undertaking's RMS and report them to the BOD to help ensure that the framework is maintained and improved;

j) identifying and assessing emerging risks.

The RMF and the RMS should be subject to regular assessments to be able to monitor the implementation of any needed improvements.

5.3 Internal Models

There are undertakings that intend to make use of partial or full internal models. When the undertaking makes use of an internal model, this should be part of a comprehensive management system which requires adequate resources and structures to ensure that the internal model is and stays appropriate to the undertaking's risk profile. It is the task of the RMF to assess the internal model as a tool of risk management and as a tool to calculate the undertaking's SCR. Integration of the internal model and the ORSA is very important. While different outputs may be required for economic and regulatory capital levels, the same assumptions should be used in both the ORSA and the internal model to ensure consistency. The RMF should be responsible to document the internal model and any subsequent changes to it so that these are explained in the context of the RMS. The RMF should be responsible to give information about the performance of the internal model to the BOD. The information should be properly documented and reports tailored to the needs of the BOD in such a way that all relevant facts and implications following from them can be easily understood and the necessary management decisions could be taken. The RMF should also be responsible for the on-going appropriateness of the design and operations of the internal model so that it will continue to reflect the risk profile of the undertaking.

The RMF should cover the following additional tasks when undertakings use a partial or full internal model approved in accordance with Articles 112 and 113[12] of the Solvency II Directive:

a) design and implement the internal model;

b) test and validate the internal model;

c) document the internal model and any subsequent changes made to it;

d) analyse the performance of the internal model and to produce summary reports thereof;

e) inform the BOD about the performance of the internal model, suggesting areas needing improvement and up-dating that body on the status of efforts to improve previously identified weaknesses.

The Solvency II Directive does not explicitly assign any specific task with regards to internal models to the actuarial function although the actuarial function is required to contribute to the effective implementation of the RMS. This, however, does not preclude the RMF from calling upon expertise from other functions in particular the actuarial function. Hence there needs to be in place a communication loop to pass the detailed actuarial perspective to the RMF and in return the actuarial function receives the insights on the internal model.

The RMF shall also liaise closely with the users of the outputs of the internal model and co-operate closely with the actuarial function (see Section 8).

6. Outsourcing

Should an undertaking decide to outsource the RMF, it must ensure that it retains the same degree of oversight of and accountability for such a function. Article 49 of the Solvency II Directive clearly states that an undertaking remains fully responsible for discharging all of its obligations. Such outsourcing would be subject to the relevant requirements as detailed under section 13 of the guidance paper issued by the MFSA on the system of governance on the 18 January 2012.

Outsourcing of such a function should not take place if it leads to any of the following:

a) materially impairing the quality of the system of governance of the undertaking concerned;

[12] See Annex I for link to Solvency II Directive

b) unduly increasing the operational risk;

c) impairing the ability of the MFSA to monitor the compliance of the undertaking with its obligations;

d) undermining continuous and satisfactory service to policyholders.

6.1 The responsibilities of the BOD

The BOD is responsible to approve outsourcing of the RMF and to verify, before approving, that there was an appropriate assessment of the risks of such outsourcing (including in respect of business continuity) and that such outsourcing is subject to appropriate controls.

It is essential that when the BOD is choosing an outsourcing provider, it is satisfied with the expertise and experience of such provider.

The undertaking must have an appropriate RMP in place in relation to the RMF to be outsourced. This policy should set out the internal review and approvals required and provide guidance on the contractual and other risk issues.

Outsourcing relationships should be 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 changing an outsourcing arrangement, the BOD should consider, among other things:

a) how the undertaking's risk profile will be affected by the outsourcing;

b) the service provider's governance, risk management and internal controls and its ability to comply with applicable laws and regulations;

c) the service providers' service capability and financial viability; and

d) succession issues to ensure a smooth transition when ending or changing an outsourcing arrangement.

Outsourcing arrangements should be subject to periodic reviews. Periodic reporting thereon should be made to management and the BOD.

6.2 The duty to notify MFSA

An undertaking is always obliged to notify MFSA in a timely manner prior to the outsourcing of critical or important functions or activities as well as of any subsequent material developments with respect to those functions or activities.

