**Preface**

The purpose of this working program is to document possible audit/assurance procedures planned and performed in respect of the Solvency Capital Requirement (SCR) Market Risk calculation under the standard formula approach. It has been prepared based on the assumption that reasonable assurance is to be obtained for the calculation of this capital requirement.

This working program is composed of two parts. The first part deals with the reliance that can be placed on internal controls. For the various components of the process, typical internal controls that can be expected to be in place have been listed. These lists are however not to be considered as exhaustive and should be tailored to each specific assignment. Three different categories of controls are used: operating controls, IT controls and model governance controls. The auditor’s evaluation over internal controls covers both the evaluation of the design and implementation of the internal control identified and the evaluation of the operating effectiveness of internal controls for which the design has been assessed as effective.

Evaluating the design of a control involves considering whether the control, individually or in combination with other controls, is capable of effectively preventing, or detecting and correcting, material misstatements. Implementation of a control means that the control exists and that the entity is using it. Procedures to obtain audit evidence about the design and implementation of relevant controls may include inquiring of entity personnel, observing the application of specific controls, inspecting documents and reports and tracing transactions through the relevant information system (walk through). Inquiry alone, however, is not sufficient to evaluate the design and implementation of relevant controls. When evaluating the design and implementation of a control, the auditor considers the objective of the control (which also addresses the risk, including fraud risk, it helps to mitigate), how it is performed and documented, including the nature and size of the potential misstatements addressed and end-user computing considerations, the nature of the control, whether the control addresses a fraud risk, how frequently it is applied, the knowledge, experience and skills of the person performing it (if a manual control or a manual control with an automated component), the related IT application, if any, size and complexity of the entity, the auditor’s existing knowledge of the entity's internal controls and the nature and extent of changes in the systems and operations.

Testing the operating effectiveness of controls is performed only on those controls for which the auditor believes that those are suitably designed to prevent, or detect and correct, a material misstatement in an assertion. The following audit procedures may be used, often in combination, to obtain audit evidence about the operating effectiveness of controls: inquiry, observation, inspection, re-performance and recalculation. Inquiry alone is not sufficient to test the operating effectiveness of controls. Accordingly, other audit procedures are performed in combination with inquiry.

The second part deals with the additional substantive procedures to be performed. The determination of the extent of substantive procedures is dependent on the operating effectiveness of internal controls. This part of the program is based on the assumption that full reliance can be placed on internal controls identified in the first part of this working program (given the fact that both the Solvency II framework and Law of 13 March 2016requirethat the insurance undertaking must have a system of internal control adapted to the nature, size and complexity of the business). In case that certain internal controls would be missing or that certain internal controls are not operating effectively, these substantive procedures require further completion, by designing and performing procedures (based on the controls identified in the first part of this document) substantively by reference to known sampling methods (statistical sampling, non-statistical sampling, attribute sampling). This part also requires further customization to the specific characteristics of the insurance company.

Attention is also drawn to the fact that this program is based on the assumption that sufficient testing (both internal controls and substantive) has been performed

* On the operational processes of the insurance company by the auditor during the audit of the statutory accounts / periodic statements.
* With respect to the Solvency II economic balance sheet (EBS) and corresponding details such as the “list of assets” and “open derivatives”, which include a number of quantitative and qualitative information used as input in the SCR Market Risk calculation. Such procedures would capture amongst others the following components:
	+ List of assets and open derivatives does reconcile with the Economic Balance Sheet both in terms of amounts and classification, information is complete and accurate.
	+ Key characteristics of assets are accurate, e.g. currency, CIC, participation, external ratings, duration, …

The working program is also based on the assumption that the appropriate information has been collected and reviewed in the context of the work performed on the best estimate of liabilities (BE), the employee benefits obligations and the SCR underwriting.

As a result, this working program only covers the additional procedures to be performed by the auditor in order to obtain reasonable assurance on the calculations of the SCR Market Risk in accordance with Solvency II Framework.

It is also to be noted that for quarterly reports, insurance and reinsurance undertakings may calculate Best Estimate and Risk Margin using simplifications. In addition they are not required to calculate a Solvency Capital Requirement on a quarterly basis and where the calculation of the Minimum Capital Requirement does not coincide with an annual calculation of the Solvency Capital Requirement, undertakings should use the last calculated Solvency Capital Requirement in accordance with Article 102 of Directive 2009/138/EC. For those undertakings using quarterly simplifications, the working program should be adapted and focus on the review of the last Solvency Capital Requirement reported and the validation of the assumption that the risk profile of the undertaking has not been altered since the date on which the Solvency Capital Requirement was last reported.

Abbreviations used in this document

For the assertions C, E, A, V, O, P: **C**ompleteness, **E**xistence, **A**ccuracy, **V**aluation, **O**wnership, **P**resentation

EUC: End User Computing

EBS: Solvency II Economic Balance Sheet

RoSM: Risk of Significant Misstatement

**Collaboration with independent control functions and other experts**

During the execution of the audit/assurance procedures on the SCR Market Risk, the statutory auditor will contact, inquire and review the reports of the different independent control functions in order to ensure that recommendations / remarks issued by these control functions have been properly addressed by the insurance undertaking for the calculation of the Market Risk.

When the statutory auditor decides to rely (partly) on the work performed by internal audit, the actuarial function or any other (management) expert, it follows the requirements set forth in ISA 610 “*Using the work of internal audit*” and/or ISA 500 “*Audit Evidence*” (which is broadly consistent with ISA 620 “Using the work of an auditor’s expert”). In this context it is to be noted that the auditor has the sole responsibility for the assurance report expressed, and that responsibility is not reduced by the auditor’s use of internal audit and/or expert. Once the auditor has determined to use the work of internal audit or an expert, it will:

* Evaluate the competence and capabilities of the internal audit function/expert;
* Evaluate the objectivity of the internal audit function/expert;
* Obtain an understanding of the internal audit function’s /expert’s field of expertise;
* Agree terms of the collaboration (in particular the scope of the work, which should be consistent with the procedures indicated in this working program);
* Evaluate the adequacy of the work performed (including review of working papers prepared and if deemed necessary reperformance of procedures).

