

REGULATION NO. 24 OF 6 JUNE 2016

REGULATION ON PROVISIONS RELATING TO INVESTMENTS AND ASSETS COVERING TECHNICAL PROVISIONS REFERRED TO IN TITLE III (PURSUIT OF INSURANCE BUSINESS), CHAPTER II-BIS (GENERAL PRINCIPLES ON INVESTMENTS), ARTICLE 37-TER, AND CHAPTER III (ASSETS COVERING TECHNICAL PROVISIONS), ARTICLE 38 OF THE CODE OF PRIVATE INSURANCE - AMENDED BY LEGISLATIVE DECREE NO. 74 OF 12 MAY 2015 - CONSEQUENT TO THE NATIONAL IMPLEMENTATION OF THE GUIDELINES ON THE CORPORATE GOVERNANCE SYSTEM, WITH SPECIAL REFERENCE TO THE PRUDENT PERSON PRINCIPLE ON INVESTMENTS.

IVASS

(Institute for the Supervision of Insurance)

HAVING REGARD to Law No. 576 of 12 August 1982, on the reform of insurance supervision and the establishment of ISVAP;

HAVING REGARD to the Decree of the President of the Italian Republic of 12 December 2012, published in the Official Journal of the Italian Republic - General serie - No. 303 of 31 December 2012, that has approved the Statute of IVASS, which entered into force on 1st January 2013;

HAVING REGARD to Legislative Decree No. 209 of 7 September 2005, introducing the Code of Private Insurance, as amended by Legislative Decree No. 74 of 12 May 2015, implementing Directive No. 2009/138/EC on the taking up and pursuit of the business of insurance and reinsurance, with particular reference to articles 37-ter and 38;

HAVING REGARD to Delegated Regulation (EU) 2015/35 of the Commission of 10 October 2014, supplementing Directive No. 2009/138/EC of the European Parliament and of the Council on the taking up and pursuit of the business of insurance and reinsurance;

HAVING REGARD to Implementing Regulation (EU) 2015/2015 of the Commission of 11 November 2015 laying down implementing technical standards on the procedures for assessing external credit ratings in accordance with Directive 2009/138/EC of the European Parliament and of the Council;

HAVING REGARD to the Guidelines issued by EIOPA on the governance system, with particular reference to the prudent person principle;

HAVING REGARD to IVASS Regulation No. 3 of 5 November 2013 on the implementation of the provisions referred to in article 23 of Law No. 262 of 28 December 2005, concerning the procedures for the adoption of regulatory and general acts of IVASS;

has adopted the following:

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PART I

General Provisions

Art. 1

(Legislative sources)

1. This Regulation has been adopted in compliance with articles 5, paragraph 2, 37-ter, paragraph 1, 38, paragraph 2, 42, paragraph 3, 65, paragraph 1, 65-bis, paragraph 3, 191, paragraph 1, letter b), No. 2) and letter e) and 210, paragraph 1, of the Code.

Art. 2

(Definitions)

1. For the purposes of this Regulation, the applicable definitions are those laid down by Legislative Decree No. 209 of 7 September 2005 as amended by Legislative Decree No. 74 of 12 May 2015, and by Delegated Regulation (EU) No. 35/2015 of 10 October 2014 of the Commission. In addition, the following definitions shall apply:
 - a) "Code": Legislative Decree No. 209 of 7 September 2005, as amended by Legislative Decree No. 74 of 12 May 2015;
 - b) "Delegated Acts": the Delegated Regulation (EU) No. 35/2015 of the Commission supplementing Directive No. 2009/138/EC of the European Parliament and of the Council on the taking up and pursuit of the business of insurance and reinsurance;
 - c) "senior management": the managing director, the director general as well as the senior managers performing management supervision;
 - d) "complex assets": assets characterised by a particular complexity in the assessment, management and control of risks including structured securities, UCITS, AIF;
 - e) "Bank of Italy Circular No. 272/2008 and following amendments/integrations": Bank of Italy Circular No. 272 of 30 July 2008 'Accounts matrix';
 - f) "AIF": Alternative Investment Fund;

- g) "Italian alternative investment fund" (Italian FIA): the investment fund, the SICAV and SICAF falling within the scope of Directive 2011/61/EC;
- h) "EU alternative investment fund" (IAF EU): the UCITS falling within the scope of Directive 2011/61/EU incorporated in a member State other than Italy;
- i) "Law No. 130 of 30 April 1999": Law No. 130 of 30 April 1999, containing provisions on securitisation of credits;
- l) "administrative body": the board of directors or the management board, for undertakings which have adopted the system referred to in article 2409-*octies* of the civil code;
- m) "control body": the statutory board of auditors or, in undertakings which have adopted a different system from the one referred to in article 2380, paragraph 1 of the civil code, the board of surveillance or the management control committee;
- n) "Recommendation 2003/361/EC of the European Commission": Recommendation of the European Commission of 6 May 2003, concerning the definition of micro, small and medium-sized undertakings;
- o) "Multilateral trading facilities" (MTFs): alternative trading facilities to the regulated market of multilateral type pursuant to Part III, Title I, Chapter II, article 77- bis of the Consolidated law on financial mediation;
- p) "open-ended investment companies" (SICAVs): a joint stock company with a variable share capital which has as its exclusive purpose the collective investment of the assets collected through the medium of a public offering of their shares;
- q) "investment companies with fixed capital" (SICAFs): the closed-end UCITS set up as joint stock company with a fixed share capital with head office and general direction in Italy which has as its exclusive purpose the collective investment of the assets collected through the medium of a public offering of their shares and other participating financial instruments;
- r) "financial instruments": the instruments referred to in article 1, paragraph 2 of Legislative Decree No. 58 of 24 February 1998, and subsequent amendments and integrations;
- s) "derivative financial instruments": the instruments referred to in article 1, paragraph 3 of Legislative Decree No. 58 of 24 February 1998, and subsequent amendments and integrations;

t) "securities classified as fixed assets": the securities designed to be kept in the undertaking's assets as stable investment, consistently with its economic and financial performance.

Art. 3
(Scope)

1. The provisions of this Regulation shall apply to:
 - a) insurance and reinsurance undertakings having their head office in the territory of the Italian Republic;
 - b) undertakings that exercise exclusively the activity of reinsurance, having their head office in the territory of the Italian Republic;
 - c) branches in the territory of the Italian Republic of insurance and reinsurance undertakings having their head offices in a third Country.
 - d) ultimate Italian parent companies referred to in article 210, paragraph 2 of the Code, limited to the provisions referred to in Title IV, Part II.

PART II
Provisions on investments

Title I
Policies related to investment management

Chapter I
General Provisions

Art. 4
(General principles in investment management)

1. The undertaking defines, according to the nature, extent and complexity of the risks inherent to the business pursued, investment policies on all their assets consistent with the prudent person principle.

2. In the choice of the assets, the undertaking shall take account of the risk profile of the liabilities held, in order to ensure the continued availability of assets that are sufficient to cover its liabilities as well as the security, quality, liquidity and profitability of the portfolio as a whole, providing an adequate diversification and dispersion of the same.
3. The investment policy is consistent with the strategy defined by the undertaking, as well as with the risk management policies adopted by the same, having particular regard to the asset-liability management policy, the liquidity risk management policy and the concentration risk management policy.
4. In defining the investment policy, the undertaking shall take account of their risk propensity and levels of risk tolerance and the possibility to identify, measure, monitor and manage the risks associated with each type of business.
5. When making its investment decisions, the undertaking shall take into account the risks associated with the investments without relying only on the risk being adequately captured by the capital requirements.
6. The investment policy is adopted taking into account that the assets covering technical provisions must be appropriate to the nature of the risks and obligations undertaken and the duration of liabilities, and in the best interest of all policyholders, insured parties, beneficiaries and those entitled to insurance benefits, taking account of the requirements laid down in Part III of this Regulation. In the case there is a conflict of interest in the investment activity, the undertaking or the subject which manages its asset portfolio shall ensure that the investment is made in the best interest of all policyholders, insured parties, beneficiaries and those entitled to insurance benefits.
7. The investment policy includes the definition of the business plan for the granting of loans provided for by article 38, paragraph 2 of the Code.

