

Date
7 November 2008

Le Président

Fédération
des Experts
Comptables
Européens
AISBL

Avenue d'Auderghem 22-28/8
1040 Bruxelles
Tél. 32 (0) 2 285 40 85
Fax: 32 (0) 2 231 11 12
E-mail: secretariat@fee.be

Mr Carlos Montalvo Rebuelta
Secretary General
CEIOPS
Westhafen Tower
Westhafenplatz 1
D-60327 Frankfurt Am Main



Secretariat@ceiops.eu

Ref.: CEIOPS-IGSRR-18/08

Dear Mr Montalvo,

Re: CEIOPS Issues Paper “Supervisory Review Process and Undertakings' Reporting Requirements”

1. FEE (Fédération des Experts Comptables Européens - Federation of European Accountants) welcomes the opportunity to comment on the Issues Paper “Supervisory Review Process and Undertakings' Reporting Requirements”, published by CEIOPS in August 2008 (“the Issues Paper”).
2. The proposed EC Directive on the Taking-up and Pursuit of the Business of Insurance and Reinsurance (“Solvency II Framework Directive” or “FWD”) is in final negotiations with both the Council of Ministers and the European Parliament. Once finalised, this level 1 text will be followed for certain parts of the FWD, by implementing measures under level 2. CEIOPS will provide advice on these level 2 implementing measures.
3. We would like to focus our response to the Issues Paper on matters which may affect the Auditor’s Involvement within the proposed FWD. Paragraph 6.21 of the Issues Paper states that “Certified information is deemed more reliable than uncertified information, although careful thought needs to be given to which information needs to be certified and which type of assurance needs to be given”. Accordingly, we consider it appropriate to set out our views on aspects of the level of assurance that auditors may be required to provide on certain information that insurance undertakings will submit to the supervisory authority, information which may also be in the public domain.
4. The following matters merit particular consideration:
 - How to communicate the inherent limitations of an audit and the further limitations of other forms of assurance, for instance negative assurance under a review and whether additional guidance on the auditor’s involvement is required;
 - The limitations of an audit or review due to the nature of information (for example future cash flows and other future events);
 - The minimum requirements regarding systems of control over reporting that undertakings should meet to create conditions under which assurance can be provided on the information generated.

5. Current practices and the involvement of auditors with information produced by insurance undertakings for regulatory purposes vary from country to country. These varying national practices have been summarised in Annex 1 to this letter.
6. We support the harmonisation of the requirements for auditors' involvement in the supervisory process and recommend that the EC and CEIOPS consider this as a matter of priority.
7. For ease of reference, those articles from the Solvency II Framework Directive that in our view may directly affect the work of auditors are included in Annex 2 to this letter.

Solvency and financial condition report

8. We understand that CEIOPS Internal Governance Supervisory Review and Reporting Expert Group (IGSRR) is debating the issue of auditors' involvement and is carrying out an internal survey on internal and external auditors' involvement with supervisory issues. We look forward to getting involved in the discussions in IGSRR.
9. We note that the issues paper lists a number of options for safeguards and sign-offs, and recommends further consideration is given to these. We would support a consistent approach being taken across Europe on this issue. Each of the examples has its merits and we would like to draw to CEIOPS' attention what we consider to be some of the features of the examples.
10. Sign-off may be by actuaries, auditors or senior management. Actuaries and auditors each have their own specialist skills. Auditors are experts in examining and providing assurance on information, processes and internal control systems.
11. Sign-off may be internal or external. The advantage of external sign-off is that it can be provided independently of those responsible for management. Where external sign-off is provided by professionals in that area, such as external audit, the professionals work will be subject to their own standards, rules, ethical codes, independence requirements and professional oversight. This oversight imposes a higher level of accountability upon the external professional. The disadvantage of external oversight is the extra cost, although internal sign-offs also have cost implications in terms of staff time.
12. Capital markets may expect a sign-off by auditors on public information that enables them to assess the financial position, performance and cash flows of the insurer.
13. The information elements of the solvency and financial condition report together with our comments thereon where appropriate, which could be relevant for consideration in the development of the EU level 2 implementing measures are set out in tabular form below.

Information element	Comments
a) Description of the business and the performance of the undertaking	Generally, this information is disclosed partly in the annual financial statements, in which case it falls within the scope of the audit, or in the Management Discussions and Analysis (annual report) in which case it would be assessed for consistency with the annual financial statements.
b) Description of the system of governance and an assessment of its adequacy for the risk profile of the undertaking	<p>The amendments to the Fourth and Seventh Directives require, once implemented, a description of the main features of the company's internal control and risk management systems in relation to the financial reporting process.</p> <p>The Statutory Audit Directive requires, once implemented, that the statutory auditor or audit firm reports to the audit committee on key matters arising from the statutory audit, and in particular on material weaknesses in internal control in relation to the financial reporting process.</p> <p>In case the statutory audit is performed under International Standards on Auditing (ISAs), the auditor would under proposed ISA 265 on "Communicating Significant Deficiencies in Internal Control", once approved, have the objective of communicating appropriately to management or those charged with governance deficiencies in internal control relating to financial reporting that the auditor has identified during the audit and that, in the auditor's professional judgement, are of sufficient importance to merit their respective attentions.</p> <p>The supervisory authorities need to decide whether these requirements are an appropriate "assessment of its adequacy" for supervisory purposes.</p>
c) A description, separately for each category of risk, of the risk exposure, concentration, mitigation and sensitivity	In accordance with IFRS 4 and IFRS 7, some information may be significant to the audited financial statements because it is considered "through the eyes of management".
d) A description, separately for assets, technical provisions, and other liabilities, of the bases and methods used for their valuation, together with an explanation of any major differences in the bases and methods used for their valuation in financial statements	Such balance sheet information is normally within the scope of an audit of financial statements and, in many countries supervisory returns. Measurement of technical provisions will be more and more based upon modelling future cash flows.

e) A description of the capital management, including at least the following (including the movements compared to previous years and an explanation of those movements):	In accordance with IAS 1.134-136 such information is included to the audited financial statements.
i. the structure and amount of own funds, and their quality;	This is normally included in the balance sheet and the notes disclosures and will then come within the scope of the audit.
ii. the amounts of the Minimum Capital Requirement and of the Solvency Capital Requirement (separated by pillar I and add-ons);	Supervisory authorities need to decide which level of assurance is required from certifying actuaries or accountants.
iii. information allowing a proper understanding of the main differences between the standard formula and any internal model used by the undertaking for the calculation of its Solvency Capital Requirement;	There is a quantitative element as well as an element of control and governance over internal models which need to be considered.
iv. the amount of any non compliance with the Minimum Capital Requirement or any significant non compliance with the Solvency Capital Requirement during the reporting period, even if subsequently resolved, with an explanation of its origin and consequences as well as any remedial measures taken.	The potential link to the requirements of auditors as outlined in Article 71 FWD should be considered (see paragraph 16 below).

Direct effects

14. Article 71 FWD obliges the statutory auditor of an insurance or reinsurance undertaking to report certain events (should they occur) to the supervisory authorities. This rule already exists, but in most jurisdictions is restricted to the facts which the auditor becomes aware of while carrying out normal audit procedures. Non-compliance with the SCR (Solvency Capital Requirement) and with the MCR (Minimum Capital Requirement) has been added as reportable events.
15. Paragraph 4.45 of the Issues Paper suggests that “if the solvency of the undertaking deteriorates further towards the MCR, there should be an increase in the level of supervisory activity to enable the supervisor to better assess and control the situation. This could include requiring the undertaking to extend the scope of internal or external auditors’ or consultants’ work (at the undertaking’s expense)”. It would be helpful to specify further what may be expected from the external auditors under these circumstances.

16. Clarification is sought as to whether supervisors wish to bring the measurement of the SCR and MCR within the scope of the audit or auditors' review. In making that determination issues to be considered include:

- A data issue; the data processes related to the required data set;
- A parameter issue (relevance, etc.);
- A model issue, especially (for SCR) requirements related to internal models;
- A measurement issue. In order to assess (non-) compliance, SCR and MCR must be compared to the available own funds, i.e. assets less insurance liabilities less other liabilities. Insurance liabilities and some assets have to be measured according to a mark to model approach, which requires an evaluation of expected future cash flows.