7. Own Risk and Solvency Assessment (ORSA)

Under Article 45 of the Solvency II Directive[13], as part of the RMS, every undertaking shall conduct an ORSA to assess the risks it has within its business and the level of solvency required to mitigate those risks. Although it is essential to include ORSA in this paper in view that it is an integral part of the RMS, it should be pointed out that this Section does not cover the topic in detail in view that this was addressed in the consultation paper issued by EIOPA on the 7th November 2011[14].

7.1 ORSA – An important tool for all undertakings

The ORSA can be defined as the entirety of the processes and procedures employed to identify, assess, monitor, manage and report the short and long term risks an undertaking faces or may face and to determine the own funds necessary to ensure that the undertaking's overall solvency needs are met at all times. A vigorous RMF will assist the firm to undertake a vigorous ORSA, which links together the undertaking's own view of the risks it has within its business and its own solvency needs.

The ORSA should be an integral part of managing the business against the undertaking's chosen strategy and it should therefore be an important tool in assisting strategic decision-making. Given the requirement for the integrated management of risk and capital, when making changes (for example, to the undertaking's business strategy and/or its risk tolerance), the undertaking should demonstrate that it has considered the effects on its solvency needs and record this in its ORSA.

As always, the sophistication and extent of the ORSA should be proportionate to the nature, scale and complexity of the risks within the undertaking, however it should at least address the following:

a) the overall solvency needs taking into account the specific risk profile, approved risk tolerance limits and the business strategy of the undertaking;

b) the compliance, on a continuous basis, with the regulatory capital requirements and with the requirements regarding technical provisions; and

c) the significance with which the risk profile of the undertaking concerned deviates from the assumptions underlying the SCR calculated with the standard formula or with its partial or full internal model.

8. Actuarial Function

The actuarial function (AF) has already been tackled in depth in the System of Governance guidance paper issued on the 18 January 2012 by the MFSA. However, in view that the tasks performed by the RMF and the AF are strongly linked, it is of essence that reference to this function is also made in this paper. It is not the intention to reiterate what has already been noted in the previous paper and therefore we recommend that reference is made to Section 12. Actuarial Function.

Both the RMF and the AF should be aware of each other's tasks and responsibilities and in view of this, they need to support each other in meeting the various requirements of each role, sharing their expertise and experience. A full or partial integration of these functions is acceptable as long as there is an appropriate segregation of duties and any conflicts of interests are properly managed.

[13] See Annex I for link to Solvency II Directive
[14] CP 008/2011 - Solvency II: Consultation Paper On the Proposal for Guidelines on Own Risk and Solvency Assessment – https://eiopa.europa.eu/en/consultations/consultation-papers/2011-closed-consultations/november-2011/solvency-ii-consultation-paper-on-the-proposal-for-guidelines-on-own-risk-and-solvency-assessment/index.html

The AF is of essence to contribute to the risk modelling underlying the calculation of both the SCR and Minimum Capital Requirement (MCR). Depending on the complexity of the RMS and commensurate with the nature, scale and complexity of the risks inherent in the business of the undertaking, actuarial methods need to be applied that call for a detailed understanding of actuarial and financial mathematics, understanding and assessing the use of risk mitigation techniques and understanding volatility and adverse deviation.

The calculation of the SCR and MCR is subject to review. If the AF performs the review, there must be proper segregation of duties.

As part of the ORSA, the AF contributes to the assessment of the compliance with the requirements regarding the technical provisions. It also contributes to the assessment of whether the undertaking's risk profile deviates from the assumptions underlying the calculation of the SCR with the standard formula or with its partial or full internal model.

9. Group Considerations

9.1 Risk Management System

The BOD of the entity responsible for fulfilling the requirements at group level should ensure the effectiveness of the RMS of the whole group that should include the strategic decisions and policies on risk management at group level, the definition of group's risk appetite and overall risk tolerance limits, and the identification, measuring, management and control of risks at group level. To set an integrated, consistent and efficient risk management of the group, such strategic decisions and policies should be consistent with the group's structure and size and the specificities of the entities in the group and cover the specific operations and associated risks of each entity in the group.

The consistent implementation across the group of the risk management should assure that, without prejudice of the structure, activities and specificities of the different entities in the group and the proportionality principle, there are not significant differences within the group between defined strategies, policies, risk appetite, overall risk tolerance limits, control activities and reporting procedures comparing with those implemented at solo level.

At group level it should be demonstrated the existence of appropriate and clear tools, procedures and lines of responsibility and accountability enabling to oversee and steer the functioning of the risk management at solo level.