Chapter II

Policies on investments

Art. 5

(Investment policy)

1. Without prejudice to the Code, the Delegated Acts and this Regulation, the undertaking shall define the investment policy, which includes at least the following information:

- a) determination of the strategic investment policy in terms of composition of the portfolio investments for the medium-long period, with an indication of the level of security, quality, liquidity, profitability and availability that the undertaking intends to achieve with regard to the entire assets portfolio, and of the manner in which it intends to achieve it;
- b) description of the methods by which the investment strategy referred to in letter a) ensures the achievement of the objectives pursued by the assets-liabilities integrated management and the liquidity risk management policies referred to in following articles 6 and 7 as well as the concentration risk;
- c) description of the purposes for the expected returns from its investments, taking into account the reasonable expectations of the policyholders as well as to what has been established in the contractual regulations, and the manner in which the investment strategy referred to in letter a) ensures the achievement of these purposes;
- d) description of the criteria to cover the technical provisions and the procedures in which the strategy referred to in letter a) ensures the respect for the operation principles of the assets to the characteristics and the risk profile of liabilities held, separately for the contracts of the branches referred to in article 2, paragraphs 1 and 3 of the Code. In this context are defined adequate processes and procedures which ensure compliance with the evaluation criteria referred to in article 27, paragraph 4;
- e) definition of the criteria for the investment selection, in the best interest of the insured and beneficiaries, taking account of the context of the financial market;
- f) definition of limits and conditions of allowed transactions in securities in the portfolio, taking account of the context of the financial market;
- g) definition of limits and conditions under which the undertaking can pledge or lend assets;
- h) definition of the investment categories, including the identification of assets considered complex by the undertaking according to its internal control system and risk management, and its limits in relation to the geographical area, markets, sectors, counterparties and currencies of denomination;
- i) definition of quantitative limits on assets and exposures, including off-balance sheet exposures, designed to ensure the achievement of the level of security, quality, liquidity and profitability and availability of the portfolio referred to in letter a). In this regard, are identified thresholds significance of the categories of assets that make it

necessary to have a specific notice to the administrative body, taking into account the correlations with other financial instruments in the portfolio;

- l) definition of the quantitative limits for the assets representing technical provisions separately for the contracts of the branches referred to in article 2, paragraphs 1 and 3 of the Code, consistent with the criteria referred to in letter d);
- m) limits and conditions for guarantees provided and other assets backing the assets;
- n) concentration limits per single issuer or group, and each source of concentration risk considered relevant;
- o) limits and conditions for investment in complex assets;
- p) limits and conditions for investment in asset categories characterised by a poor liquidity or for which it is not possible to have reliable and independent valuations, including the assets not admitted to negotiation on a regulated financial market i.e. on multilateral trading facilities (so-called MTF), or admitted to trading but not traded or traded on a non-regular basis;
- q) definition of limits and conditions for investment in the securitisation, with indication of limits and conditions for investment in debt securities relating to the securitisation operations of loans granted to parties other than natural persons and micro-enterprises, pursuant to article 1, paragraph 1-ter, of Law No. 130 of 30 April 1999. In this regard are also identified the thresholds significance that require information to the administrative body;
- r) limits and conditions for investment in participations which involve the control or significant influence or that are substantial, taking account of the provisions of art. 8 of IVASS Regulation No. 10 of 22 December 2015 concerning the treatment of participations;
- s) definition of tolerance limits to the deviation from the limits fixed under letters f), g), h), i), l), m), n), o), p), q) and r);
- t) the methodologies of evaluation and measurement of investment risks defined with regard to the risk management process, with highlights of the analysis on the link among market risks and other risks in adverse scenarios;
- u) the main risk indicators taking account of their risk management policy on investments, of their business strategy and of the reliability of the subjects charged with the custody of assets;
- v) the methodology of evaluation and verification of investments;

- z) the procedures for identifying and managing the situations of conflict of interest with evidence of documentation procedures of the actions adopted for their management;
 - aa) the procedure and timing for the monitoring of the results of the investment and the timing of information to the administrative body;
 - bb) the procedure and timing for the review of the investment policy by the administrative body;
 - cc) the procedure and timing of the analysis of the assets composition suitability under the profile of their nature, duration and liquidity, for the purposes of compliance with the undertaking obligations which arrive progressively to expiry, according to the liquidity risk management policy;
 - dd) general policies for the use of derivative financial instruments, of other instruments with analogous characteristics or effects and structured products, which take account of the overall current and future economic, assets/liabilities and financial situation of the undertaking. Going into details: the objectives, operating arrangements and limits for use shall be specified, including the level of risk tolerance on the positions taken and on the total portfolio managed, taking account of the existing correlations between those instruments and the assets/liabilities held.
 - ee) general policies for the granting of loans provided for by article 38, paragraph 2 of the Code, formalized in the business plane referred to in article 14;
 - ff) identifying the main features, in quantitative and qualitative terms, of fixed and current assets, with a view to the classification of securities as fixed or current assets. In particular, the guidelines for the classification of securities as fixed or current assets shall be specified.
2. The policies for the use of derivative financial instruments, of financial instruments with analogous characteristics or effects and the structured products referred to in paragraph 1, letter dd), include at least the following elements:
- a) the identification of the list of the counterparties with which operate, either directly or indirectly;
 - b) the definition of the decision-making process that the undertaking must follow to make investment, indicating the roles and tasks of the various operating units involved, qualifying and allocating at least the responsibility of the following assessments:
 - 1. the consistency of the financial instrument with the reference legislation and with the risk tolerance defined, also through the analysis of the legal structure of the

- instrument (*trigger event, early termination*, the existence of commitments, even only potential, not represented in the main contract, etc.);
2. the correct accounting treatment of the investment;
 3. the liquidity of the financial instrument;
 4. the quality of the underlying portfolio (with analysis of the "*look through*" type of the underlying positions);
 5. the counterparty used to conclude the operation;
 6. the quality and the conclusions of the pricing and risk analyses used for assessment;
 7. the frequency and quality of information necessary for the assessment of financial instrument throughout its life.
- c) a clear indication of the quantities according to which measure the risk tolerance and the definition, from a quantitative point of view, of the relative margins of operability.
3. The measures referred to in paragraph 2 shall also apply to investment in the securitisation referred to in paragraph 1, letter q) that implicitly reproduce in whole or in part the economic effects of derivative financial instruments, thus qualifying as structured securities.
 4. The undertaking evaluates whether to extend the measures referred to in paragraph 2 to other complex assets.

Art. 6

(Asset-liability management policy)

1. Without prejudice to article 260 of the Delegated Acts on risks, the undertaking defines the asset-liability management policy, which includes at least the following information:
 - a) the description of the procedure for identification and assessment of different natures of structural mismatches between assets and liabilities, at least with regard to terms and currency;
 - b) the description of mitigation techniques to be used and the effect produced by the latter on asset-liability management;
 - c) the description of deliberate mismatches permitted;
 - d) the description of the underlying methodology and frequency of stress tests as well as scenario tests to be carried out.

Art. 7

(Liquidity risk management policy)

1. Without prejudice to article 260 of the Delegated Acts on risks, the undertaking defines the liquidity risk management policy, which includes at least the following information:
 - a) 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;
 - b) the identification of total liquidity needs in the short and medium term, including an appropriate liquidity buffer to guard against a possible liquidity shortfall;
 - c) the identification of the level of liquid assets and the monitoring of their description, including a quantification of the potential costs or financial losses arising from a enforced realisation;
 - d) the identification of alternative financing tools and related costs;
 - e) the identification of the effect on the situation of liquidity caused by the new business expected.