Indirect effects

Risk management and internal control

17. In many countries, there is an active role for the auditor to assess and report on risk management, internal control and compliance issues in insurance undertakings. A summary of the national practices based on a FEE Survey is included in Annex 1. In those countries where supervisory legislation has significantly changed in recent years, risk management and internal control in insurance undertakings have become areas for explicit consideration in the statutory audit engagement. Due to the importance of Pillar II in the Solvency II structure it can be expected that this role will be further harmonised and extended. Presumably, such reporting will be limited to the supervisory authority and to the bodies within the undertaking charged with governance.

Measurement

18. The measurement of insurance liabilities and certain assets will be on a "mark-to-model" basis, which implies an evaluation of projected future cash flows. These assets and liabilities will be included in supervisory returns that are subject to audit in some countries. The International Standard on Auditing (ISA 540 revised and redrafted) relating to "Auditing Accounting Estimates, including Fair Value Accounting Estimates, and Related Disclosures" addresses inter alia this area. This Standard may be supplemented in due course by further application guidance.

19. Specific points to be considered in the application of the Solvency II framework are:

- The three building blocks, i.e.:
 - The probability-weighted average of future cash flows. According to the FWD and the QIS 4 specifications, this implies a kind of fair value hierarchy where observable prices in deep liquid markets (e.g. for assets that replicate liabilities) come first and entity-specific variables (e.g. for maintenance costs per policy) come last. This building block picks up the costs of all options and guarantees;
 - Discount rate equal to the risk free interest rate term structure. There is an emerging practice of supervisory authorities/central banks periodically prescribing the interest rates to be used for measurement purposes;
 - A risk margin. The QIS 4 specifications indicate that this primarily relates to the risk margin for unhedgable risk, using the cost of capital method. The model used for measurement is similar to the model used for SCR and ORSA.

- The data used (relevance, accuracy and completeness) and the related data processes;
- The parameters used (relevance, proper application of the fair value hierarchy, relevant reference markets);
- The model used (change management, etc.);
- The evidence that the model fulfils the use test (analysis of output, experience analysis, management actions on model output, etc.).

20. Similar developments may occur in financial statements after the finalisation and implementation of IFRS Phase II for insurance contracts.

Disclosure

21. Article 50 of the Framework Directive requires a report by the insurance undertaking on solvency and financial condition. This report includes qualitative and quantitative information about performance, governance, risk, measurement, capital and required solvency. It is not yet decided which part of this information will be incorporated in financial statements, which part in the Management Discussions and Analysis (annual report) or in a separate supplement. That decision has ramifications for the level of assurance, if any, that will be provided on the information.

22. However, for many undertakings, the solvency and financial condition report will impact the audited information because information given “through the eyes of management” (in compliance with IFRSs 7 and 4 as well as IAS 1) should be consistent for all information that undertakings supply to the public.

Other considerations

23. There is a need to determine how the Solvency II Framework Directive and the related implementing measures will impact upon the role of auditors. The following matters need to be considered:

- Generally, the business processes that produce financial reporting estimates and the documentation of such processes, including use tests, may need to be enhanced;
- As noted above there are a number of likely extensions to the requirements of auditors regarding the new Solvency II Framework. There may be implications for auditor’s liability across Europe that need to be carefully considered.

We would be pleased to discuss with you any point of this letter.

Yours sincerely,



Jacques Potdevin
President

Ref: INS/JP/SS-LF

Austria	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>§ 82.5 VAG (Austrian Insurance Supervisory Code) states that the auditor has to report on findings during the year end audit. This report is an integral part of our long-form report, which is made for the (Supervisory Board) but sent as well to the supervisory authority. According to § 82.6 VAG the audit has to cover certain special paragraphs, among those § 17b VAG and to report on those as well. In 2006 § 17 b.5 VAG has been implemented based on which the insurance company has to have Risk management in place to deal with risks associated with its insurance business.</p> <p>b) Additional requirements for listed insurance companies</p> <p>According to § 243 (2) VAG (effective 1 January 2009) the management report has to include a description of the main characteristics of the internal control system and the risk management system with regard to the financial accounting process. Auditors have to judge if all information in the management report is in accordance with the financial statements.</p> <p>According to the Austrian Corporate Governance Code - which is voluntary - the auditor should give a judgment on risk management and report on that to management board and head of supervisory board. This rule is a "C"-Rule (Comply or Explain).</p> <p>c) Additional requirements for non-listed insurance companies</p> <p>VAG is valid for all insurance companies, the Austrian Corporate Governance Code is open to everyone.</p> <p>d) Current discussions or changes envisaged in the future</p> <p>So far detailed regulation for insurance companies by the supervisory authority has been avoided by a guideline of the Insurance association (December 2006). However for pension funds regulations for risk management has been implemented in September 2006. If the companies do not deliver a risk management handbook in line with this regulation by end of March 2007 they fall under a conservative regime for their investments. Of course the audit of this risk management will be part of the work of the auditor.</p>
Belgium	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>As far as the internal control system is concerned, it is the responsibility of the directors to set up/maintain a system of internal control appropriate to the scope and nature of the company or undertaking.</p> <p>With regard to risk management, the management report must describe the main risks and uncertainties the company is facing or is expected to face in the near future.</p>

	<p>In the opinion on the statutory accounts, the external auditor will have to confirm that:</p> <ul style="list-style-type: none"> - the company's system of internal control is appropriate for the scope and nature of its activities; and - the management report deals with the information required by law, consistent with the annual accounts. However, the external auditor is not in a position to express an opinion on the description of the principal risks and uncertainties facing the company, the state of its affairs, its foreseeable development or the significant influence of certain events on its future development. Nevertheless, the external auditor can confirm that the information provided is not in obvious contradiction with the information he has acquired in the context of his appointment. <p>b) Additional requirements for listed insurance companies</p> <p>Concerning internal control systems, the Control Law of 9 July 1975 (which applies to insurance companies) specifically provides that insurance companies must maintain a system of internal control appropriate to the scope and the nature of their activities. As mentioned above, the external auditor will have to confirm explicitly that this is the case. In addition, in his long-form report to the Belgian Insurance Regulator, he will have to comment on that system.</p> <p>The same requirements apply to the management report: please refer to the information above.</p> <p>Please also note that auditors are required to report to the Belgian Insurance Regulator:</p> <ul style="list-style-type: none"> - on any fact liable to constitute a substantive breach of the Annual Accounts Act and its implementing decrees and regulations setting down the conditions for accreditation or other specific requirements concerning engaging in insurance business; - matters that could affect the presumption of the company continuing as a going concern; and - matters that could lead to a qualified opinion. <p>c) Additional requirements for non-listed insurance companies</p> <p>There are no additional requirements for non-listed insurance companies: please refer to the information above.</p> <p>d) Current discussions or changes envisaged in the future</p> <p>None.</p>
<p>Cyprus</p>	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>Auditors of insurers are required to report on specified matters in relation to returns required from the insurer by its regulator.</p>

	<p>Auditors issue a report containing a clear expression of their opinion on the regulatory returns. Auditors consider the matters which have come to their attention while performing the procedures on the returns and whether they should be included in a report to directors or management.</p> <p>The regulatory returns requiring involvement of external auditors are:</p> <ol style="list-style-type: none"> 1. the Annual Accounts (Annual Regulatory Returns); and 2. the Investment Registers relating to the second and fourth quarter of each year. <p><i>Annual Accounts:</i></p> <p>As part of their responsibilities for the audit of the Annual Accounts, external auditors are required to report whether in their opinion:</p> <ol style="list-style-type: none"> a. the Annual Accounts Forms fairly state the information and have been properly prepared in accordance with the provision of the Orders issued under the Laws; b. the directors' certificate and the certificate required under section 91 of the Laws on Insurance Services and Other Related Issues (the "Laws") have been properly prepared in accordance with the Orders issued under the Laws; c. it was not unreasonable for the persons signing these certificates to have made the statements therein; d. in the case of a company carrying on Life business, the extent to which, in giving their opinion they have relied on the appointed actuary's certificate. <p><u>Directors' certificate:</u></p> <ol style="list-style-type: none"> 1. In relation to the Annual Accounts Forms, the directors need to certify that: <ol style="list-style-type: none"> (a) the returns have been prepared in accordance with the Orders; (b) proper accounting records have been maintained and adequate information has been obtained by the company; and (c) an appropriate system of control has been established and maintained by the company over its transactions and records. 2. Certify that the requirements relating to currency matching set out in the Laws have been complied with throughout the financial year; 3. Certify that the minimum solvency margins as defined in the Laws have been maintained throughout the financial year; 4. In the case of an insurance company carrying on both Life and General Business, certify that the requirements set out in the Laws have been complied with throughout the financial year, and in all cases that the assets attributable to the Life fund, the income arising on such assets, the proceeds of any realisation of such assets and any other income or
--	--