**PART I – INTERNAL CONTROLS TESTING**

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| **Control reference** | **Anti - fraud control**  | **Significant account/ disclosure** | **C** | **E** | **A** | **V** | **O** | **P** | **Evaluation of the control’s design and implementation** | **Evaluation of the control’s operating effectiveness** |
| **Results of evaluation of design and implementation** | **W/P Ref** | **Control description** | **Results of test(s) of operating effectiveness** | **Done by and date** | **W/P Ref** |
| **IC 01** |  | SCR Market Risk(to be split up for the different sub-modules) |  |  |  |  |  |  |  |  | **General*** Understand the undertaking’s process of calculation, analyzing, validation and approving SCR Market Risk.

Identify and test key internal controls in this process. Verify that the documentation is up to date and adapted to the latest version of Solvency II requirements.* Review decision and documentation process for correctly applying the Solvency II requirements for calculating SCR Market (interpretations, decision process for applying simplifications and demonstrating that the proportionality criteria for simplifications are met, decision process for applying the look-through approach …).

**IT related controls*** General IT controls.
* Automated controls on interfacing between administrative / accounting / modelling systems used for the calculation of the SCR Market Risk.
* Controls for data input into EUC applications (if any).
 |  |  |  |
| **GE 01** |  | SCR Market Risk(to be split up for the different sub-modules) |  |  |  |  |  |  |  |  | **Input data*** Controls relating to data quality policy, self-assessment and action plan (Circular NBB\_2017\_27) Data governance controls (ownership of data).
* Assess adequacy of inputs used for SCR calculation.
* Verify whether at each reporting date a full reconciliation exercise with thorough documentation is carried out between the data inputs for EBS and the data inputs for risk calculations.
* Data Governance controls on decisions in the data structuring process, especially on authorization, documentation and rationale.
* 4-eyes principles (e.g. on major corrections, adjustments and manual entries).

**Calculation*** Assess adequacy of SCR calculation with Solvency II requirements.
* Manual calculation steps:

4-eyes principle on performed manual calculation steps.* Automated SCR calculation steps:
* Test and approval process of the automated model scope & design.
* Review of conceptual design incl. comparison to the initial scope and assessment on implications to the overall model environment
* Test and approval of the model implementation.
* Checks and controls based on the company’s model change guidelines:
 |  |  |  |
| **GE 01** |  | SCR Market Risk(to be split up for the different sub-modules)  |  |  |  |  |  |  |  |  | * Controls on the set- up of appropriate test cases.
* Validation activities and on adequate implementation tests.
* Review of user acceptance testing.

**Validation controls and assessment of results*** Governance controls on authorization & review.
* Documentation and rationale especially regarding sufficient assessment of stability and robustness of results.
* Plausibility checks on results.
* Management review on results.
 |  |  |  |

**PART II - SUBSTANTIVE TESTING**

|  |  |
| --- | --- |
| **Rationale for risk of significant misstatement assessment** | **Risk of significant misstatement (RoSM)** |
| Inherent risk | Inherent risk is assessed as significant.Due to the significant uncertainty and judgments involved, there is inherent risk in the calculation of SCR Market Risk under the standard formula, including lack of controls over inputs / outputs, an inappropriate choice of scenario / models with direct impacts on solvency, capital adequacy and the going concern assumption. | **LOW** **MEDIUM** **HIGH** |
| Control risk | To assess the control risk based on the audit team’s evaluation over the design, implementation and operating effectiveness of controls identified in the reserving process (see chapter I Working program control testing). |