Art. 8

(Framework resolution on investments)

1. Policies on investments laid down in articles 5, 6 and 7, prepared in accordance with the provisions of Annex 1 of the Implementing Regulations issued by IVASS regarding the corporate governance system, are subject of a specific framework resolution, adopted by the administrative body, and are reviewed at least once a year.
2. The guidelines set in the resolution referred to under paragraph 1 shall be formalised and disclosed to all persons that work in the investment area and in the other areas connected to it.
3. The business plan for lending referred to under Chapter IV of this Title, which is an integral part of the investment policy, shall be object of specific approval by the administrative body.

Art. 9

(Information requirements)

1. The undertaking sends to IVASS, within 15 days from its adoption, a copy of the minutes containing the resolution referred to in article 8, including the policies concerning investment and the business plan for the granting of financing referred to in Chapter IV of this Title. Within the same terms the subsequent amendments shall be sent to IVASS.

Chapter III

Role of the corporate bodies

Art. 10

(Administrative body)

1. Within the functions of strategical and organisational guidance referred to under article 2381 of the civil code, the administrative body shall define, in the resolution referred to under article 8, the policy connected to investment management envisaged by articles 5, 6 and 7 and shall assess, at least every year, its suitability in relation to all the business pursued by the undertaking, its risk tolerance and capitalisation level.
2. The administrative body shall ensure, even with regard to outsourced activities, the compliance of the assets/liabilities and financial management of the undertaking with the policies related to the risk and investment management, to the laws and regulations.
3. The administrative body shall require that the systems used provide accurate and timely analysis of risk exposures arising from the investment choices made, with particular regard to:
 - a) derivatives and financial instruments with analogous characteristics or effects;
 - b) direct loans provided for by article 38, paragraph 2, of the Code;
 - c) relevant securitisation and securitisation of loans granted to subjects other than natural persons and micro-enterprises pursuant to article 1, paragraph 1-ter of Law No. 130 of 30 April 1999.
 - d) non-routine investment activities where they carry a significant risk i.e. a change of the risk profile;
 - e) other complex assets.
4. The administrative body shall require to be informed, according to a time-scale to be set on the basis of the portfolio complexity, about the exposures and risks of investments, and that the most significant critical situations, including the existence of any conflict of interest, be reported to it as soon as possible, by issuing the directives for the adoption of

corrective measures. The information shall be given through adequate reporting, that makes it possible to correctly assess the actual level of risk to which the undertaking is exposed. Specific and separate evidence is provided with regard to:

- a) overall exposure in derivatives and other financial instruments with analogous characteristics or effects;
- b) the lending, with indication of the overall exposures to individual debtors, of the overall portfolio exposure and evidence of problem loans;
- c) the positions to relevant securitisation and securitisation of loans granted to subjects other than natural persons and micro-enterprises pursuant to article 1, paragraph 1-ter of Law No. 130 of 30 April 1999.
- d) the occasional investment operations, with indication of the impact on the undertaking risk profile;
- e) other complex assets;
- f) individual exposures with a significant value, taking into account the correlations with other financial instruments in the portfolio.

Art. 11

(Senior management)

1. The senior management shall be responsible, based on the directives issued by the administrative body, of the implementation, maintenance and monitoring of the policies connected to the investment management. In particular, the senior management, in compliance with the resolution referred to in article 8 and the criteria established by the implementing regulations issued by IVASS on the corporate governance system:
 - a) shall implement the investment objectives set by the administrative body, taking also account of the financial market environment. To this end the eligible investments shall be identified in detail, also with the contribution of the risk management function, including derivative financial instruments with analogous characteristics or effects, and the relevant investment limits, such as market of negotiation, rating, amount of the specific issue or minimum capitalisation, maximum underwriting and concentration limits;
 - b) specify and formalise, also with the contribution of the risk management function, any other restriction to be indicated to the operational structures, such as the diversification, the limits for each relevant source of risk concentration, risk tolerance

limits and those regarding the counterparties which can be used for negotiation. In this regard, separate and specific evidence is provided in relation to the operating limits on derivatives and financial instruments with analogous characteristics or effects, to direct loans, to relevant securitisation and securitisation of loans granted to subjects other than natural persons and micro-enterprises, pursuant to article 1, paragraph 1-ter of Law No. 130 of 30 April 1999, to the non-routine assets, as well as to other complex assets;

- c) define, with the contribution of the risk management function, the internal risk indicators of the undertaking;
- d) identify, consistently with the directives of the administrative body, the subjects authorised to carry out transactions with the indication of the relevant operational limits;
- e) establish, also with the contribution of the risk management function, reporting procedures about the topics concerning the financial area to be used for periodical communications to the administrative body and for those to be sent to the organisation units concerned;
- f) define the financial area's internal operating procedures and inform the organisation units concerned about them, with special regard to:
 - 1) the use of new forms of investment and of new counterparties;
 - 2) the update in the creditworthiness assessment of the instruments in the portfolio;
 - 3) what to do in case the operational limits are exceeded;
 - 4) the analysis of risks and exposures, identifying the person responsible for the assessment;
- g) propose to the administrative body, based also on the indications of the risk management function, any changes to policies connected to the investment management, also taking account of the evolution of market conditions;
- h) implement the instructions given by the administrative body on the measures to be adopted in order to correct faults that have come to light and make improvements.

Art. 12
(Control body)

1. The resolution referred to under article 8 shall be communicated to the control body which, within its activity and in compliance with the functions attributed to it by the implementation provisions issued by IVASS on corporate governance system, shall:
 - a) verify that the general policies referred to in article 5, paragraph 1, letter ff), are compatible with current conditions and prospective conditions of economic-financial balance of the undertaking. Furthermore, as to the action to be taken in respect of the financial statement, it shall verify consistency between the undertaking's transactions and the policies mentioned in the relevant resolution;
 - b) check the consistency of all the operations made in derivatives and financial instruments with analogous characteristics or effects of direct loans, relevant securitisation and securitisation of loans granted to subjects other than natural persons and micro-enterprises, pursuant to article 1, paragraph 1-ter of Law No. 130 of 30 April 1999, of the non-routine assets, as well as other complex assets, with the guidelines set out in the investment policy.
2. The control body shall perform specific supervision over assets representing technical provisions, with special regard to financial instruments. Going into details, the control body shall verify the administrative procedures adopted by the undertaking for the turnover, custody and entry of financial instruments as well as the instructions given to depositary entities as regards the periodic dispatch of statements of account showing clearly any restrictions.
3. During the periodic checks the control body shall verify that there are no restrictions and that assets representing technical provisions are fully available, by acquiring, also on a sampling basis, the relevant declarations of the custodian.
4. The control body shall complete its assessment of securities by checking them against the register of assets representing technical provisions.
5. The control body shall report to the administrative body any faults that have come to light during the assessments referred to under this article, and urge the adoption of appropriate corrective measures. Those assessments and the relevant outcome shall be adequately documented.

Chapter IV

Provisions on loans granted to subjects other than natural persons and micro-enterprises referred to in art. 38 paragraph 2 of the Code

Art. 13

(General criteria)

1. An undertaking wishing to invest its assets in direct loans to subjects other than natural persons and micro-enterprises, as defined in article 2, paragraph 1, of the Annex to Recommendation 2003/361/EC of the European Commission, shall prepare a business plan, which is subject to prior approval by the administrative body.
2. The undertaking may start the lending activity after the definitive approval of the plan by the administrative body.