Present involvement of auditors in supervisory information, risk management and internal control (update of information is in progress)

	<p>proceeds allocated to the Life fund have not been applied otherwise than for the purpose of the Life business;</p> <p>5. In respect of any internal linked funds maintained by an insurance company certify that the investment policy and practice of the company was throughout the financial year, consistent with any representations made to policyholders or potential policyholders of the company.</p> <p><u>Directors' certificate under section 91:</u></p> <p>The directors and the compliance officer also need to certify, if such be the case that the requirements of the Orders of the Regulator, issued under the provisions of the Law for the Concealment Investigation and Confiscation of Income from Certain Criminal Actions, have been complied with throughout the financial year.</p> <p>The directors' certificates are only required to include positive statements concerning the above requirements with which the company complies. Where the directors cannot confirm a particular matter, they omit it and add an explanation stating that fact together with a description of the circumstances leading to this situation. The auditors' responsibilities are to consider the reasonableness of the statements made. They have no obligation to report on omissions. However, the factors giving rise to the omission of a particular statement in the directors' certificate may give rise to a statutory duty to report directly to the regulator.</p> <p><i>Investment Registers:</i></p> <p>The auditors need to report whether in their opinion:</p> <ul style="list-style-type: none">a. the Investment Register has been completed in accordance with the relevant Instructions; andb. the approved investments listed in forms the Forms existed as of the date of the Investment Register, were owned by the insurance company and were valued in accordance with the Orders issued under the Laws. <p>The auditors will report on the matters referred to in paragraph 151 above on the basis of the work performed. The nature and scope of the work performed will be determined by the auditors and may comprise the following procedures:</p> <ul style="list-style-type: none">• General review of the insurance company's control procedures and in particular those relating to investments;• Interview of those in charge of monitoring the investments;• Review of the work performed by the internal audit department; and• Examination, on a test basis, of evidence supporting the amounts in the Investment Register. <p>b) Additional requirements for listed insurance companies</p> <ul style="list-style-type: none">• There are no additional requirements for auditors in relation to listed insurance Companies;• All auditor requirements are the same as per the requirements of non-
--	---

	<p>listed insurance Companies.</p> <p>c) Additional requirements for non-listed insurance companies</p> <p>No additional specific requirements for unlisted.</p> <p>d) Current discussions or changes envisaged in the future</p> <p>None.</p>
Czech Republic	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>Auditor's are required to report by exception to the insurance regulator (central bank): (i) matters providing evidence that binding legislation governing client's regulated activities have been breached, (ii) matters that have fundamental negative effect on client's activities, (iii) matter that can affect the going concern presumption, and (iv) matters that can lead to qualified opinion.</p> <p>b) Additional requirements for listed insurance companies</p> <p>No external auditor's involvement.</p> <p>c) Additional requirements for non-listed insurance companies</p> <p>No external auditor's involvement.</p> <p>d) Current discussions or changes envisaged in the future</p> <p>The draft of the new act on auditors includes additional obligation to report to the central bank on its request information and explanations related to the statutory audit process and findings obtained during the statutory audit of a regulated entity. The detailed procedures for this process are not yet defined.</p>
Denmark	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>Following the recommendations from the stock exchange, listed companies are recommended to disclose risk management activities in the financial statement. Hence the external auditor to some extent has to verify the information. It is also recommended that the supervisory board at least once a year discuss and evaluate the system of internal controls and in this connection the board has to consider to what extent the internal audit can assist.</p> <p>b) Additional requirements for listed insurance companies</p> <p>The above mentioned is also requirements for listed insurance companies.</p> <p>In addition to the audit work that leads to the audit opinion, the external auditors perform additional audit work reported in the audit book (long-form audit report) according to the Executive Order on Auditing. The audit book comments on whether the undertaking's significant working routines and internal control procedures are adequate; the overall system security, data security, and operational security in the undertaking are adequate. This reporting comprises in practice that the auditors shall state whether specific internal control procedures regarding, among others, related parties transactions, investment rules and reinsurance are adequate.</p>

	<p>Furthermore, the review of system, data security, and operational security in the insurance companies is based on the "FSA Guidelines on IT control and security measures in pursuance of the Financial Business Act.</p> <p>c) Additional requirements for non-listed insurance companies</p> <p>The regulator does not draw a distinction between listed and non-listed insurers when specifying requirement. Hence the same described above for listed companies.</p> <p>d) Current discussions or changes envisaged in the future</p> <p>The regulator suggested in 2007 that the external audit in the audit book (long-form audit report) should report whether the insurer has followed guidelines issued by the FSR regarding risk management and administrative procedures. However the Institute of State Authorised Public Accountants in Denmark (FSR) did not agree with this suggestion.</p> <p>Discussions are ongoing at the moment and a working group is handling the different views.</p> <p>The practical application of (new) supervisory rules regarding individual solvency requirement which brings internal organisation and risk management in focus might change in external and internal auditors' involvement in risk management in the future.</p>
Finland	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>No external auditor's involvement.</p> <p>b) Additional requirements for listed insurance companies</p> <p>No external auditor's involvement.</p> <p>c) Additional requirements for non-listed insurance companies</p> <p>No external auditor's involvement.</p> <p>d) Current discussions or changes envisaged in the future</p> <p>No changes are currently under consideration.</p>
France	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>No external auditor's involvement.</p> <p>b) Additional requirements for listed insurance companies</p> <p>In the general context of the Companies law (concerning only listed companies), external auditor has to present annually to shareholders a report stating whether the information contained in the chairman's report on internal control is fairly stated, but only for that part of the report dealing with accounting procedures and systems of internal control relating to the preparation of financial statements. No specific requirement for insurance companies.</p>

	<p>c) Additional requirements for non-listed insurance companies</p> <p>No external auditor's involvement.</p> <p>d) Current discussions or changes envisaged in the future</p> <p>1) Since 1998, insurance companies have to report to the French supervisory authority (ACAM) on a solvency report. The solvency report describes how the company is organised and managed to meet its liabilities, in the long term. In a group, the report is stated entity by entity.</p> <p>This report includes specific elements on organisation and resources to analyse and manage risks. Some aspects concerning assets and reinsurance have to be described more precisely.</p> <p>The Board is responsible for this report. The report is not published. Today, the solvency report is communicated to external auditors, without specific involvement for the auditor. Nevertheless, external auditors accurately read the report and integrate it as an element of the audit.</p> <p>2) Since 2006, insurance companies (listed or not) have to report to the French supervisory authority (ACAM) on internal control. This report explains how the work of Governance and how the internal control are organised. The report is very close to the one for French listed companies, but detailed and adapted in the insurance context.</p> <p>The Board is responsible for this report. The report is not published (except for listed insurance companies – see above). The internal control report is not formally communicated to external auditor, but as a standard, auditors have to obtain it. No specific involvement but an accurate reading and a report used as an element for the audit.</p> <p>3) In September 2005, ACAM has published principles and recommendations on Governance, internal control and transparency. Among other things, ACAM recommend the institution in all insurance companies (except small sized companies) of an Audit Committee with a role close to the role envisaged in the 8th directive.</p> <p>4) In the context of the chairman's report on internal control (for listed companies), a general discussion have been finalised with the participation of bank and insurance supervisory authorities. An April 2005 report recommends adopting a frame close to the IFACI frame.</p> <p>At the end of the day, external auditor's involvement on Risk Management and Internal control seems less important in France than in other European countries. But, in practical, a clear and critical view on the information delivered to the supervisory authority is necessary to assume the general role and responsibility of the external auditor, and to communicate appropriately at each level of the Governance of the insurance company.</p>
<p>Germany</p>	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>The scope of external auditor's involvement comprises – in addition to the assessment of the compliance of the bookkeeping system with the legal requirement for transaction processing integrity for financial reporting (German Principle of proper accounting § 238 ff HGB) – the presentation of risks and chances in the Management Report and for insurance companies</p>