| **AP Reference** | **Nature, timing and extent of audit/assurance procedures**  | **Reference to Solvency II framework.** | **Significant account / disclosure** | **Done by and date** | **W/P Ref** |
| --- | --- | --- | --- | --- | --- |
|  | **General** |  |  |  |  |
| **SCR\_MKT** | Check which sub-modules of Market Risk are considered **applicable** and **relevant** by the undertaking. Evaluate whether this assessment is appropriate.Obtain the analysis performed by the client to make this assessment. Inquire about the timing of the assessment. | Articles 159 and 161 of the Control Law [Standard Formula] | SCR Market Risk |  |  |
| **SCR\_MKT** | Verify that the overall *SCR Market* and *net SCR Market* have been calculated correctly, based on the prescribed correlation matrix. | Article 164 of the Delegated Acts | SCR Market Risk |  |  |
|  | Substantive analytical procedures - Compare SCR Life Underwriting Risk with previous period and explain fluctuationsPerform an analytical review on the sub-modules of the SCR Market.When performing an analytical review we start by setting our expectations with respect to the outcome of the fluctuations based on our work performed on the Economic Balance Sheet (including technical provisions) and our knowledge of the business and the market risks. |  | SCR Market Risk |  |  |
| **SCR\_MKT** | Verify that **all assets** have been considered and **mapped** when appropriate to applicable risk factors / sub-module. Reconciliation is made with the EBS and the ‘list of assets’. Make a reconciliation between each submodule output and the EBS to ensure that all assets are taken into account as required by Solvency II Specifications and Delegated Acts.  |  | SCR Market Risk |  |  |
| **SCR\_MKT** | Ensure that assets not covered in the spread risk module are covered in the **SCR Counterparty**.Assets of external pension funds should be taken into account as well (NBB\_2016\_16). | Article 160 of the Control LawNBB Circular NBB\_2016\_16 | SCR Market Risk |  |  |
| **SCR\_MKT** | Assess accuracy of **data inputs** by reviewing the reconciliations with the **‘list of assets’ and ‘open derivatives’** and, for assets not available in the ‘list of assets’ and ‘open derivatives’ (e.g. split of equity and interest rate component in structured products, data used to perform the look-through approach, assets valued in the EBS on a mark-to-model approach such as mortgage loan ) other sources as for example the **periodic reporting to the regulator** or documents underlying the asset’s valuation in the EBS. Special attention to be paid to Look-through, Risk Mitigation Techniques, infrastructure investments, securitisation, Line of Business classification, type 1 vs type 2 equities, non-strategic vs strategic participations, credit quality steps, durations. | NBB Circular NBB\_2017\_27 | SCR Market Risk |  |  |
| **SCR\_MKT** | Verify that **all liabilities** have been considered and are **mapped** when appropriate to applicable risk factors / sub-module, e.g. technical liabilities, financing debt and other Interest Risk sensitive assets are mapped to the interest rate risk sub-module… Check the reconciliation to the EBS. |  | SCR Market Risk |  |  |
| **SCR\_MKT** | Assess accuracy of **data inputs** used for performing shocks on liabilities by eg. (for technical provisions) reviewing the **consistency** with the inputs used in the calculation of the BE and in the underwriting sub-modules or (other liabilities) reviewing **consistency** with data inputs used to value the liability in the EBS. |  | SCR Market Risk |  |  |
| **SCR\_MKT** | **Loss absorbing capacity of technical provisions**: check that methodology / assumptions used for valuing PHB reserves under stressed conditions are consistent with the calculation performed in the other risk modules (e.g. underwriting module …). | Article 206 of the Delegated ActsNBB Circular NBB\_2020\_05 | SCR Market Risk |  |  |
| **SCR\_MKT** | **Loss absorbing capacity of technical provisions**: check consistency of LoB classification. For assets and liabilities other than invested assets and technical liabilities, the check can be performed to periodic return and covering assets reporting. | Article 206 of the Delegated ActsNBB Circular NBB\_2020\_05 | SCR Market Risk |  |  |
| **SCR\_MKT** | Verify that the **overall SCR Market and net SCR Market** have been calculated correctly, based on the prescribed correlation matrix.**IM:** The control of the respect of the conditions of approval of the internal models is not the responsibility of the auditor, except for the tasks specifically mentioned in articles 332 and 333 of the Control Law.The (“Statutory Auditor or “Accredited Auditors”, as appropriate)’s engagement does not encompass the review of the internal models which are used for the computation of the regulatory capital requirements nor of the models, the outcome of which is used as input for the computation of the regulatory capital requirements. The NBB does not require any reporting from the (“Statutory Auditor” or “Accredited Auditor”, as appropriate) on these internal models. The approval of the said internal models as well as the compliance with the conditions for this approval are, for prudential purposes, followed-up directly by the NBB. The (“Statutory Auditor or “Accredited Auditors”, as appropriate) has however to perform the procedures as required by the circular of the NBB NBB\_2017\_20 to the (“Statutory Auditor” or “Accredited Auditor”, as appropriate), being the review of the accuracy of the data entered in the internal models and the review of the correct insertion of the data output of the internal model in the annual periodic reports. |  | SCR Market Risk |  |  |
| **SCR\_MKT** | Assess interaction between Long-Term Guarantee adjustments and calculation of Solvency Capital Requirement sub-module for market risk: check computation of SCR Market performed without LTG measures In addition, one should assess effects of long-term guarantee adjustments and transitional measures on policyholders’ behavior when reviewing assumptions on the likelihood of exercising contractual options. |  | SCR Market Risk |  |  |
|  | **Particular points of attention** |  |  |  |  |
| **SCR\_MKT** | **Funds look-through:** - Ensure the total value of underlying assets provided by asset managers is consistent with the fund value, that underlying assets have been **mapped** to applicable risk factor/sub-module and assess **accuracy** of data inputs; - Check that the cautious approach required by Solvency II has been applied when information is not available.- for participations in a fund, verify that appropriate assessment has been made to apply or not the look-through approach | Article 84 of the Delegated Acts.NBB Circular NBB\_2019\_16 | SCR Market Risk – Particular points of attention |  |  |
| **SCR\_MKT** | **Bonds issued / guaranteed by regional government or local authorities :**for bonds issued by regional governments or local authorities and bonds guaranteed by regional governments or local authorities, verify compliance with classification and per extension SCR Spread shocks applied | Article 180 of the Delegated Acts (Amendment EC/2019/981 | SCR Market Risk – Particular points of attention |  |  |
| **SCR\_MKT** | **Investments in real-estate entities** (equities, loans granted, current accounts): - Verify an appropriate assessment has been made to apply or not the **look through approach** and;- Verify that based on this assessment accuracy of **data inputs** and that assets have been **mapped** to applicable risk factors / sub-module | Article 84 of the Delegated ActsNBB Circular NBB\_2019\_16 | SCR Market Risk – Particular points of attention |  |  |
| **SCR\_MKT** | **Financial leases versus Operational lease** (lessor/lessee): - Verify an appropriate assessment has been made (link with work performed in the EBS) and;- Verify that based on this assessment the correct stresses have been applied. |  | SCR Market Risk – Particular points of attention |  |  |
| **SCR\_MKT** | **Structured Products:** verify that interest rate component and equity component have been correctly **mapped** to applicable risk factors / sub-module. |  | SCR Market Risk – Particular points of attention |  |  |
| **SCR\_MKT** | **Employee benefits:** verify that assets and liabilities related to employee benefit plans have been considered as required by Solvency II (IAS 19 valuation of employee benefit plans). | Article 9 of the Delegated Acts | SCR Market Risk – Particular points of attention |  |  |
| **SCR\_MKT** | **Symmetric Adjustment:** verify that symmetric adjustment applied is compliant with the related symmetric adjustment published by EIOPA for the same reporting period. |  | SCR Market Risk – Particular points of attention |  |  |
| **SCR\_MKT** | Where **hedging and/or other strategies** used to mitigate the risk have been taken into account to lower the capital requirement, ensure criteria mentioned in the delegated acts are fulfilled and that the underlying documentation is adequate. | * Article 151(5) of the Control Law
* Article 209-210, 212-215 of the Delegated Acts
* NBB circular NBB\_2016\_14
 | SCR Market Risk – Particular points of attention |  |  |
| **SCR\_MKT** | **Infrastructure products:** for assets classified as infrastructure investments (Qualifying infrastructure equities, Qualifying infrastructure investments in the form of bonds or loans, infrastructure corporate) for market risk calculation purposes, ensure that criteria mentioned in the delegated acts are fulfilled for said category and that the underlying documentation is adequate. | * Article 1 (55.a. and 5.b.), 164a, 164b, 168, 169, 170, 171, 180, 181, 261a of the Delegated Acts and its amendments.
* NBB Circular NBB\_2018\_29
 | SCR Market Risk – Particular points of attention |  |  |
| **SCR\_MKT** | **Securitization products:** for securitization designated “simple, transparent and standardized” or “STS” for market risk calculation purposes, ensure that criteria mentioned in the delegated acts are fulfilled for said category and that the underlying documentation is adequate. | Article 1 (18bis and 18ter, 19, 19bis, 20, 21, 22, 23), 4, 178, 178bis, 180, 257 of the Delegated Acts. | SCR Market Risk – Particular points of attention |  | **SCR\_MKT** |
| **SCR\_MKT** | **Strategic participation:** for participations classified “strategic” for market risk calculation purposes, ensure that criteria mentioned in the delegated acts are fulfilled for said category and that the underlying documentation is adequate. | * Article 171 of the Delegated Acts
* Articles 338 of the Control Law
* NBB Circular NBB\_2016\_08
 | SCR Market Risk – Particular points of attention |  |  |
| **SCR\_MKT** | **Long-term Equity Investments:** for equities / CIU’s classified as Long-term Equity investments for market risk calculation purposes, ensure that criteria mentioned in the Delegated Acts are fulfilled for said category and that the underlying documentation is adequate | * Article 171a of the Delegated Acts
 | SCR Market Risk – Particular points of attention |  |  |
| **SCR\_MKT** | **Qualifying unlisted Equity Portfolios:** for unlisted equities classified as qualifying unlisted Equity portfolio for market risk calculation purposes, ensure that criteria mentioned in the Delegated Acts are fulfilled for said category and that the underlying documentation is adequate | * Article 168a of the Delegated Acts
 | SCR Market Risk – Particular points of attention |  |  |
|  | **Interest rate Risk** |  |  |  |  |
| **SCR\_MKT** | Verify that SCR has been calculated on **all assets and liabilities** where interest rate risk is relevant. Notably, ensure the interest rate sensitive portion of significant **structured products, investment funds, funding of real-estate entities, employee benefits assets and liabilities and leasing contracts** have been covered (based on the mapping reviewed during procedures described in chapter ‘SCR Market Risk” and taking into account particular points of attention mentioned in that chapter).  | General provisions:* Articles 165 to 167 of the Delegated Acts