Art. 14

(Business plan for the granting of loans)

1. The business plan for the granting of loans shall contain at least the following elements:
 - a) the description of how the direct loans contribute to the determination of the strategic investment policy, in accordance with the general principles on investments referred to in article 4;
 - b) the arrangements for implementing the lending activity, whether directly or with the aid, in the selection phase, of a bank or a financial intermediary registered in the register referred to in article 106 of the Consolidated banking law. If the undertaking intends to use a bank or a financial intermediary, the plan shall specify the level and quality of such aid, in particular in terms of level and of how long does the bank or intermediary have an economic interest in the operation;
 - c) the organisational and management structure created inside the insurance undertaking for the initiation and monitoring over time of the lending activity and related exposures, including the information structure to support the management of data and information on the activity. The organisational arrangements for the prevention and management of conflicts of interest with borrowers of funds and with the bank or financial intermediary whose help the undertaking is using, and the internal organisational arrangements for the approval of individual loans of a significant amount shall be included;
 - d) the criteria for selecting the borrowers of direct loans, for the granting and management of direct loans as well as the methods and frequency of revision of such criteria in the light of the business performance. If the undertaking intends to

use a bank or a financial intermediary as per point b), the selection criteria shall be formalised in the contract regulating the relationships between the undertaking and the bank or financial intermediary, along with the arrangements and frequency of revision of such criteria in the light of the business performance. These criteria define, among other things:

- 1) the credit standing of such borrowers. The credit standing shall be assessed according to instruments and techniques referred to in article 18, paragraph 4. If the undertaking intends to use a bank or a financial intermediary as per point b) the assessment resulting from the application of the internal model approved by the relevant supervisory Authority according to European regulations can also be considered;
 - 2) the legal form and size ranges of borrowers;
 - 3) their business sectors and geographical area;
 - 4) the duration and purpose of loans;
 - 5) the prevision of any guarantees and contract terms (so-called "*covenants*") in support of the recoverability of the amounts of loans.
- e) The definition, within the maximum amounts envisaged by this Regulation, of the amounts for the investment activity in loans, and the limit of concentration per single issuer and per group of borrowers, distinct both in relation to the types provided for in article 16, with reference to all exposures to a single issuer and its group. The undertaking shall define the limits for investment activities in loans, taking into account the measurements of capital absorption for direct loans.
2. The business plan shall be sent to IVASS before definitive approval by the administrative body referred to in article 13, paragraph 2. For the purposes of granting the authorisation referred to in paragraph 5, that takes place within 90 days, IVASS shall assess consistency of the plan:
- a) with the undertaking's investment strategy, with the characteristics of the commitments against which the investment in loans is implemented;
 - b) with the level of the insurance undertaking's capitalisation, with particular reference to the measurements of capital absorption for direct loans;
 - c) with the risk management system in place at the undertaking. To that end, IVASS shall take into account:

- 1) the level of participation and permanence in the lending activity of a bank or a financial intermediary entered in the register referred to in article 106 of the consolidated banking law, or
 - 2) if the undertaking does not intend to rely on the support of a bank or a financial intermediary registered in the register referred to in article 106 of Legislative Decree No. 385 of 1 September 1993, and subsequent changes, of the existence of safeguards for the management and control of the credit risk within the undertaking similar to those provided for by the existing provisions on the banking prudential system, as well as the best practices in the banking sector.
3. In special circumstances the undertaking may request permission to invest in lending notwithstanding the limits provided for in the following article 16. Such explained request is contained in the application referred to in paragraph 2.
 4. Within the deadline referred to in paragraph 2, IVASS can ask the undertaking to change its plan, including by imposing conditions or quantitative limits to lending equal to or lower than those provided in the following article 16. The request by IVASS shall suspend the deadline referred to in paragraph 2 until the undertaking sends the new business plan changed according to IVASS's indications.
 5. The undertaking may approve definitively the plan in accordance with article 13, paragraph 2, after being authorised by IVASS. The undertaking may not approve the lending plan in the event that IVASS has denied the authorisation requested or if the undertaking itself has not fulfilled the requests for amendments made by IVASS pursuant to paragraph 4.
 6. IVASS shall issue the authorisation through a measure indicating the limits, also quantitative, on the loans which can be granted, or shall reject the application for authorisation, for justified reasons, if the undertaking:
 - a) does not intend to rely on the support of a bank or a financial intermediary entered in the register referred to in article 106 of Legislative Decree No. 385 of 1 September 1993, as subsequently amended;
 - b) has presented the authorisation request referred to in paragraph 3.
 7. Without prejudice to paragraph 6, the application for authorisation of the lending plan shall be deemed accepted if IVASS does not adopt an explicit authorisation or denial measure within the deadline referred to in paragraph 2.

8. The undertaking shall not start the lending activity or, if it has started it, it shall suspend it, if the capital adequacy and risk management system adequacy requirements are not respected on an ongoing basis.

Art. 15

(IVASS's intervention powers)

1. IVASS shall estimate that implementation of the plan referred to in article 14 respects the conditions set out under article 14, paragraph 2 on an ongoing basis.
2. In detail, IVASS shall take into account:
 - a) with reference to the condition referred to in art. 14, paragraph 2, letter b), the measurements of capital absorption for direct loans subject to evaluation;
 - b) with reference to the condition referred to in art. 14, paragraph 2, letter c), the level of temporal permanence of the economic interest held by the bank or financial intermediary that may be involved in the plan, or the existence of safeguards required for the management and control of credit risk if the undertaking is not availing itself of the support of a bank or a financial intermediary.
3. As a result of the evaluations referred to in paragraphs 1 and 2, IVASS may impose on the undertaking conditions or quantitative limits to lending activity equal to or less than those provided for in article 16, which can prohibit the use of such investments.

Art. 16

(Investment limits)

1. The undertaking shall invest its assets in direct loans to subjects other than natural persons and micro-enterprises to a maximum of 5% of the total investments, and however in respect of the limits for each type of lending governed by paragraph 2. Excluded from the application of the limits are the loans and the interest-bearing loans guaranteed by first instance mortgages of first, or by bank or insurance guarantees represented by guarantees that provide for the provision of payment "at first request and without exception", or by other suitable state guarantees provided by local authorities.
2. Funding and loans and mortgages referred to in paragraph 1 issued by the insurance undertaking to subsidiaries, parent undertakings, related undertakings or participant undertakings, even in an indirect way and the loans that are configured as deteriorated

loans - as defined in the Bank of Italy Circular No. 272/2008 and subsequent modifications and integrations - not covered by the technical provisions in so far as they do not ensure the respect of the principles referred to in article 4.

3. The loans referred to in paragraph 1 are divided into the following categories:

A) Direct loans selected by a bank or a financial intermediary and having all the characteristics relating to the quality of the borrowers and the relationship with the intermediary. These assets are allowed up to a maximum of 5% of the total investments. This type shall include loans the borrowers of which are identified by a bank or a financial intermediary registered in the register envisaged by article 106 of the Consolidated banking law, and which have all the following characteristics:

- a) the bank or the financial intermediary holds until maturity of the operation an economic interest in the operation of no less than 50% of the loan granted, transferable to another bank or financial intermediary, and rights not exceeding those of the insurance undertaking vis-à-vis the borrowers, as regards the payment of interests and the repayment of capital;
- b) loans are granted to subjects with a high credit standing;
- c) the financial statements of the undertaking receiving the loan have been audited by a duly authorised auditing firm.

B) Direct loans selected by a bank or a financial intermediary but not having only the characteristics relating to the borrower. These assets can be held up to a maximum of 2.5% of the total investments. This type shall include loans the borrowers of which are identified by a bank or a financial intermediary registered in the register envisaged by article 106 of the Consolidated banking law, which comply with the characteristics referred to under point a) of the previous type A) but which do not have one or both the characteristics referred to under points b) and c) of the previous type A).

C) Direct loans selected by a bank or a financial intermediary but not having the characteristics relating to the borrower and the relationship with the intermediary. These assets can be held up to a maximum of 1% of the total investments. This type shall include loans the borrowers of which are identified by a bank or a financial intermediary registered in the register envisaged by article 106 of the Consolidated banking law, and which however do not comply with the characteristics referred to under points a), b) and c) of the previous type A).

D) Direct loans not selected by a bank or a financial intermediary. These assets may be held within the limits set by IVASS's authorisation pursuant to article 14 of this

Regulation. This category shall include loans for which the undertaking autonomously identifies the borrowers.