	<p>(irrespective they are listed or not) the Risk Early Recognition System as part of the Risk Management System as specified below:</p> <ul style="list-style-type: none"> • According to German law (§ 316ff. HGB), the Management Report is also subject to the financial statements audit. The statutory auditor should assess whether the Management Report is consistent with the financial statements and with knowledge obtained by the auditor during the audit, and whether the Management Report as a whole provides a suitable understanding of the position of the enterprise. This includes the assessment whether the risks and chances of future development have been suitably presented; • There is a legal requirement for insurance companies to include the Risk Early Recognition System in the audit of the financial statements and to report thereon in a separate section of the long-form audit report which is addressed primarily to the Supervisory Board (not to the public) to support its governance function. Deficiencies in the measures taken by the Management Board have – as such – no effect on the (short-form) auditor's report. According to § 317 (4) HGB the auditor has to assess whether the Management Board has taken the measures required by law in suitable form and whether the required monitoring system established in accordance therewith is capable of carrying out its functions. These requirements are specified in <i>IDW Auditing Standard 340</i>. <p>b) Additional requirements for listed insurance companies</p> <p>Pursuant to German Accounting Standard No. 5-2 (GAS 5-20) insurance companies are required to provide information about industry specific risks and types of risks as well as the overall risk management within the group. GAS-5-20 requires that risks are quantified where this can be done with reliable and recognised methods, without undue economic expense and where quantification could affect the decisions of the users of the group management report. The models and assumptions used have to be described.</p> <p>c) Additional requirements for non-listed insurance companies</p> <p><i>To complete.</i></p> <p>d) Current discussions or changes envisaged in the future</p> <p>The German insurance supervisor (BaFin) has published a draft of a BaFin-Circular "Supervisory Minimum Requirements for Risk Management by Insurance Undertakings" (MaRisk VA). The aim of the MaRisk VA is to give entities under the supervision guidance on the new requirements of §§ 64 and 104s VAG (Law on the Supervision of Insurance Companies) in conjunction with European Parliament and Council Directive 2002/87/EC (Financial conglomerates Directive) regarding the business organisation including risk management. The MaRisk VA are also already implementing the core concepts of Solvency II especially those regarding risk-bearing capacity, limit systems and risk control.</p> <p>The BaFin is also currently drafting an amendment to the supervisor's additional requirements for the auditor's long form audit report. Aim of the amendment is to focus the reporting requirement on the evaluation of effectiveness of the risk management systems and controls over financial reporting of insurance companies. From the supervisory perspective the</p>
--	--

	<p>amendment of the reporting requirements should lead to detailed description of the current risk situation and effectiveness of the risk management system of insurance companies.</p> <p>The government presented a draft of the German Accounting Law Modernisation Act (BilMoG) in Mai 2008. Most of the amendments are intended to be applicable for the first-time to financial years beginning after 31, December 2008. According to the BilMoG public listed entities as defined under § 264d HGB will be required to describe the material features of the internal control system and of the internal risk management system in relation to the accounting process in the management report (§ 289 (5) HGB), which is subject to an audit. The BilMoG also amends § 171 (1) AktG (German Stock Companies Act) and requires, that the statutory auditor of stock companies shall report to the audit committee or the supervisory board on key matters arising from the statutory audit, and in particular on material weaknesses in internal control- and risk management system in relation to the financial reporting process.</p>
Greece	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>In the legislation regarding the auditors and the auditing profession it is mentioned that the auditor investigates whether there is an internal control system, adequately operating, according to the Presidential Decree 226/1993 article 16.2a.</p> <p>b) Additional requirements for listed insurance companies</p> <p><i>To complete.</i></p> <p>c) Additional requirements for non-listed insurance companies</p> <p><i>To complete.</i></p> <p>d) Current discussions or changes envisaged in the future</p> <p><i>To complete.</i></p>
Hungary	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>No external auditor's involvement.</p> <p>b) Additional requirements for listed insurance companies</p> <p>The Hungarian Insurance Law is valid for both listed and not listed companies.</p> <p>In addition to the annual audit report, the auditor must issue an additional supplementary report (compliance report) based on section 151 (5-8), explaining aspects of the work performed and describe certain additional information, which is not disclosed in the annual accounts or not in details:</p> <p>a) compliance with the provisions on solvency margin and capital adequacy, and the correctness of calculations of the solvency margin;</p> <p>b) compliance with the legal provisions on prudential management for effective, reliable and independent operations as well as the resolutions of the Commission;</p>

	<p>c) conformity of the continuous filing, data processing and data supply systems prescribed under Paragraph b) of Section 65;</p> <p>d) the adequate operation of controlling systems.</p> <p>The technical reserves and the assets held to cover these must be disclosed, too (whether the insurance provisions for the various insurance lines are sufficient and the assets are measured correctly).</p> <p>Upon conclusion of the audit, the auditor must record his findings on the issues specified in Subsections (5), (7) and (8) in a separate supplementary report and send it to the board of directors, the managing director, the chairman of the supervisory board and the Commission upon conclusion of the audit in the following year, or by 31 May at the latest.</p> <p>Insurance companies are not required to include any additional information on risks and risk management in the Directors' report, except for measuring their assets at fair value (optional – currently no insurance company used this option).</p> <p>Like other companies subject to specific regulations, the auditors of insurance companies must report to the Commission (PSZÁF – the State Financial Institutions Commission- the "Commission") any event or decision relating to the audited company that has come to his attention in the performance of his duties and that may:</p> <p>(1) The auditor shall immediately inform the insurance company's chief executive officer if he detects any violation of the provisions of this Act or other legal regulations pertaining to insurance operations; for example, if the amount or cover of technical provisions is insufficient.</p> <p>(2) The auditor shall inform the Commission in writing, simultaneously with the audited insurance company, of the outcome of the audit if he ascertains any fact on the basis of which:</p> <p>a) the books cannot be endorsed, endorsement can only be granted subject to certain conditions, or he is compelled to refuse endorsement altogether;</p> <p>b) the auditor notices circumstances that imply a criminal act, a serious violation of the insurance company's internal regulations, or the distinct possibility of these;</p> <p>c) the auditor notices circumstances that imply infringement of the statutory provisions governing the authorization of insurance activities or the operations of insurance companies;</p> <p>d) it is deemed that the insurance company is unable to meet its liabilities and commitments or safeguard the assets entrusted to it;</p> <p>e) a serious deficiency or discrepancy in the insurance company's internal control system can be determined;</p> <p>f) a significant difference of opinion between the auditor and the insurance company's managing director might occur on issues concerning the insurance company's solvency, income, data</p>
--	---

Present involvement of auditors in supervisory information, risk management and internal control (update of information is in progress)

	<p>disclosure or bookkeeping mechanism that have a substantial impact on its operations.</p> <p>(3) The managing director must notify the Commission concerning that which has been stipulated in Subsection (1);</p> <p>(4) In addition to what is contained in Subsections (1) and (2),</p> <p>a) the auditor must provide information at the request of the Commission;</p> <p>b) the Commission must hold a consultation at the auditor's request.</p> <p><i>Notification rules for the Insurance company:</i></p> <p>The insurance company shall notify the Commission within two working days concerning the resignation of its auditor or the termination of his contract, and it shall elect a new auditor within two months. The Commission shall be notified of the expiration of the term of an auditor two months in advance.</p> <p><i>Tainting rules for the auditor</i></p> <p>When an auditor fails to comply with his obligations prescribed by legal regulation, the Commission shall be authorized to order the insurance company concerned to dismiss the auditor and appoint another one who satisfies the requirements laid down in Subsection (2) of Section 149. When the Commission initiates under Paragraph f) of Subsection (1) of Section 195 the discharge of the auditor of an insurance company, the auditor in question may also be removed from the register of auditors certified to audit insurance companies.</p> <p><i>Section 152</i> regulates the communication between the Insurance company and the Commission regarding the auditor and the auditor's report.</p> <p>(1) Insurance companies must send to the Commission the contract concluded with the auditor - for auditing the annual report - and all of the reports prepared by the auditor in connection with the annual report;</p> <p>(2) The Commission is entitled, on the basis of the auditor's report, to instruct the insurance company to re-examine an annual report that contains incorrect or inaccurate data, implement the necessary corrections and have the corrected data verified by an auditor;</p> <p>(3) If, after the annual report has been approved, the Commission discovers that the annual report contains any substantial error, the Commission may compel the board of directors of the insurance company to have the figures revised and verified by an auditor. The insurance company must present the revised data verified by an auditor to the Commission before submitting it to the general meeting and re-publish the annual report once it has been approved by the general meeting.</p> <p>The insurance company must submit all correspondence with the auditor to the Commission, including the management letter points.</p>
--	--