Specific points:  * Employee Benefits: Orientation/Richtlijn 1 of NBB circular NBB\_2016\_16
* Securities lending transactions: Orientation/Richtlijn 8 of NBB circular NBB\_2016\_16
 | SCR Market Risk – Interest rate risk |  |  |
| **SCR\_MKT** | Verify that the stresses applied for calculating SCR are compliant with the applicable **Solvency II requirements**, including any potential minimum increase/decrease to be applied by maturity. | * Articles 165-167 of the Delegated Acts (basis stresses)
* Orientation/Richtlijn 4 of NBB circular NBB\_2016\_16
 | SCR Market Risk – Interest rate risk |  |  |
| **SCR\_MKT** | Check that methodology and parameters used for valuing **invested assets** under stressed conditions is consistent with the S2 requirements provided by EIOPA. For assets in scope of the interest rate risk sub-module: check consistency of cash flows used with asset characteristics available in the “list of assets”; test reconciliations of the DCF value before shock with the EBS value to ensure that **no fictitious value is created** during the process of decomposing the cash-flows. Especially for the following products attention is needed: perpetuals, inflation linked bonds, interest rate swaps |  | SCR Market Risk – Interest rate risk |  |  |
| **SCR\_MKT** | Check that methodology / assumptions used for valuing **technical liabilities** under stressed conditions are consistent with the calculation performed for the Best Estimate and in the other risk modules (e.g. underwriting) including 12 month new business assumptions. |  | SCR Market Risk – Interest rate risk |  |  |
| **SCR\_MKT** | Check that methodology for valuing **other assets and liabilities** under stressed conditions is consistent with the S2 requirements, e.g. through reconciliation with the EBS value. |  | SCR Market Risk – Interest rate risk |  |  |
| **SCR\_MKT** | Where **hedging and/or other strategies** used to mitigate the risk have been taken into account to lower the capital requirement, ensure the underlying documentation is adequate. | * Article 151(5) of the Control Law
* Article 209-210, 212-215 of the Delegated Acts
* NBB circular NBB\_2016\_14
 | SCR Market Risk – Interest rate risk |  |  |
| **SCR\_MKT** | Review that when **simplifications** are used (e.g. classification, valuation …), justification and validation is documented. | Articles 88 (proportionality) and 89 (captives) of the Delegated Acts | SCR Market Risk – Interest rate risk |  |  |
| **SCR\_MKT** | If the **simplified formula** is applied, evaluate whether criteria for simplification have been met and verify that the correct formula has been applied. | Articles 88, 89, 103 (formula for captives) of the Delegated Acts | SCR Market Risk – Interest rate risk |  |  |
| **SCR\_MKT** | **IM:** The control of the respect of the conditions of approval of the internal models is not the responsibility of the auditor, except for the tasks specifically mentioned in articles 332 and 333 of the Control Law.The (“Statutory Auditor or “Accredited Auditors”, as appropriate)’s engagement does not encompass the review of the internal models which are used for the computation of the regulatory capital requirements nor of the models, the outcome of which is used as input for the computation of the regulatory capital requirements. The NBB does not require any reporting from the (“Statutory Auditor” or “Accredited Auditor”, as appropriate) on these internal models. The approval of the said internal models as well as the compliance with the conditions for this approval are, for prudential purposes, followed-up directly by the NBB. The (“Statutory Auditor or “Accredited Auditors”, as appropriate) has however to perform the procedures as required by the circular of the NBB NBB\_2017\_20 to the (“Statutory Auditor” or “Accredited Auditor”, as appropriate), being the review of the accuracy of the data entered in the internal models and the review of the correct insertion of the data output of the internal model in the annual periodic reports.  |  | SCR Market Risk – Interest rate risk |  |  |
| **SCR\_MKT** | Evaluate **reasonableness** of the SCR calculation, by LOB, notably by comparing results with prior period calculations and benchmarking (IM: and the outcome of the standard formula, if available). |  | SCR Market Risk – Interest rate risk |  |  |
| **SCR\_MKT** | Evaluate **reasonableness** of the gross and net SCR calculation and of the ratio net versus gross. |  | SCR Market Risk – Interest rate risk |  |  |
|  | **Equity Risk** |  |  |  |  |
| **SCR\_MKT** | Verify that SCR has been calculated on **all assets and liabilities** where equity risk is relevant. Notably, ensure the equity portion of significant **structured products, investment funds, fundings of real estate entities, employee benefits assets** have been covered (based on the mapping reviewed during procedures described in chapter ‘SCR Market Risk” and taking into account particular points of attention mentioned in that chapter). Verify that the assets are recorded at market value. | General provisions:* Articles 168 to 173 of the Delegated Acts