4. The value of the individual loan does not exceed, for the share belonging to the undertaking, 20% of the net assets, as shown in the last approved balance sheet of the undertaking receiving the loan;
5. The value of the individual loan does not exceed, for the share belonging to the insurance undertaking, 1% of the total investments.
6. In special circumstances and on a explained application by the undertaking, IVASS may authorise the investment in direct loan within a wider range than those indicated in the preceding paragraphs. This authorisation is:
 - a) conditional on the approval of the plan pursuant to article 13, paragraph 2;
 - b) granted up to a maximum of 8% of the total investments and 2% of the total investments with reference to the value of the individual loan.
7. The authorisation referred to in paragraph 4 shall be issued by IVASS taking into account:
 - a) the undertaking's ability to assess and manage the risk inherent to the investment proposed by the undertaking;
 - b) the consistency with the limits set by the administrative body in accordance with article 14, paragraph 1, letter e);
 - c) the degree of consistency of investments with the commitments deriving from technical provisions;
 - d) the protection of assets also in a medium and long-term perspective;
8. To calculate the amounts referred to in the preceding paragraphs, the undertaking shall take into account the value of the investments of which it bears the risk (*Investments other than assets held for index-linked and unit-linked contracts*) resulting from the application, at the date of preparation of the plan, the rules of assessment referred to in article 35-quater of the Code.

Title II

Internal control system and management of investment risks

Art. 17

(Internal control system regarding the assets/liabilities and financial area)

1. Without prejudice to the provisions in the Implementing Regulations issued by IVASS on the corporate governance system, the internal control activities of the assets/liabilities and financial area shall regard, at least, the following profiles:
 - a) congruence between the assets/liabilities and financial management and the prudent person principles, as regulated in the Code, in European legislation, in this Regulation and in policies on investments approved by the administrative body. In this regard, special attention is given to the monitoring of the assets of technical provisions;
 - b) independent assessments of prices and rates communicated and applied by external operators and of information provided by third parties;
 - c) conformity of transactions with the prevailing market terms and conditions;
 - d) conformity of the investment activity to the investment and risk exposure criteria defined in the regulations of the life assurance contracts referred to under article 2, paragraph 1 of the Code, also in case the management of assets is entrusted to third parties;
 - e) assessments of security, quality, liquidity and profitability of the portfolio as a whole, taking into account, at least, the following elements:
 - 1) any liabilities constraint, including policyholders guarantees and any disclosed policy on future discretionary benefits and, where relevant, reasonable policyholders expectations;
 - 2) the level and nature of risks that an undertaking is willing to accept;
 - 3) the level of diversification of the portfolio as a whole;
 - 4) the characteristics of assets, with particular regard to the creditworthiness of the counterparties, to liquidity, tangibility and sustainability;
 - 5) existence and quality of collateral or other assets backing the assets. The undertaking shall assess the impact of these elements on the level of security, quality, liquidity and profitability and also availability of individual assets and takes it into account for the purposes of technical provisions, in consistency with what was established by the following article 26, and in the representation of own funds, according to what is set out in the capital management policy;
 - 6) the gearing or the encumbrances;

- 7) the *tranches*;
 - 8) the events that could potentially change the characteristics of the investments, including any guarantees, or that could affect the value of the assets;
 - 9) aspects relating to localisation and the availability of the assets, including: the non-transferability; the legal aspects of other Countries; the currency measures; the custodian risk; the excess of guarantees and loans.
2. The undertaking shall envisage the prompt drafting of reports on the investment activity clearly illustrating the operations effected.
 3. The periodical reports to the senior management, whose frequency shall depend on the size, nature and complexity of the activity performed, shall include information at least on the following aspects:
 - a) description of the investment activity implemented during the reporting period, with specific indication of direct loans and operations in derivatives, financial instruments with analogous characteristics or effects, structured, securitisation, occasional investments and other complex assets;
 - b) investments in course separately for type of asset, with separated evidence of open positions in direct loans, derivatives, financial instruments with analogous characteristics or effects, securitisation, occasional investments and other complex assets. For open positions in derivative financial instruments and instruments with analogous characteristics or effects, reporting also describes the achievement of the objectives of risk reduction or effective management that underlie their use, with separated evidence of assets or of portfolios used to cover them, pursuant to article 20, paragraph 3, letter d);
 - c) off-balance sheet positions, including guarantees, constraints of any nature, with a description of the impact on the level of security, quality, liquidity and profitability of the portfolio as a whole and indication of treatment of these assets in the representation of own funds;
 - d) outstanding loans by counterparties.
 4. Senior management reports to the administrative body, in the manner and frequency determined by the latter:
 - a) on the results of the investment activity;
 - b) on the lending activities carried out pursuant to article 38, paragraph 2 of the Code;
 - c) on the monitoring of exposure to risks, with highlights of the analysis carried out on derivatives and other financial instruments with analogous characteristics and

effects, on relevant securitisation and on the securitisation of loans granted to subjects other than natural persons and from micro-enterprises, pursuant to article 1, paragraph 1-ter, Law No. 130 of 30 April 1999, on the operations of occasional investment and on other complex assets;

- d) on the existence of possible conflicts of interest;
- e) as well as on the effectiveness and adequacy of financial management.

Art. 18

(Investment risks management system)

1. Without prejudice to the provisions in the Implementing regulations issued by IVASS on the corporate governance system, the undertaking shall provide itself of information systems and analytical techniques that allow the assessment of investment risks taken; the level of complexity of these systems is commensurate with the extent and nature of exposures.
2. Specific procedures of quantitative prospective analyses shall be envisaged for the most risky investment activities or for investment activities of occasional nature and at any rate for the risks deriving from:
 - a) derivatives and financial instruments with analogous characteristics or effects;
 - b) activities of direct loans pursuant to article 38, paragraph 2 of the Code;
 - c) securitisation;
 - d) other complex assets with particular regard to the IAFs;
 - e) guarantees, constraints and encumbrances on assets in portfolio that can alter the characteristics and availability.
3. When the occasional investment involves the assumption of a relevant risk such as to cause a significant change in the risk profile of the undertaking, a new risk assessment must be performed.
4. When evaluating the level of security of their investments, the undertaking, in addition to the information provided by third parties, such as financial institutions, asset managers and ECAI, shall adopt its own tools and techniques for an autonomous evaluation of the risk, paying particular attention to credit risk, where the latter is intended as the risk of loss resulting from fluctuations in the credit standing of the parties to which undertakings are exposed. In this assessment, the undertaking shall use the main risk indicators defined in the investment policy.

5. As regards the need to carefully assess the investment risk when there are derivative, financial instruments with analogous characteristics and effects, securitisation and other complex assets, the undertaking shall make such assessment also by analysing the underlying assets and fund managers. A careful assessment of the investment risk is also necessary in case of markets characterized by a poor level of transparency.
6. When assessing compliance with the principle of marketability of investments, the undertaking shall take account, for all the investments and in view of the policies defined for risk management, of the characteristics of such risks, the actual possibility that these investments are dealt in on a regulated or not regulated market on which adequate liquidity is present, as well as their consistency with the maturity of expected cash-flows relating to the liabilities arising out of technical provisions.
7. The undertaking that invests in the securitisation shall ensure a full understanding of the investment risks and the underlying exposures. The undertaking shall ensure the full understanding and the alignment of its interests with those of the originator or the promoter of the securitised instruments.
8. Before performing any non-routine investment activity, the undertaking shall evaluate at least their ability to manage the investment, the specific relevant risks, its consistency with the beneficiaries and policyholders' interest, as well as the impact of this investment on the quality, security, liquidity, profitability and availability of the whole portfolio.
9. With regard to direct loans, the undertaking shall develop adequate policies relating to the measuring and management of the credit risk, in the initial phase of granting and until maturity. The analyses conducted in implementation of such policies shall be taken into account for both quality classification and the correct valuation of direct loans and their possible removal.