	<p>c) Additional requirements for non-listed insurance companies</p> <p>The Hungarian Insurance Law is valid for both listed and not listed companies. See our reply above (at listed-companies).</p> <p>d) Current discussions or changes envisaged in the future</p> <p>The EU Directive on Solvency II will definitely change the current regulation. Also, regulations on the banking side might have an impact on the insurance regulations, as there is one, “consolidated” supervision in Hungary (controlling the banking, insurance and pension fund operations).</p>
Ireland	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>Code - The APB Bulletin ‘The Combined Code on Corporate Governance: Requirements of Auditors under the Listing Rules of the Financial Services Authority and the Irish Stock Exchange’, issued in September 2005, states that the objective of the external auditors’ review is to assess whether the company’s summary of the process the board (and where applicable its committee) has adopted in reviewing the effectiveness of the system of internal control, is both supported by the documentation prepared by or for the directors and appropriately reflects that process (Paragraph 33).</p> <p>1990 Act - The auditors are required by Section 205 F, Companies Act, 1990 to review each of two directors’ compliance statements and “...to determine whether, in the auditor’s opinion, each statement is fair and reasonable having regard to information obtained by the auditor, or by an affiliate of the auditor within the meaning of section 205D, in the course of and by virtue of having carried out audit work, audit-related work or non-audit work for the company.” The review report issued by the external auditor would be a public report.</p> <p>However, this Section was not brought into force. Government accepted the Autumn 2006 proposals for significant changes to this and related sections put forward by the Company Law Review Group set up under the Companies Acts by the Minister for Enterprise, Trade and Employment. The Group’s proposed revisions, which do not envisage the auditors specifically reporting upon the compliance statement, will be included in the Companies Consolidation Reform Bill scheduled for publication at end 2008. The requirement will apply to public limited companies and very large private companies.</p> <p>1986 Act – Section 13, Companies (Amendment) Act, 1986, requires the following information to be included in the Directors Report.</p> <p>“...a fair review of the development and performance of the undertaking’s business and of its position.....during the financial year ending with the relevant balance sheet date, together with a description of the principal risks and uncertainties that they face...”.</p> <p>b) Additional requirements for listed insurance companies</p> <p>Section 35(1), Insurance Act, 1989, as amended, obliges the auditor to report directly to the Irish Financial Services Regulatory Authority – IFSRA – if he:</p>

Present involvement of auditors in supervisory information, risk management and internal control (update of information is in progress)

	<p>“(a) has reason to believe that there exist circumstances which are likely to affect materially the insurer’s ability to fulfil its obligations to policyholders or meet any of its material financial requirements under the Insurance Acts; or</p> <p>(b) has reason to believe that there are material deficits in the financial systems and controls or accounting records of the insurer which are likely to have that effect; or</p> <p>(c) proposes to qualify any certificate which he is to provide in relation to financial statements or returns of the insurer under the Companies acts or Insurance Acts ”.</p> <p>Auditors are not expected to be aware of all circumstances which, had they known of them, would have led them to report to the Regulator. Their obligation is limited to reporting those matters which come to their attention in the course of their work. They are not expected to seek out matters that they are required to report to the Regulator.</p> <p>The Directors’ Compliance Certificate required annually of non-life insurers includes the statement “...for the purpose of preparing this return...an appropriate system of control has been established and maintained by the company over its transactions and records.”. The auditors are not required to report on the Certificate.</p> <p>A similar statement on “system of control” is included in the annual Director Compliance Certificate submitted by a life assurance company. In those circumstances the auditors are required to report on the Certificate, the salient extract reading.</p> <p>“In our opinion and according to the information and explanations we have received</p> <p>(a) The directors’ certificate on Form 23 annexed in accordance with... has been properly prepared in accordance with those regulations; and</p> <p>(b) It was reasonable for the persons giving the certificate to have made those statements required by...”.</p> <p>c) Additional requirements for non-listed insurance companies</p> <p>The Regulator rarely draws a distinction between listed and non-listed insurers when specifying requirements.</p> <p>d) Current discussions or changes envisaged in the future</p> <p><i>To complete.</i></p>
<p>Italy</p>	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>There is no external auditor’s involvement. External auditor for listed companies is an independent external audit firm registered on the special roll of the Italian regulator CONSOB which is involved in the audit of accounts of listed companies.</p>

	<p>b) Additional requirements for listed insurance companies</p> <p><i>To complete.</i></p> <p>c) Additional requirements for non-listed insurance companies</p> <p><i>To complete.</i></p> <p>d) Current discussions or changes envisaged in the future</p> <p><i>To complete.</i></p>
<p>The Netherlands</p>	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>No external auditor's involvement required except for reporting on internal control to the audit committee and the supervisory board including in the management. However, article 22 of the Prudential Supervision Decree requires that the auditors' engagement includes a review of the highlights of entity level controls and risk management. IT risk is explicitly mentioned as a caption within this review.</p> <p>b) Additional requirements for listed insurance companies</p> <p>Listed companies in general are subject to specific rules, among which the reporting on corporate governance. Companies that are also listed in the US are subject to the requirements of the PCAOB (Sarbanes-Oxley).</p> <p>There are however no specific listing requirements for the audit of insurance companies.</p> <p>Refer to requirements for non-listed insurers; although there are no listed insurance license holders in NL, these requirements would apply to a listed license holder as well.</p> <p>c) Additional requirements for non-listed insurance companies</p> <p>From 2007, the supervisor requires the insurer (license holder; a financial group can include many) to include in the audit engagement a high level review of the internal organisation and risk management structure. The auditors' findings have to be submitted to the supervisor.</p> <p>The auditor is legally required to report to the supervisor anything that comes to his attention during the audit that constitutes a breach of the rules in section 3 of the Act on Financial Supervision, endangers the insurer's business continuance or could lead to any qualification of the auditors' opinion.</p> <p>These rules extend to all persons and companies (non-insurers included) that have formal or factual ties to the insurer that involve control, (so either over the insurer or by the insurer).</p> <p>The insurer, in its annual supervisory return, will provide detailed information on organisational and risk management structure and - controls. These sections of the supervisory return are not public and are not covered by the audit opinion. However, audit guidelines include the general principle that the auditor has a certain responsibility regarding any document that is published in direct connection to an audited document. As the auditor also has to report</p>

	<p>on internal controls in his management letter, the auditor would need to make sure the sections on organisation and risk management to not include information that contradicts his findings.</p> <p>d) Current discussions or changes envisaged in the future</p> <p>The practical application of (new) supervisory rules regarding internal organisation and risk management. The supervisor is shifting towards an internal risk-management oriented approach and the auditors' involvement in this monitoring process might change in the future.</p>
<p>Norway</p>	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>No external auditor's involvement.</p> <p>b) Additional requirements for listed insurance companies</p> <p>Section 4-2 of the regulation of 20 June 1997 "Forskrift om klargjøring av kontrollansvar, dokumentasjon og bekreftelse av den interne kontroll", applicable to all Norwegian insurance companies (and a number of other industries), requires that in companies where no internal audit has been established, someone outside of the operating organisation must confirm to the board of the company that the requirements of the regulation has been adhered to. In most cases the statutory auditor of the insurance company will be engaged to perform this engagement. Such an engagement should be performed according to the Norwegian equivalent of ISAE 3000 "Assurance Engagements Other than Audits or Reviews of Historical Financial Information".</p> <p>The conformation shall be submitted to the board of the insurance company on an annual basis and contain a statement that:</p> <ul style="list-style-type: none"> • a systematic review has been undertaken in the company of significant risks and how the internal controls have been designed to manage these risks; • the functioning of the system of internal controls designed to manage these risks has been monitored and failures have been reported to management in a systematic way; • the required documentation is available. <p>The regulation does not require the auditor to positively conclude that the process of reviewing the company's internal control has been performed according to the requirements of the regulation. The Kredittilsynet (i.e. The Financial Supervisory Authority of Norway) however, has expressed as their opinion that the auditor must explicitly state so in his report if the company's internal procedures as required by the regulation, have not been performed in a satisfactory way.</p> <p>c) Additional requirements for non-listed insurance companies</p> <p>As answer to b) above.</p> <p>d) Current discussions or changes envisaged in the future</p> <p>None.</p>