 Specific points: * Orientation/Richtlijn 1 of NBB circular NBB\_2016\_16
* Orientation/Richtlijn 5 of NBB circular NBB\_2016\_16
 | SCR Market Risk – Equity risk |  |  |
| **SCR\_MKT** | Verify **categorization** applied to the Equity portfolio is consistent with the applicable Solvency II requirements: including strategic vs non-strategic participations, type 1 vs type 2 equities, qualifying infrastructure equities, article 304 Directive, significant participations in credit and financial institutions. When requested by the Solvency II Specification, ensure the underlying documentation is adequate. | * Article 168, 170 (duration-based equity risk), 171 (strategic equity) of the Delegated Acts
* Articles 338 (strategic nature) and 162 (duration-based risk) of the Control Law
* Orientation/Richtlijn 3 of NBB circular NBB\_2016\_16
* NBB circular NBB\_2017\_07
* Orientation/Richtlijn 5 of NBB circular NBB\_2016\_16
* Orientation/Richtlijn 6 of NBB circular NBB\_2016\_16
* Article 1 (55.a. and 5.b.), 164a, 164b, 168, 169, 170, 171, 180, 181, 261a of the Delegated Acts and its amendments (infrastructure investments)
* NBB Circular NBB\_2017\_04
* NBB Circular NBB\_2016\_08 (participations and “strategic” participation)
 | SCR Market Risk – Equity risk |  |  |
| **SCR\_MKT** | Verify that the **stresses** applied for calculating SCR are correctly applied to the categorization and compliant with the applicable **Solvency II requirements**. Potential transitory measures have been applied to investments acquired before the regulation starting date. In this case, verify compliance with applicable Solvency II Specifications.Verify the correct application of the symmetric adjustment with the % provided by EIOPA | * Articles 169, 172 of the Delegated Acts (symmetric adjustment)
* Transitional measures:
* article 666 of the Control Law
* article 173 of the Delegated Acts
 | SCR Market Risk – Equity risk |  |  |
| **SCR\_MKT** | Where **hedging and/or other strategies** used to mitigate the risk have been taken into account to lower the capital requirement, ensure the underlying documentation is adequate. | * Article 151(5) of the Control Law
* Article 209-210, 212-215 of the Delegated Acts
* NBB circular NBB\_2016\_14
 | SCR Market Risk – Equity risk |  |  |
| **SCR\_MKT** | Review that when **simplifications** are used (e.g. classification, valuation …), justification and validation is documented.If the **simplified formula** is applied, evaluate whether criteria for simplification have been met and verify that the correct formula has been applied and that this formula has been applied correctly.**IM**: Design and execute sufficient and appropriate audit procedures to test the correct application of the Internal model as approved by the NCA. Although we are not required to validate the Internal Model itself, we need to verify that the NCA approved version of the model has been applied and that it has been applied appropriately. This implies verifying completeness and correctness of base data, evaluating assumptions and parameters used in the model, verifying correctness of calculations in the model and evaluating results. We pay particular attention to manual adjustments, management choices, judgmental areas, etc. that are not explicitly covered in the model approval. | * Article 88 (proportionality) of the Delegated Acts
 | SCR Market Risk – Equity risk |  |  |
| **SCR\_MKT** | If the **simplified formula** is applied, evaluate whether criteria for simplification have been met and verify that the correct formula has been applied. |  | SCR Market Risk – Equity risk |  |  |
| **SCR\_MKT** | **IM**: The control of the respect of the conditions of approval of the internal models is not the responsibility of the auditor, except for the tasks specifically mentioned in articles 332 and 333 of the Control Law.The (“Statutory Auditor or “Accredited Auditors”, as appropriate)’s engagement does not encompass the review of the internal models which are used for the computation of the regulatory capital requirements nor of the models, the outcome of which is used as input for the computation of the regulatory capital requirements. The NBB does not require any reporting from the (“Statutory Auditor” or “Accredited Auditor”, as appropriate) on these internal models. The approval of the said internal models as well as the compliance with the conditions for this approval are, for prudential purposes, followed-up directly by the NBB. The (“Statutory Auditor or “Accredited Auditors”, as appropriate) has however to perform the procedures as required by the circular of the NBB NBB\_2017\_20 to the (“Statutory Auditor” or “Accredited Auditor”, as appropriate), being the review of the accuracy of the data entered in the internal models and the review of the correct insertion of the data output of the internal model in the annual periodic reports.  |  | SCR Market Risk – Equity risk |  |  |
| **SCR\_MKT** | Evaluate **reasonableness** of the SCR calculation, by LOB, notably by comparing results with prior period calculations and benchmarking (IM: and the outcome of the standard formula, if available). |  | SCR Market Risk – Equity risk |  |  |
| **SCR\_MKT** | Evaluate **reasonableness** of the gross and net SCR calculation and of the ratio net versus gross. |  | SCR Market Risk – Equity risk |  |  |
|  | **Property Risk** |  |  |  |  |
| **SCR\_MKT** | Verify that SCR has been calculated on **all assets and liabilities** where property risk is relevant. Notably, ensure the property portion of significant **investment funds, fundings of real estate entities, employee benefits assets and leasing contracts** have been covered (based on the mapping reviewed during procedures described in chapter ‘SCR Market Risk” and taking into account particular points of attention mentioned in that chapter).Property certificates should be subject to an equity type II shock and the bevaks to a property shock (EIOPA Q&A's dated 25/06/14). | General provisions:* Article 174 of the Delegated Acts