Art. 19

(Activity of the risk management function in the assets/liabilities and financial area)

1. Within the assets/liabilities and financial management the risk management function shall:
 - a) contribute towards the definition of the investment risks management system, including the undertaking's risk indicators and of the investment limits assigned to operational structures;

- b) contribute towards the definition of the allocation limits of the investments referred to under article 11, paragraph 1, letter a) and assess periodically their adequacy, also based on stress test analyses, verifying that the investment choices are appropriate in relation to the envisaged scenarios;
 - c) define the methodologies to be used when evaluating financial assets and their degree of safety, liquidity, quality, profitability and availability with particular regard to:
 - 1) derivatives and financial instruments with analogous characteristics or effects;
 - 2) activities of direct loans pursuant to article 38, paragraph 2 of the Code;
 - 3) securitisation;
 - 4) investments of occasional nature;
 - 5) other complex assets.
 - d) prepare the procedures for reporting to the administrative body, the senior management and the operational structures about the development in risks and the breach of operational limits in the assets/liabilities and financial area.
2. The risk management function shall keep the senior management and the administrative body regularly informed of its activity. To this end it provides aggregated and detailed information that allows it to assess the undertaking's sensitivity to changing market conditions and other risk factors related to the investment; specific information is provided on the exposure in derivatives and other financial instruments with analogous characteristics or effects on direct loans, on securitisation and on the securitisation of loans granted to subjects other than natural persons and micro-enterprises, in accordance with article 1, paragraph 1-ter of Law No. 130 of 30 April 1999, on other complex assets and with reference to the occasional investment activities, if the latter entail a significant risk or a change in the risk profile as well as on the impact of any constraints and burdens on the levels of availability, security, quality, liquidity and profitability of the investment portfolio.
3. The frequency of the information must be such that the company bodies must be able to timely assess the evolution of exposures and of the risks to which the undertaking's assets are exposed as well as the relevant impact on solvency.
4. The risk management function reports to the administrative body the investment risks identified as potentially substantial.

Title III

Provisions on the use of derivative financial instruments

Art. 20

(Derivatives transactions)

1. The use of derivative financial instruments and other financial instruments with analogous characteristics or effects, and structured products, is consistent with a balanced and prudent management of the portfolio, taking account of the principles referred to in article 4.
2. The undertaking defines in the investment policy referred to in article 5, paragraph 1 letter dd) purposes and strategies underlying the use of derivatives and financial instruments with analogous characteristics or effects.
3. The risk exposure arisen from using of derivatives and financial instruments with analogous characteristics or effects does not exceed the levels of risk tolerance set by the administrative body. To this end the undertaking shall evaluate all of the risks associated with each financial instrument. The operations on derivatives and financial instruments with analogous characteristics or effects shall meet the following requirements:
 - a) they are made according to procedures and amounts consistent with the economic, assets/liability and financial situation of the undertaking;
 - b) they contribute to reducing the risks or facilitate an efficient portfolio management, helping to improve the level of quality, safety, liquidity and profitability of the portfolio without significant compromise to any of these characteristics;
 - c) they do not have speculative purposes; short selling is in any case prohibited;
 - d) the derivatives and financial instruments with analogous characteristics and effects are covered; the undertaking is in possession of eligible assets sufficient to meet the commitments arising from the derivative contracts themselves;
 - e) the system of internal controls and risk management is adequate to prevent, measure, monitor and manage all current and prospective risks related to the use of derivatives;
 - f) an adequate recording system has been adopted allowing the continuous measurement of the positions;

- g) appropriate procedures and methodologies are defined to assess the possible expected losses from derivatives and whether they are consistent with portfolio constraints.
4. The undertaking shall have evidence to prove the improvement of the quality, safety, liquidity and profitability of the portfolio without significant compromise to any of these characteristics.
 5. The undertaking shall report the rationale and demonstrates the effective risk transfer obtained by the use of the derivatives where derivatives are used to contribute to a reduction of risks or as a risk mitigation technique.
 6. In the case of constitution of covering assets of derivatives, the undertaking shall document the relationship between the assets and the effective reduction of its funds in the cases required under article 23, paragraph 2.
 7. In case of use of derivative financial instruments that are not negotiated on a regulated market the following further conditions shall be met:
 - a) negotiation takes place on markets which offer adequate guarantees of settlement of the positions taken without significant deviations from their current theoretical evaluation;
 - b) contracts are concluded with counterparties with adequate investment grade rating, licensed to make such transactions professionally and subject to prudential supervision for stability purposes in line with current national regulations or the equivalent regulations of the foreign State, taking account of the degree of concentration of commitments and of the risk of each counterparty;
 - c) the value of the underlying commitments shall be the subject of a reliable assessment, which can be verified according to a time schedule consistent with the nature of the instrument and with the overall activity pursued by the undertaking.

Art. 21

(Derivatives transactions in relation to the covering assets of technical provisions)

1. Without prejudice to the provisions of article 20, the derivative financial instruments can be used in relation to covering assets of technical provisions, at the following conditions:
 - a) they show an evident technical-financial connection with covering assets of technical provisions or to be allocated to that purpose in case of operations made to acquire financial instruments;

- b) the underlying values are made of covering assets of technical provisions or of indexes based on that type of assets.
2. The value of derivative financial instruments which meet the conditions referred to under paragraph 1 shall be taken into consideration for the assessment of the assets linked to it.

Art. 22

(Derivatives transactions in relating to the contracts referred to in art. 41, paragraphs 1 and 2 of the Code)

1. By way of derogation from the provisions of article 20, paragraph 7, the undertaking may use derivative financial instruments in relation to the contracts referred to in article 41, paragraphs 1 and 2 of the Code, except for the additional technical provisions envisaged the same article, at the following conditions:
 - a) that the relevant contracts are concluded with counterparties professionally licensed to effect such operations and subject to prudential supervision for stability purposes, in line with national regulations in force or with the equivalent regulations of the foreign State;
 - b) that, if derivative financial instruments are not dealt in on regulated markets whose methods of operation envisage the obligation for operators to pay margins, the relevant contracts are concluded with counterparties belonging to OECD States, which have been rated at least "A-" or equivalent by at least two major ECAI, or by at least one major ECAI if no other ECAI has assigned a lower rating, according to the classification scale of medium-long term investments. *If the counterparties are credit institutions supervised according to the European regulations applicable to the banking sector, their credit standing is rated at least as their investment grade, according to the scale of medium-long term investments.*
 - c) that, if derivative financial instruments are not negotiated on a market, whether regulated or not, offering adequate guarantees of cost-effective payment of the positions taken, the undertaking concludes agreements with the counterparty, or with any other person which fulfils the same requirements as those envisaged for the latter, which are such as to ensure that it can choose to have the position settled (possibly, at fixed intervals and amounts) in such a way that it can have sufficient

cash to cover the commitments deriving from the policies referred to under article 41, paragraphs 1 and 2 of the Code, even during the term of the contract;

- d) that, if derivative financial instruments are not dealt in on a market, whether regulated or not, whose methods of operation actually imply the reliable update of the values to be quoted, the relevant contracts envisage that the counterparty calculates the current value of the instruments at fixed intervals which are consistent with the benefits envisaged by the relevant policies and, at any rate, at the closure of each financial year and whenever the insurance undertaking so requests. The notification regarding such evaluation shall be kept by the insurance undertaking at its head office;
- e) that the highest risks arising from derivative transactions are reflected in the internal control and risk management system.

Art. 23

(Constitution of covering assets)

1. Consistent with the general principles on investments referred to in article 4, if the derivative contracts stipulate the constitution of covering or cash in any form, the undertaking shall not consider these assets to cover the technical provisions nor for the representation of covering funds of the Solvency Capital Requirement. Likewise, they may not be used to cover any activities received as guarantee on derivative asset positions.
2. To cover the Solvency Capital Requirement, as prescribed in the preceding paragraph 1, it does not apply to the covering assets for positions of derivative liabilities that at the date of detection involve an actual reduction of own funds eligible for an amount of assets not exceeding the actual connected reduction of own funds.
3. For the purposes referred to in the previous paragraph 1, the undertaking shall consider the presence of agreements on the constitution of covering assets under any form also with reference to structured securities, to securitisation and in general to complex assets, and even when the guarantee is not directly paid by the undertaking but the effects fall on the portfolio of the undertaking itself.