Poland	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>No external auditor's involvement. Auditors do not express explicit opinion on risk management or internal control but they are involved in the work and in the review of systems.</p> <p>b) Additional requirements for listed insurance companies</p> <p>There are no additional requirements in this matter for listed insurance companies.</p> <p>c) Additional requirements for non-listed insurance companies</p> <p>There are no additional requirements in this matter for non-listed insurance companies.</p> <p>d) Current discussions or changes envisaged in the future</p> <p>A new Accounting Act and a new Law on Auditors and their Self-Governing Body are in progress. There is however, no available information regarding the content of them so far.</p>
Portugal	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>There are the general audit standards (DRA 400 – Risk Assessment and DRA 410 – Internal Control) that cover all types of entities and that require the auditor, only as part of what concerns the audit of financial statements, to make a risk assessment of the company and its internal control system.</p> <p>b) Additional requirements for listed insurance companies</p> <p>Listed companies in general are subject to specific rules, among which the reporting on Corporate Governance (included in the Annual Report), that must include a description of the system of internal control and risk management in practice.</p> <p>The auditor does not audit or review the corporate governance report except on what is strictly necessary to issue an opinion on the financial statements, but he has to verify the consistency of the Annual Report with the financial statements.</p> <p>In what concerns insurance companies, listed or not, the supervisor (Portuguese Institute of Insurance) requires (through Regulation) the insurance entity to implement strict policies, strategies and processes related to risk management and internal control. This Regulation contains principles and rules that insurance entities have to comply with by 2007 and onwards. The insurance entity has also to issue an annual report on these matters.</p> <p>Also, by Regulation issued by the supervisor, the statutory auditor has the responsibility to issue a report containing, among others, a moderate assurance opinion about the implementation and effective application of the policies, strategies and processes related to risk management and internal control applied by the insurance entity.</p>

	<p>c) Additional requirements for non-listed insurance companies</p> <p>See paragraphs 3 and 4 of answer above.</p> <p>d) Current discussions or changes envisaged in the future</p> <p>No current discussions or changes.</p>
Romania	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>The Romanian insurance companies and intermediaries must prepare and report annual financial statements for Ministry of Public Finance (MPF) and for Insurance Supervision Commission (ISC) according to the Romanian accounting rules, harmonised with EU Insurance Directives. There are references for the internal and external auditors' involvement in different regulations, taking into account the types of activities which must be audited.</p> <p>According to the accounting law (82/1991) these financial statements must be audited by financial (external) auditors (legal entities authorised by the law). The ISC regulations require the financial statements for the insurance companies in 120 days from the ends of the period to which is relate, together with auditor report. Starting for the year 2006, all the legal entities from insurance sector which carry on their activities according to accounting rules harmonised with EU Directives must report their <i>consolidated</i> financial statement and will be published together with the administrator and the auditor reports.</p> <p>According to the Law 32/2000 regarding the insurance undertakings and insurance supervision and to the ISC Order 113105/2006 to enact the Regulations regarding the selection criteria for the <i>external auditors</i> they must be members of the Financial Auditors Chamber of Romania (FACR) and must be approved by the ISC. The Report must contain references to solvency margin, to practices and procedures for internal control and audit, specifying the deficiencies and their proposals to solve these problems. In case of disregarding these regulations, the punishment goes from penalty to licence withdrawal and temporary or total forbiddance of their activities.</p> <p>According to the ISC (The Insurance Supervision Commission) Order 113140/2006 (for insurance and/or reinsurance companies) and the ISC Order no.113139/21 December 2006 (for insurance and/or reinsurance brokers) which lay emphasis on the obligation for the insurance and/or reinsurance brokers. They must prepare the following reports:</p> <p>I – annual reports:</p> <ul style="list-style-type: none"> a) Annual financial statements, in the form stipulated by the accounting regulations in effect; b) Report regarding the evolution and structure of social capital; c) Report regarding employees and the wage level; d) Annual report regarding insurance and/or reinsurance brokers' litigations. <p>II - semester reports:</p> <ul style="list-style-type: none"> a) Accounting reports in the form stipulated by the accounting regulations in effect;

	<p>b) Report regarding the evolution and structure of social capital.</p> <p>III - quarterly reports:</p> <ul style="list-style-type: none"> a) Quarterly report regarding the activity unreeled by the insurance and/or reinsurance brokers and the obtained revenues; b) Report regarding the situation of asset and passive elements from the insurance brokers' evidences; c) Report regarding the situation of changes in equity capital. <p>IV – monthly reports:</p> <ul style="list-style-type: none"> a) Monthly report regarding the functioning tax; b) Rectification statement. <p>According to the ISC Order 113140/2006 to enact the Regulations for financial statements, the insurance undertakings must report: annually, half-yearly, quarterly and monthly financial reports about solvency margin, security fund, changes in equity, the liquid assets structure of the insurance undertakings and the incomes obtained through them, reports regarding the catastrophic risks and credit risks, liquidity coefficient, etc. Moreover, according to the same regulations, the insurance companies must report to ISC, during the year, in any moment when occur situations like: the change of external auditor (in maximum 5 days from this moment); the decreasing of liquid assets which will negatively affect the level of liquidity coefficient; the decreasing of the technical reserves under the level of obligations assumed by the insurance contracts; changes in liquid assets structure, etc.</p> <p>The ISC Order 113117/2006 has established the specific principles for internal control system and risk management. The Board of Directors is responsible for establishing and maintaining an adequate and efficient system of internal control. In order to carry out its responsibilities, the Board of Directors must to take the diligence regarding fulfilling, at least a quarterly analysis, of evaluations for the internal control made by the operational management, by the internal audit and, by the case, by the financial auditor. Also, the Board of Directors would supervise the implementation of the recommendation made by internal and external audit and by ISC regarding the deficiencies of the internal control system.</p> <p>The <i>executive management</i> have responsibilities to supervise the implementation of internal control system and must identify, assess, coordinate and control the risk management procedures. Moreover, the executive management must be assured that the tasks for <i>operative management</i> concerning the internal control procedures are appropriately accomplished.</p> <p>In risk management process, the insurance companies must establish a committee of risk management, with its own statute, based on the Board of Directors' decisions and under its supervising. According to Romanian regulations the following risks must be identified, evaluate and managed: <i>credit risk; market risk, liquidity risk; operational risk, underwriting risk and reputational risk</i>.</p> <p>The committee of risk management has members from executive and operative management, with different attribution, as it follows:</p>
--	--

	<p>a) to develop appropriate policies and procedure to identify, evaluate and control of the risks;</p> <p>b) to approve methods and models to evaluate risks and to reduce the risk exposure;</p> <p>c) to establish appropriate limits for risk exposure, for normal cases and for crises, according to the size, complexity and financial status and the situations when exemptions could be approved;</p> <p>d) to establish the competences and tasks to manage and control the risk exposure, etc.</p> <p>Each of the Romanian insurance companies must prepare an annual Report about the internal control activities and risk management, and these Reports must be reported to the ISC in six month from the ends of the periods to which they relate.</p> <p>b) Additional requirements for listed insurance companies</p> <p>All the Romanian listed companies must report annually, half-yearly and quarterly to investors (Law 297/2004 regarding the capital market) and to Romanian National Securities Commission (CNVM) and if they have individual and consolidated financial statements, too, they must disclose both of them to the public. The listed companies must report to the investors their <i>annual financial statements</i>, together with annual report and with external auditor report, all being previously approved by General Shareholders Meetings. <i>The half-yearly report</i> must be disclosed in maximum 2 months from the reporting period, together with external auditor report, if the half-yearly statements were audited. The external auditors must be members of the Financial Auditors Chamber of Romania. The Law 297/2004 establishes administrative, disciplinary, contraventional or penal sanctions (as the case may be) for breaching of the provisions of this law and of the regulations adopted in its application.</p> <p>According to the Law 297/2004, the following deeds are considered offences (e.g.):</p> <p>a) failing to comply with the measures established by control or following control;</p> <p>b) failing to comply with the obligation to audit financial statements or their auditing by unauthorised persons.</p> <p>The offences are sanctioned by:</p> <p>a) warning;</p> <p>b) fine;</p> <p>c) complementary sanctions, applied as the case may be:</p> <ol style="list-style-type: none"> 1. suspension of authorisation; 2. withdrawal of authorisation; 3. temporary prohibition from carrying our certain activities and services which are subject to this law. <p>c) Additional requirements for non-listed insurance companies</p> <p>First of all it could be taken into account the practical application of (new) supervisory rules regarding internal organisation and risk management. The</p>
--	---