Reporting lines within the group should be clear and ensure information flows in the group bottom-up and top-down as well. The entity responsible for fulfilling the requirements at group level should formalize and inform all the entities in the insurance group about the criteria used to identify, measure, manage and control all risks to which the group is exposed.

The RMS at group level should consider the risks, at an individual and group level, the group is or may be exposed and their interdependencies (as per Article 246(1) of the Solvency II Directive)[15], including:

a) contagion risk, reputation risk and risks arising from intra-group transactions and risk concentrations at the group level;

b) interdependencies between risks following from doing business through different entities and in different jurisdictions;

[15] See Annex I for link to Solvency II Directive

c) risks arising from non-European Economic Area (EEA) entities;

d) risks arising from non-regulated entities;

e) risks arising from other regulated entities.

9.2 Risk Management Function

At group level, the RMF should ensure the consistent implementation of the risk policy across the group and performing the overall risk assessment.

9.3 Centralised Risk Management

(Articles 236 and 246 of the Solvency II Directive)[16]

Centralised Risk Management at the level of the group should be supported by appropriate processes and procedures to identify, measure, manage, monitor and report the risks that the group and each individual undertaking are or might be exposed to. At group level it should ensure that any centralization does not diminish the legal undertaking's ability to fulfil its legal and regulatory obligations nor its obligation towards policyholders. Where a person undertakes a key function as part of a centralised RMF, the fit and proper assessment should take into account all the entities that rely on the centralised RMF.

9.4 Group Internal Model

(Articles 44(5), 230 and 231 of the Solvency II Directive)[17]

To ensure that the model used to calculate the group SCR operates properly on a continuous basis, there should be effective communication between the group and the undertakings with regards to the scope of the model. This assists undertakings to understand what risks are modelled, how they are modelled and ensure that the model is adequate at all times.

The group should ensure that there are no constraints for undertakings using the group model to calculate their SCR to comply with the tests and standards for internal model under Solvency II.

9.5 Concentration Risk

At group level the entity responsible for fulfilling the requirements of the RMS should have processes and procedures in place in order to avoid concentration risks that do not seem a threat at solo level but are a threat at group level.

9.6 Credit Risk

An undertaking should be aware that intra-group exposures contribute to credit risk as any other external exposure does. It therefore has to demonstrate that it adequately considers credit risk for all its counterparties and is not over reliant on any counterparty regardless of whether it lies within the same group.

[16] See Annex I for link to Solvency II Directive

[17] See Annex I for link to Solvency II Directive

9.7 Intra-group outsourcing
(Article 49 of the Solvency II Directive)[18]

If the RMF is outsourced within the group, it should be documented how this function relates to each legal entity and that the performance of the RMF at the level of the undertaking is not impaired by such arrangements. The degree of flexibility may vary according to whether the service provider is, for example, in the same country as the undertaking or in a different geographical region. Nevertheless, the undertaking needs to assess whether and to what extent it should rely on functions and activities provided by a service provider in its group.

Both parties should have a written agreement between them stipulating the duties and responsibilities of each party. However, this could assume the form of a service level agreement since the arrangement is probably not subject to formal negotiations (unlike an outsourcing to an external service provider).

While the supervisory review process may take into account a group as a whole and the extent to which an entity within the group provides a service or function for other undertakings in the same group, the obligations remain with the individual undertaking as it is the authorised entity. While an undertaking may assign to another group member the carrying out of services or functions, it cannot absolve itself of responsibility for them and still has to manage the outsourcing arrangement robustly with, for example, suitable business contingency plans.

[18] See Annex I for link to Solvency II Directive

Annex I

The Solvency II Directive can be found under the following link –
http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:L:2009:335:FULL:EN:PDF

Annex II – List of Abbreviations

AF	-	Actuarial Function
ALM	-	Asset-Liability Management
BOD	-	Administrative, Management or Supervisory Body
EEA	-	European Economic Area
EIOPA	-	European Insurance and Occupational Pensions Authority
MCR	-	Minimum Capital Requirement
MFSA	-	Malta Financial Services Authority
ORSA	-	Own Risk and Solvency Assessment
RMF	-	Risk Management Function
RMP	-	Risk Management Policy
RMS	-	Risk Management System
SCR	-	Solvency Capital Requirement
UCITS	-	Undertakings for Collective Investment in Transferable Securities