Specific point:* Orientation/Richtlijn 1 of NBB circular NBB\_2016\_16
 | SCR Market Risk – Property risk |  |  |
| **SCR\_MKT** | Verify that the **stresses** applied for calculating SCR are compliant with the applicable **Solvency II requirements.** | * Article 174 of the Delegated Acts
 | SCR Market Risk – Property risk |  |  |
| **SCR\_MKT** | Review that when **simplifications** are used (e.g. classification, valuation …), justification and validation is documented. | * Article 88 (proportionality) of the Delegated Acts
 | SCR Market Risk – Property risk |  |  |
| **SCR\_MKT** | **IM:** The control of the respect of the conditions of approval of the internal models is not the responsibility of the auditor, except for the tasks specifically mentioned in articles 332 and 333 of the Control Law.The (“Statutory Auditor or “Accredited Auditors”, as appropriate)’s engagement does not encompass the review of the internal models which are used for the computation of the regulatory capital requirements nor of the models, the outcome of which is used as input for the computation of the regulatory capital requirements. The NBB does not require any reporting from the (“Statutory Auditor” or “Accredited Auditor”, as appropriate) on these internal models. The approval of the said internal models as well as the compliance with the conditions for this approval are, for prudential purposes, followed-up directly by the NBB. The (“Statutory Auditor or “Accredited Auditors”, as appropriate) has however to perform the procedures as required by the circular of the NBB NBB\_2017\_20 to the (“Statutory Auditor” or “Accredited Auditor”, as appropriate), being the review of the accuracy of the data entered in the internal models and the review of the correct insertion of the data output of the internal model in the annual periodic reports.  |  | SCR Market Risk – Property risk |  |  |
| **SCR\_MKT** | Evaluate **reasonableness** of the SCR calculation, by LOB, notably by comparing results with prior period calculations and benchmarking (IM: and the outcome of the standard formula, if available). |  | SCR Market Risk – Property risk |  |  |
| **SCR\_MKT** | Evaluate **reasonableness** of the gross and net SCR calculation and of the ratio net versus gross. |  | SCR Market Risk – Property risk |  |  |
|  | **Spread Risk** |  |  |  |  |
| **SCR\_MKT** | Verify that SCR has been calculated on **all assets and liabilities** where spread risk is relevant. Notably, ensure the spread risk portion of significant **structured products,** **investment funds, financing of real estate entities, employee benefits assets** have been covered (based on the mapping reviewed during procedures described in chapter ‘SCR Market Risk” and taking into account particular points of attention mentioned in that chapter). Ensure that assets not covered in the spread risk module are covered in the **SCR Counterparty**. Several asset classes can be exempt from spread risk (delegated act article 180)-ECB- Member States' central government and central banks denominated and funded in the domestic currency of that central government and the central bank- Multilateral development banks and international organizations- Exposures in the form of bonds and loans that are fully, unconditionally and irrevocably guaranteed by one of these counterparties- Verify specific revenue-raising power of regional governments (delegated act art 85) | General provisions:* Article 175-181 of the Delegated Acts