Title IV

Provisions on groups

Art. 24

(Policies on investments)

1. Without prejudice to the obligation for each insurance or reinsurance undertaking with legal headquarters in Italy belonging to the group to acquire their own policies related to the management of investments, the ultimate Italian parent company provides the group of an investment policy consistent with the prudent person principle.
2. The policy on investments is aimed towards defining investment objectives for the group as a whole that are consistent with the strategic vision of the group itself, in order to anticipate, identify, monitor and manage specific relevant risks at the group level.
3. For the purposes referred to in paragraph 2, the policy on investments of the group contains specific limits for each source of substantial investment risk, with particular regard to the risk of concentration.
4. The liquidity risk management at the group level is also adequately supported by specific agreements governing the use of funds in respect of the liquidity risk management policies of each undertaking in the group pursuant to the provisions of article 7 of this Regulation. To this end the agreements provide that each undertaking in the group monitors its financial situation also in situations of stress by verifying the possibility of transferring funds.
5. The policy referred to in paragraph 1, prepared in accordance with the provisions of Annex 1 of the Implementing Provisions issued by IVASS regarding the corporate governance system, is approved by the administrative body of the ultimate Italian parent company and revised at least once a year.
6. The ultimate Italian parent company shall verify that the individual policies defined regarding investments by the companies of the group do not conflict with the policy of the group referred to in paragraph 1.

Art. 25

(Internal control and risk management of the investment)

1. Taking into account what is provided by the Implementing Provisions issued by IVASS regarding the corporate governance system, the ultimate Italian parent company shall

ensure that the investment policy at the group level is implemented in a consistent and continuous manner within the entire group, taking into account the specific risks of each undertaking and of mutual dependencies.

2. The assessment made by the ultimate Italian parent company concerns, in particular:
 - a) the reputational risks;
 - b) the risks arising from intra-group transactions;
 - c) the concentration risk, including the risk of contagion at the group level;
 - d) the risks associated with the participations, also carried out through subsidiaries, having particular regard to the risk of concentration of the investments.
3. The ultimate Italian parent company shall also assess, at least on an annual basis:
 - a) the investment risks to which the group is exposed, in a current and perspective view;
 - b) the consistency of the investment policy with the risk profile and with the strategy of the group as a whole.

PART III

Provisions on the coverage of technical provisions

Art. 26

(Investment criteria)

1. The technical provisions shall be covered by assets wholly and freely owned by the undertaking, and free of any form of restriction or burden. Without prejudice to the general principles referred to in article 4, when choosing representative assets the undertaking shall take account of the type of risks and of the commitments accepted, including their nature and duration.
2. Assets shall be classified in categories, taking account of their economic/financial features and of the relevant risk profiles, independently of the name of the asset and its formal classification.
3. The information on the assets representing technical provisions shall be forwarded to IVASS according to the instructions provided by the Institute.
4. Without prejudice to the investment criteria defined in the investment policy, in the choice of the assets of technical provisions, the undertaking shall take into account:

- a) the availability of assets;
 - b) the existence of constraints and conditions of any kind that could limit the availability or change the levels of security, quality, liquidity and profitability desired;
 - c) the appropriateness of the assets composition under their nature, duration and liquidity, for the purposes of compliance with the obligations which progressively expire;
 - d) the potential mismatch between assets and liabilities at least for terms and currencies;
 - e) the purposes of performance, policies on discretionary benefits and the reasonable expectations of policyholders.
5. For the purposes referred to in paragraph 4, the undertaking shall assess the existence of any option or implicit condition in the assets, with particular regard to complex assets, which can change the profile of the cash flows of the individual assets or of the portfolio as a whole, by modifying the level of mismatch sought.
 6. For the purposes referred to in paragraph 4 and taking account of the assessment criteria laid down in article 27, the undertaking shall assess the risk profile of the individual assets and the existing correlations with other assets in the portfolio, so that any mismatches between assets and liabilities remain within contained levels even in adverse market conditions.

Art. 27

(Valuation criteria)

1. Assets covering technical provisions shall be valued net of any debts arising out of their acquisition and of any adjusting entries.
2. The assets are valued, for the purpose of covering the technical provisions, according to the same criteria adopted for valuation of the assets in accordance with article 35-quater of the Code.
3. The undertaking shall ensure that the evaluations referred to in the preceding paragraph are reliable and appropriate, in line with the policy and procedures defined for the evaluation of assets and liabilities.
4. The undertaking shall keep a register showing assets representing technical provisions. The amount of such assets must at any time be, taking account of all the movements

recorded, at least equal to the amount of the technical provisions referred to in articles 36-bis, 36-ter of the Code.

5. The securities issued by entities which have been declared insolvent or for which winding-up procedures have been started shall be entered in the register of assets representing technical provisions for an amount equal to zero.
6. Where the representative assets include an investment in a subsidiary which manages all or part of the insurance undertaking's investments on its behalf, IVASS shall, when verifying the correct application of the rules and principles laid down in this Part, take into account the underlying assets held by the subsidiary.
7. The undertaking, in case of the transfer of reinsurance risks to undertakings having their head office in third Countries whose solvency margin regime is not considered equivalent in accordance with European Community, for the purposes of covering technical provisions shall identify other assets to be entered in the register in replacement of these credits.

Art. 28

(Non-compliance with IVASS's provisions and powers)

1. If IVASS has reason to believe that for one or more of the covering assets of technical provisions the principles of the prudent person, as described in the Code, in the Delegated Acts and in this Regulation have not been observed, it shall inform the undertaking that such assets may not be admitted as cover for all or part of the technical provisions.
2. IVASS may require that specific types of assets are not included among those eligible to represent technical provisions, also taking into account the best interests of the policyholders, insured, beneficiaries and whoever is entitled to the insurance benefits.

PART IV

Final provisions

Title I

Amendments and integrations to ISVAP Regulation No. 27 of 14 October 2008 on the keeping of insurance registers referred to in article 101 of the Code

Art. 29

(Amendments to article 18 relating to the register of covering assets of life technical provisions)

1. The text of article 18 of ISVAP Regulation No. 27 of 14 October 2008 shall be replaced as follows:
 - “1. In the register of covering assets of life technical provisions referred to in articles 36-bis and 36-ter of the Code, the undertakings report the analytical list and the summary situation of covering assets of technical provisions at the end of each month.*
2. *The register is subdivided into three sections:*
 - a) the first section shows the covering assets of life technical provisions referred to in articles 36-bis and 36-ter of the Code, different from those relating to contracts directly connected to the indexes or shares of CIUS or deriving from the management of pension funds, and of the technical provisions to be established in relation to the contracts referred to in article 41 paragraphs 1 and 2 in the cases provided for in paragraph 4 of the same article;*
 - b) the second section shows the covering assets of technical provisions referred to in articles 36-bis and 36-ter of the Code in relation to contracts directly connected to the indexes or shares of CIUS referred to in article 41, paragraphs 1 and 2, of the Code;*
 - c) the third section shows the covering assets of technical provisions referred to in articles 36-bis and 36-ter of the Code deriving from the management of pension funds.*
3. *In each section of the register shall be recorded monthly incoming or outgoing movements of individual assets and, notwithstanding article 4, paragraph 2, no later than the end of the month following the month in which the operations were carried out.*
4. *Among the movements are reported changes in increase or decrease of the assets and the inclusion of new assets, recording in outgoing the full amount and incoming the entire new amount of the same asset. For each movement are noted the date of registration, the description of the asset, the relative code, the quantity and the amount. For bank deposits, loans and other assets, refers to the overall variations of the same resulting from monthly balances.*