	<p>Romanian regulations for the listed and non-listed insurance companies have been changed in the last 2-3- years, preparing the Romanian accession to the EU. Until September 2006, for those companies listed on the “Plus Tier”, we had a Corporate Governance Code, referring, mainly, to the shareholders rights and to the board of administration and executive’s duties. The current situation is a transitory one, because starting from September 2006, Bucharest Stock Exchange (BVB) has a new Rulebook and a lot of changes has been regulated and implemented (for example, at this moment, the regulation recognise 3 tiers shares, I, II and III, plus international share tier). The Rulebook stipulates only that “<i>issuers shall include in the Annual Report a Declaration regarding the compliance /breach of the Corporate Governance Code, issued by the BVB. In case of breaching the Corporate Governance Code, the issuer must provide a detailed explanatory note</i>” (art.94). In 2005, BVB has set up the Corporate Governance Institute, with the followings business area:</p> <ol style="list-style-type: none"> 1. to promote the international knowledge to the employees of public owned companies in Romania and perfecting them theoretically and practically, through international cooperation and standardized surveys (OECD Corporate Governance Principles); 2. to organize specialized training courses in the capital market field; 3. to promote the economic and social awareness nationally and internationally; 4. to roll out projects, training programmes, seminars and conferences for increasing the acknowledgement level for the capital market participants, in general, and for the stock exchange participants, especially. <p>Until the year 2007, the new Corporate Governance Code is not adopted, and those listed companies which intend to include in their statutes references to such a Code could take into consideration the OECD Corporate Governance Principles.</p> <p>Starting with 2007, insurance companies quoted on a regulated market or the ones in the process of being quoted at the date of the balance sheet that prepare consolidated financial reports, will disclose this annual information according to IFRS (according to the requirements of the CE Regulation no. 1606 from 2002)¹.</p> <p>For the financial years 2008 and 2009, all insurance companies (whether they are or they are not listed on a regulated market) must prepare the annual and consolidated financial reports according to the IFRS, in the form of a second set (these will be used as an information source for investors and the CSA).</p> <p>Starting with 2010, depending on the evolutions within EU and on the evaluations made regarding the implementation of IFRS, insurance companies will prepare annual and consolidated financial reports according to the IFRS as a single set.</p>
--	--

¹ The results of the work carried out by the General Direction „Accounting Requirements” within CSA are the implementation of the regulations in this European norm and the development of a strategy for implementing IFRS in the insurance field.

	<p>d) Current discussions or changes envisaged in the future</p> <p><i>Auditing the Romanian private pensions</i></p> <p>In order to carry out this audit activity one must follow the legal requirements set by the SCPPS² Norm no. 11/2007 regarding the financial auditing of privately managed pension funds and their managers (Official Gazette Part I no.288 from 02.05.2007), especially the one regarding the fact that the auditor must prove that there is a possibility to obtain the services of an actuarial expert and auditing the informational systems according to the International Auditing Standard 620 entitled "Using the work of an Auditor's Expert". In order to state an opinion, an auditor must obtain as an audit trail the report issued by an actuarial expert. This underlines the importance of the collaboration between the two specialists. Moreover, the financial auditor must annually audit the value of the net assets and the value of the share, stating his opinion about the method used to measure the financial indicators specific to these funds. This is the reason why this specialist must follow the requirements of the SCPPS Norm no.17/2007 regarding the establishment of the net assets' value and share value for the private managed pension funds (Official Gazette no.487 from 20.07.2007). At the same time, the annual and mid year reports must be published on the web site of each pension fund, according to the legal requirements of the SCPPS Norm no. 5/2008 regarding the reporting and transparency obligations in the optional pension system (Official Gazette Part I no. 137 from 21.02.2008).</p>
Spain	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>No external auditor's involvement required.</p> <p>b) Additional requirements for listed insurance companies</p> <p>In addition to the audit report, the auditor must issue an additional supplementary report, explaining aspects of the work performed and the review of certain additional information prepared by the Company and which is not disclosed in the annual accounts (for example, reinsurance contracts, ageing of outstanding receipts etc). In this report the auditor must provide a brief summary of the work on internal control carried out as part of the audit, specifically including the work on IT and claims for the purposes of the claims reserve.</p> <p>Like other companies subject to specific regulations, the auditors of insurance companies must report to the Insurance Regulatory Body (Directorate General for insurance) any event or decision relating to the audited company that has come to his attention in the performance of his duties and that may:</p> <p>a) Constitute a serious infringement of legal, regulatory or administrative provisions laid down in the conditions which govern the company's authorisation or which specifically regulate the performance of its activity;</p> <p>b) Have an adverse effect on the continuity of its operations or seriously impact its stability or solvency;</p>

² SCPPS = The Supervision Commission of the Private Pension System

	<p>c) Compel the auditor to issue an adverse or qualified opinion or to deny its opinion or make the auditor unable to issue an opinion.</p> <p>The relevant information should be provided within 10 days of the date on which the auditor becomes aware of the fact that such events or decisions have taken place.</p> <p>Without prejudice to the above, the audited company will be required to send a copy of the audit report on the annual accounts to the Industry Regulatory Body. If within one week of the delivery of the report, the auditor has not received evidence that the audit report has been sent, he should send the report directly to the authorities in question within 10 day of the end of the week in question.</p> <p>As from 2007 year end, and every year, the Entity will have to issue a report on the effectiveness of its internal control procedures, including the significant deficiencies detected, their implications and the measures considered adequate for its correction. The Board of Directors will send the report to the Insurance Regulatory Body at the time of sending the annual statistical- accounting documentation. This is not subject to audit.</p> <p>c) Additional requirements for non-listed insurance companies</p> <p>The same described above for listed companies.</p> <p>d) Current discussions or changes envisaged in the future</p> <p>None to mention.</p>
Sweden	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>The external auditors have to review the statement on internal control and issue a separate report. Guidance for this reporting (negative assurance) will be developed by the profession (FAR).</p> <p>b) Additional requirements for listed insurance companies</p> <p><i>To complete.</i></p> <p>c) Additional requirements for non-listed insurance companies</p> <p><i>To complete.</i></p> <p>d) Current discussions or changes envisaged in the future</p> <p><i>To complete.</i></p>