Specific point:* Orientation/Richtlijn 1 of NBB circular NBB\_2016\_16
* Article 1 (55.a. and 5.b.), 164a, 164b, 168, 169, 170, 171, 180, 181, 261a of the Delegated Acts and its amendments (infrastructure investments)
* NBB Circular NBB\_2017\_04
* Article 1 (18bis and 18ter, 19, 19bis, 20, 21, 22, 23), 4, 178, 178bis, 180, 257 of the Delegated Acts and its amendments (securitization - applicable as from 01/01/2019).
 | SCR Market Risk – Spread risk |  |  |
| **SCR\_MKT** | Verify **categorization** applied is consistent with the applicable **Solvency II requirements**: bonds and loans other than residential mortgage loans (corporate vs government related, EU government vs. non-EU government), covered bonds structured credit products (type 1 vs. type 2 securitisation positions vs. re-securitisations, credit derivatives, unrated bonds & loans with eligible collateral, impact of guarantees provided by specific counterparties). | * Article 175 of the Delegated Acts (general scope)
* Article 177 of the delegated acts and (in force as from 01/01/2019) 178 and 178b (classification of securitization positions)
 | SCR Market Risk – Spread risk |  |  |
| **SCR\_MKT** | Verify **accuracy of key inputs**, e.g. credit ratings and duration. Check consistency with ‘list of assets’ and ‘open derivatives’ files. When more than one or no rating is available, check that the relevant Solvency II requirements have been applied. | In the Delegated Acts* Bonds and loans: art. 176
* Securitization positions: art. 178
* Credit derivatives: art. 179
* Others (incl. ECB, Union Member states exposures): art. 180
 | SCR Market Risk – Spread risk |  |  |
| **SCR\_MKT** | Verify that the **stresses** applied for calculating SCR are compliant with the applicable **Solvency II requirements**: formulas and related tables depending on the asset category.Where lower capital requirements are applied (e.g. covered bonds), ensure the underlying documentation is adequate. | In the Control Law* Transitional measures: article 665 of the Control Law

In the Delegated Acts* Bonds and loans: art. 176
* Securitization positions: art. 178
* Credit derivatives: art. 179
* Others (incl. ECB, Union Member states exposures): art. 180
* Matching Adjustment portfolios: art. 181

Guidelines* Orientation/Richtlijn 2 of NBB circular NBB\_2016\_16
 | SCR Market Risk – Spread risk |  |  |
| **SCR\_MKT** | Where lower capital requirements are applied (e.g. covered bonds), ensure the underlying documentation is adequate. |  | SCR Market Risk – Spread risk |  |  |
| **SCR\_MKT** | Where **hedging and/or other strategies** used to mitigate the risk have been taken into account to lower the capital requirement, ensure the underlying documentation is adequate. | * Article 151(5) of the Control Law
* Article 209-210, 212-215 of the Delegated Acts
* NBB circular NBB\_2016\_14
 | SCR Market Risk – Interest rate risk |  |  |
| **SCR\_MKT** | Review that when **simplifications** are used (e.g. classification, valuation …), justification and validation is documented. | Articles 88 (proportionality) and 89 (captives) of the Delegated Acts | SCR Market Risk – Spread risk |  |  |
| **SCR\_MKT** | If the **simplified formula** is applied, evaluate whether criteria for simplification have been met and verify that the correct formula has been. | In the Delegated Acts* Simplification for captives: art. 105
* Simplification for others: art. 104
* Simplified calculation for the risk factor in the spread risk sub-module and the market risk concentration sub-module: art. 105a
 | SCR Market Risk – Spread risk |  |  |
| **SCR\_MKT** | **IM:** The control of the respect of the conditions of approval of the internal models is not the responsibility of the auditor, except for the tasks specifically mentioned in articles 332 and 333 of the Control Law.The (“Statutory Auditor or “Accredited Auditors”, as appropriate)’s engagement does not encompass the review of the internal models which are used for the computation of the regulatory capital requirements nor of the models, the outcome of which is used as input for the computation of the regulatory capital requirements. The NBB does not require any reporting from the (“Statutory Auditor” or “Accredited Auditor”, as appropriate) on these internal models. The approval of the said internal models as well as the compliance with the conditions for this approval are, for prudential purposes, followed-up directly by the NBB. The (“Statutory Auditor or “Accredited Auditors”, as appropriate) has however to perform the procedures as required by the circular of the NBB NBB\_2017\_20 to the (“Statutory Auditor” or “Accredited Auditor”, as appropriate), being the review of the accuracy of the data entered in the internal models and the review of the correct insertion of the data output of the internal model in the annual periodic reports.  |  | SCR Market Risk – Spread risk |  |  |
| **SCR\_MKT** | Evaluate **reasonableness** of the SCR calculation, by LOB, notably by comparing results with prior period calculations and benchmarking (IM: and the outcome of the standard formula, if available). |  | SCR Market Risk – Spread risk |  |  |
| **SCR\_MKT** | Evaluate **reasonableness** of the gross and net SCR calculation and of the ratio net versus gross. |  | SCR Market Risk – Spread risk |  |  |
|  | **Currency Risk** |  |  |  |  |
| **SCR\_MKT** | Verify that SCR has been calculated on **all assets and liabilities** where currency risk is relevant. Notably, ensure the assets and liabilities considered for significant **structured products,** **investment funds, financing of real estate entities, employee benefits assets** have been considered accurately (based on the mapping reviewed during procedures described in chapter ‘SCR Market Risk” and taking into account particular points of attention mentioned in that chapter).Check consistency with ‘list of assets’, ‘assets and liabilities by currency’, ‘open derivatives’ files and other sources as for example the **periodic reporting to the regulator**.  | General provisions:* Article 188 of the Delegated Acts