5. *The covering assets of technical provisions referred to in the first section are entered in the register on the basis of the amount which may be exchanged between knowledgeable willing parties in an arm's length transaction.*
6. *Repealed.*
7. *The covering assets of technical provisions on the contracts referred to under article 41, paragraphs 1 and 2, of the Code and deriving from management of pension funds are entered in the register on the basis of the current value at the reference date in accordance with the criteria referred to in article 16, paragraph 8 of Legislative Decree No. 173 of 26 May 1997.*
8. *At the end of each month, the undertakings shall list in each section of the register the analytical list of covering assets of technical provisions.*
9. *At the end of each month, the undertakings shall highlight in each section of the register the total amount of technical provisions to cover and the total amount of the covering assets of technical provisions, distinguished by code, without prejudice to the obligation to proceed timely if there are events or circumstances that significantly change the value or the composition of the portfolio.*
10. *For each section the undertakings shall determine, at the end of each quarter, the total amount of the technical provisions relating to the contracts in force at the date of reference. Within the month following that of reference, the undertakings shall report in the register the updated amount of technical provisions, taking account of what is stated in IVASS Regulation No. 18 of 15 March 2016, without prejudice to the obligation to proceed timely if there are events or circumstances that significantly change the value or the composition of the portfolio.*
11. *Repealed.*
12. *For the individual pension plans referred to in article 13, paragraph 1, letter b), of Legislative Decree No. 252 of 5 December 2005, the undertakings shall record separately, within each of the first two sections of the register of the covering assets of life technical provisions, incoming and outgoing movements of the individual covering assets, the analytical list of assets and the amount of the technical provisions in accordance with the provisions of paragraphs from 3 to 9. For the purposes of determining the value of the covering assets of individual pension plans to be entered in the register, the cost of the whole of the assets acquired by the undertaking shall be considered."*

Art. 30

(Amendments to article 36 relating to the register of covering assets of non-life technical provisions)

1. The text of article 36 of ISVAP Regulation No. 27 of 14 October 2008 shall be replaced as follows:

- “1. In the register of covering assets of non-life technical provisions referred to in articles 36-bis and 36-ter of the Code, the undertakings shall report the analytical list and the summary situation of covering assets of technical provisions at the end of each month.*
- 2. In the register shall be recorded monthly incoming or outgoing movements of individual assets and, notwithstanding article 4, paragraph 2, no later than the end of the month following the month in which the operations were carried out.*
- 3. Among the movements are reported changes in increase or decrease of assets and the inclusion of new assets, recording in outgoing the full amount and in incoming the entire new amount of the same asset. For each movement are noted the date of registration, the description of the asset, the relative code, the quantity and the amount. For bank deposits, loans and other assets, refers to the overall variations of the same resulting from monthly balances.*
- 4. The covering assets of technical provisions are entered in the register on the basis of the amount which may be exchanged between knowledgeable willing parties in an arm's length transaction.*
- 5. Repealed.*
- 6. At the end of each month, the undertakings shall report in the register the analytical list of the covering assets of technical provisions.*
- 7. At the end of each month, the undertakings shall highlight in the register the total amount of the technical provisions to cover and the total amount of covering assets of technical provisions, distinguished by code, without prejudice to the obligation to proceed timely if there are events or circumstances that significantly change the value or the composition of the portfolio.*
- 8. Repealed.*
- 9. Repealed.*
- 10. The undertakings shall determine at the end of each quarter, the total amount of the technical provisions relating to the contracts in force at the reference date, taking into account what is stated in IVASS Regulation No. 18 of 15 March 2016, without prejudice*

to the obligation to proceed timely if there are events or circumstances that significantly change the value or the composition of the portfolio. Within the month following that of reference, the undertakings shall report in the register the updated amount of the technical provisions."

Art. 31

(Register of covering assets of reinsurance undertaking technical provisions)

1. In ISVAP Regulation No. 27 of 14 October 2008 is inserted article 39-bis, as shown below:

"Art. 39-bis

(Register of covering assets of reinsurance undertaking technical provisions)

1. *In the register of covering assets of technical provisions referred to in article 65-bis of the Code, the undertakings referred to in article 3, paragraph 1, letter c) shall report the analytical list and the summary situation of the covering assets of technical provisions at the end of each month.*
2. *The insurance undertakings that jointly exercise the reinsurance activities shall compile distinct registers for direct insurance and reinsurance.*
3. *The undertakings referred to in article 3, paragraph 1, letter c) shall compile distinct records for life and non-life reinsurance.*
4. *Notwithstanding paragraph 3, it is faculty of the undertakings authorised to jointly exercise the reinsurance activities in the life branches and in the non-life branches to compile a single register. In this case, the register is divided into two sections:*
 - a) *Section I - The covering assets of non-life reinsurance technical provisions;*
 - b) *Section II - The covering assets of life reinsurance technical provisions.*
5. *In the register shall be recorded monthly incoming or outgoing movements of the individual assets not later than the end of the month following the month in which the operations were carried out.*
6. *Among the movements are reported changes in increase or decrease of the assets and the inclusion of new assets, recording in outgoing the full amount and in incoming the entire new amount of the same asset. For each movement are noted the date of registration, the description of the asset, the relative code, the quantity and the amount. For bank deposits, loans and other assets, refers to the overall variations of the same resulting from monthly balances.*

7. *The covering assets of technical provisions are entered in the register on the basis of the amount which may be exchanged between knowledgeable willing parties in an arm's length transaction.*

8. *At the end of each month, the undertakings referred to in paragraph 1 shall report in the register the analytical list of the covering assets of technical provisions.*

9. At the end of each month, the undertakings referred to in paragraph 1 shall highlight, for each section, in the register the total amount of technical provisions to cover and the total amount of the covering assets of technical provisions, distinguished by code, without prejudice to the obligation to proceed timely if there are events or circumstances that significantly change the value or the composition of the portfolio.

10. The undertakings referred to in paragraph 1 shall determine at the end of each quarter, the total amount of the technical provisions relating to the contracts in force at the reference date, taking into account what is stated in IVASS Regulation No. 18 of 15 March 2016, without prejudice to the obligation to proceed timely if there are events or circumstances that significantly change the value or the composition of the portfolio.

11. *The register of covering assets of technical provisions is formed on paper support used in accordance with the provisions of article 2421, paragraph 3 of the Italian Civil Code, or on electronic format, in compliance with the technical rules laid down by Legislative Decree No. 82 of 7 March 2005 and its implementing norms, as well as by the Decree of the Minister of Economy and Finance of 23 January 2004 concerning fulfilment of fiscal obligations relating to electronic documents.*

12. *The register of covering assets of technical provisions shall apply the provisions relating to the keeping referred to in Article 5 of this Regulation."*

Title II

Transitional and final provisions

Art. 32

(Repeals)

1. The following are repealed as at the date this Regulation enters into force:
 - a) ISVAP Regulation No. 36 of 31 January 2011, with the exception of articles 14 and 15, which shall apply until the entry into force of IVASS measure amending ISVAP Regulation No. 22 of 4 April 2008;

- b) articles 66, 67, 68, 69, 70, 71, 72, 73, 74, 75, 134 and 137 of ISVAP Regulation No. 33 of 10 March 2010.

Art. 33

(Entry into force)

1. This Regulation shall enter into force on the day after its publication in the Official Journal of the Italian Republic, with exception for what is laid down in the following paragraphs.
2. The undertakings shall adapt to the provisions on covering assets of technical provisions referred to in Part III and matters regarding the relative registers referred to in Part IV, Title I, starting from the fourth quarter of this year.
3. The undertakings shall approve the policies on investments referred to in articles 5, 6, 7 and 24 by 30 September 2016.

Art. 34

(Publication)

1. This Regulation shall be published in the Official Journal of the Italian Republic and in IVASS's Bulletin and website.

On behalf of the Joint Directorate
The Governor of the Bank of Italy