Specific points:* Orientation/Richtlijn 1 of NBB circular NBB\_2016\_16
 | SCR Market Risk – Currency risk |  |  |
| **SCR\_MKT** | Verify that the **stresses** applied for calculating SCR are compliant with the applicable **Solvency II Specifications**. | Article 188(2) to (7) of the Delegated Acts.  | SCR Market Risk – Currency risk |  |  |
| **SCR\_MKT** | Where **currency hedging and/or other strategies** used to mitigate the risk have been taken into account to lower the capital requirement, ensure the underlying documentation is adequate. | * Article 151(5) of the Control Law
* Article 209-210, 212-215 of the Delegated Acts
* NBB circular NBB\_2016\_14
 | SCR Market Risk – Currency risk |  |  |
| **SCR\_MKT** | Review that when **simplifications** are used (e.g. classification, valuation …), justification and validation is documented. | Article 88 (proportionality) of the Delegated Acts | SCR Market Risk – Currency risk |  |  |
| **SCR\_MKT** | **IM:** The control of the respect of the conditions of approval of the internal models is not the responsibility of the auditor, except for the tasks specifically mentioned in articles 332 and 333 of the Control Law.The (“Statutory Auditor or “Accredited Auditors”, as appropriate)’s engagement does not encompass the review of the internal models which are used for the computation of the regulatory capital requirements nor of the models, the outcome of which is used as input for the computation of the regulatory capital requirements. The NBB does not require any reporting from the (“Statutory Auditor” or “Accredited Auditor”, as appropriate) on these internal models. The approval of the said internal models as well as the compliance with the conditions for this approval are, for prudential purposes, followed-up directly by the NBB. The (“Statutory Auditor or “Accredited Auditors”, as appropriate) has however to perform the procedures as required by the circular of the NBB NBB\_2017\_20 to the (“Statutory Auditor” or “Accredited Auditor”, as appropriate), being the review of the accuracy of the data entered in the internal models and the review of the correct insertion of the data output of the internal model in the annual periodic reports.  |  | SCR Market Risk – Currency risk |  |  |
| **SCR\_MKT** | Evaluate **reasonableness** of the SCR calculation, by LOB, notably by comparing results with prior period calculations and benchmarking (IM: and the outcome of the standard formula, if available). |  | SCR Market Risk – Currency risk |  |  |
| **SCR\_MKT** | Evaluate **reasonableness** of the gross and net SCR calculation and of the ratio net versus gross. |  | SCR Market Risk – Currency risk |  |  |
|  | **Concentration Risk** |  |  |  |  |
| **SCR\_MKT** | Verify that SCR has been calculated on **all assets** where concentration risk is relevant based onSolvency II framework, i.e. all assets covered in the other sub-modules with some exceptions. Notably, ensure the concentration risk portion of significant **structured products,** **investment funds, financing of real estate entities, employee benefits assets** have been covered (based on the mapping reviewed based on procedures and taking into account particular points of attention described in chapter “SCR Market Risk”). | General provisions* Article 186 to 187 of the Delegated Acts

Specific points:* Orientation/Richtlijn 1 of NBB circular NBB\_2016\_16
 | SCR Market Risk – Concentration risk |  |  |
| **SCR\_MKT** | Verify that the methodology applied to create **grouping by issuer** is compliant with the applicable Solvency II Specifications**.** When several issuers are related entities, check that the relevant Solvency II Specifications have been applied. Check consistency with ‘list of assets’, ‘open derivatives’ files. | Article 182 of the Delegated Acts | SCR Market Risk – Concentration risk |  |  |
| **SCR\_MKT** | Verify **quality of key inputs**, e.g. credit ratings. Check consistency with ‘list of assets’ and ‘open derivatives’ files. When more than one or no rating is available, check that Solvency II Specifications have been applied. | Articles 183-184 in the Delegated Acts | SCR Market Risk – Concentration risk |  |  |
| **SCR\_MKT** | Verify that the **stresses** applied for calculating SCR are compliant with the applicable **Solvency II Specifications**, e.g. “g factor” has been correctly determined based on up-to-date tables. | In the Control Law* Transitional measures: article 665 of the Control Law

In the Delegated Acts:* General rules: art. 185-186
* Specific exposures (ECB, Union Member States…): art. 187.

Others* Orientation/Richtlijn 7 of NBB circular NBB\_2016\_16
 | SCR Market Risk – Concentration risk |  |  |
| **SCR\_MKT** | Review that when **simplifications** are used (e.g. classification, valuation …), justification and validation is documented. | Articles 88 (proportionality) and 89 (captives) of the Delegated Acts | SCR Market Risk – Concentration risk |  |  |
| **SCR\_MKT** | If the **simplified formula** is applied, evaluate whether criteria for simplification have been met and verify that the correct formula has been applied. | * Article 106 in the Delegated Acts (captives)
* Simplified calculation for the risk factor in the spread risk sub-module and the market risk concentration sub-module: art. 105a
 | SCR Market Risk – Concentration risk |  |  |
| **SCR\_MKT** | **IM:** The control of the respect of the conditions of approval of the internal models is not the responsibility of the auditor, except for the tasks specifically mentioned in articles 332 and 333 of the Control Law.The (“Statutory Auditor or “Accredited Auditors”, as appropriate)’s engagement does not encompass the review of the internal models which are used for the computation of the regulatory capital requirements nor of the models, the outcome of which is used as input for the computation of the regulatory capital requirements. The NBB does not require any reporting from the (“Statutory Auditor” or “Accredited Auditor”, as appropriate) on these internal models. The approval of the said internal models as well as the compliance with the conditions for this approval are, for prudential purposes, followed-up directly by the NBB. The (“Statutory Auditor or “Accredited Auditors”, as appropriate) has however to perform the procedures as required by the circular of the NBB NBB\_2017\_20 to the (“Statutory Auditor” or “Accredited Auditor”, as appropriate), being the review of the accuracy of the data entered in the internal models and the review of the correct insertion of the data output of the internal model in the annual periodic reports.  |  | SCR Market Risk – Concentration risk |  |  |
| **SCR\_MKT** | Evaluate **reasonableness** of the SCR calculation, by LOB, notably by comparing results with prior period calculations and benchmarking (IM: and the outcome of the standard formula, if available). |  | SCR Market Risk – Concentration risk |  |  |
| **SCR\_MKT** | Evaluate **reasonableness** of the gross and net SCR calculation and of the ratio net versus gross. |  | SCR Market Risk – Concentration risk |  |  |