<p>United Kingdom</p>	<p>a) Generic requirements (from the 2005 FEE discussion paper on Risk Management and Internal control)</p> <p>No generic Companies Act requirements.</p> <p>b) Additional requirements for listed companies (including insurers)</p> <p>Auditing Practice Board (APB) Bulletin 2006/5, “The Combined Code on Corporate Governance: Requirements of Auditors under the Listing Rules of the Financial Services Authority and the Irish Stock Exchange”, was issued in September 2006. The Bulletin applies to accounting periods commencing on or after 1 January 2006. This Bulletin supersedes Bulletins 2004/3 and 2004/4 which in turn replaced the earlier 1999/5 Bulletin.</p> <p>The Bulletin considers the auditor’s review responsibility (which is not an audit) in relation to the board’s confirmation of actions taken by directors to remedy significant failings or weaknesses. The scope of the auditors review in comparison to the totality of the Combined Code is narrow. The auditor is not required to review the directors’ narrative statement as to how they have applied the Code principles and is required only to review the directors’ compliance statement in relation to nine of the forty-eight Code provisions applicable to companies. Nevertheless, because the directors’ narrative comprises other information included in the document containing audited financial statements there is a broader requirement under auditing standards for the auditor to read such “other information” and if the auditor becomes aware of any apparent misstatements therein, or identifies any material inconsistencies with the audited financial statements, seeks to resolve them.</p> <p><i>Scope of auditor’s review responsibility</i></p> <ul style="list-style-type: none"> • Review of the documentation prepared by, or for, directors to support their statement on internal control that discusses any such failings or weaknesses; • Assessment of whether this documentation provides sound support for the directors’ confirmatory statement; • Discussion with the directors of the actions taken, or to be taken, in response to the identified significant failings or weaknesses; • Relation of the directors’ confirmatory statement to the auditor’s knowledge of the company obtained through the audit of the financial statements. To do so, the auditor assesses whether directors, in making their statement, have taken into consideration the material weaknesses in internal control that the auditor reported to those charged with governance in accordance with ISA (UK and Ireland) 2602. The Bulletin clarifies that a material weakness in control identified by the auditor will be considered by the directors, in the context of their annual assessment of the effectiveness of the system of internal control, and it may be considered by them to be a significant failing or weakness as described in the Turnbull guidance.
------------------------------	--

	<p><i>Exclusions from the scope</i></p> <p>The auditor is not responsible for assessing:</p> <ul style="list-style-type: none">• The directors' decision as to what constitutes a significant failing or weakness;• Whether the actions taken, or to be taken, will in fact remedy the significant failings or weaknesses. <p><i>Reporting exceptions</i></p> <p>When the auditor considers that either the documentation and discussions with directors do not support the directors' confirmation that necessary actions have been, or are being, taken, or that directors have not considered material weaknesses in internal control emerging from the audit findings, the auditor discusses this with the directors. If no satisfactory explanations are provided, then the auditor considers any consequential impact on the wording of the audit opinion. If the conclusion is that documentation and discussions do not support the directors' confirmatory statement, then the auditor should report this in his report on the financial statements.</p> <p>c) Additional requirements for insurers (listed and unlisted)</p> <p><i>Annotated combined code for mutual insurers</i></p> <p>An Annotated version of the Combined Code on Corporate Governance (referred to in (b) above) was, issued by the Association of Mutual Insurers ('AMI') and the Association of Friendly Societies ('AFS') in July 2005. It is intended to apply to all mutual insurers for reporting years beginning on or after the start of the financial year 2005-2006. As a result, for most mutual insurers and friendly societies December 2006 will be the first year-end of application. In a press release dated 13 July 2005, the AMI and AFS stated that members are required to adhere to the Annotated Code on a 'comply or explain' basis in their annual reports. Other mutual insurers are also recommended to do the same.</p> <p>In October 2005, the AMI and AFS issued guidance ('Guidance') to mutual insurers, entitled "Corporate Governance for Mutual Insurers", which sets out the governance practices that mutual insurers should be following, including guidance on the application of the specific requirements of the Annotated Code. There is no requirement in the Annotated Code itself for mutual insurers to have a review by external auditors of compliance with any aspect of the Annotated Code. However, Section 8.3 of the Guidance states that "Mutual insurers should require the external auditor to review the company's/society's statement with regard to Annotated Code provisions C1.1, C.2.1, C3.1, C3.2, C3.3, C3.4, C3.5, C3.6". This is broadly consistent with the requirements for listed companies under the Listing Rules (as discussed in section (b) above).</p> <p><i>Reporting on Regulatory returns</i></p> <p>Auditors currently issue a report on financial information in the published regulatory returns of insurers to the regulator, the Financial Services Authority (FSA). The auditors' reports to the FSA on the annual regulatory return state whether in the auditors' opinion the returns have been prepared in accordance with FSA's rules and, in respect of long-term insurance</p>
--	--

Present involvement of auditors in supervisory information, risk management and internal control (update of information is in progress)

	<p>business only, whether the methods and assumptions used to perform the actuarial valuation appropriately reflect the requirements of those rules. . This report does not cover the Individual Capital Assessment (ICAS) process, where returns are not publicly available and there is no current requirement for the involvement of auditors.</p> <p><i>Skilled persons reports</i></p> <p>The FSA have the power to require regulated financial services businesses to commission special reports from skilled persons on an ad hoc basis under s166 of the Financial Services & Markets Act 2000. Skilled persons may be auditors, actuaries, lawyers, chartered surveyors or any other person with specialist skills. Auditors (either the regulated firm’s own auditor or another auditor) have carried out the large majority of skilled person reports commissioned to date.</p> <p>Skilled person reports are a flexible regulatory tool. They can be used by the FSA to carry out anything from investigation and monitoring to enforcement work on behalf of the regulator. The subject matter of the reports is equally flexible and may cover particular aspects of internal control, compliance with certain laws/regulations, complaints handling, training and competence of staff or any other matter as the regulator sees fit.</p> <p>Since skilled persons reports are intended to address particular regulatory concerns at individual companies, the FSA set out the scope of work in a detailed “requirement notice” and sends this (in draft) to the insurer/bank, who then appoint the skilled person. There is then an element of negotiation involving the skilled person, the company and the FSA before the scope of work is finalised. The FSA are not a party to the engagement letter for skilled persons reports but use the requirement notice to set out the scope of work required for their purposes and the form of report required from the skilled person for their purposes.</p> <p>The ICAEW issued guidance for auditors on performing skilled persons reporting engagement in mid 2003, Tech 20/03 “Skilled Persons’ Guidance – reporting under S166 of the Financial Services and Markets Act 2000”. Although not formally approved by the FSA or the UK Auditing Practices Board, the guidance was fully discussed with both bodies during its development. While the ICAEW guidance was aimed primarily at auditors, it also sought to assist the FSA in obtaining consistency among supervisors and in ensuring that skilled persons reporting engagements are thought through fully before are commissioned.</p> <p>There are three basic forms of report by the skilled person: agreed upon procedures (no opinion is given, but the work performed and findings are stated); moderate level assurance (effectively a negative assurance “nothing has come to our attention” opinion); and high level assurance (e.g. “in our opinion x operates satisfactorily”). The appropriate form of report will depend upon a number of factors, including subject matter; the nature, extent and timing of procedures required; and the quantity and quality of evidence available.</p> <p>With the combination of a clearly defined scope such that the level of work expected can be clearly understood, along with the flexibility of different forms of reporting, it is possible for an auditor to look into areas such as the design and operation of internal controls. It may be difficult for an auditor to provide high level assurance on matters as subjective as the design of an internal control, but if the scope of the work is clearly set out it may be</p>
--	--

Annex 1 Present involvement of auditors in supervisory information, risk management and internal control (update of information is in progress)

	<p>possible to provide moderate assurance or perform agreed upon procedures.</p> <p>d) Current discussions or changes envisaged in the future</p> <p>There is no current activity, although auditor reporting requirements may be reconsidered by the FSA in the process of implementing Solvency II.</p>
--	--

Whereas (25) For the purposes of strengthening the supervision of insurance and reinsurance undertakings and the protection of policyholders, the statutory auditors within the meaning of Directive 2006/43/EC of the European Parliament and of the Council of 17 May 2006 on statutory audits of annual accounts and consolidated accounts, amending Council Directives 78/660/EEC and 83/349/EEC and repealing Council Directive 84/253/EEC should have a duty to report promptly, any facts which are likely to have a serious effect on the financial situation or the administrative organisation of an insurance or a reinsurance undertaking.

35 - 2. Member States shall ensure that the supervisory authorities have the following powers:

(a) to determine the nature, the scope and the format of the information referred to in paragraph 1 which they require insurance and reinsurance undertakings to submit at the following points in time:

(i) at predefined periods;

(ii) upon occurrence of predefined events;

(iii) during enquiries regarding the situation of an insurance or reinsurance undertaking;

(b) to obtain any information regarding contracts which are held by intermediaries or regarding contracts which are entered into with third parties;

(c) to require information from external experts, such as auditors and actuaries.

38 - 1(b): the insurance and reinsurance undertakings, their auditors and the relevant supervisory authorities must have effective access to data related to the outsourced activities, as well as to the business premises of the service provider, where those premises are located within the Community, and the supervisory authorities must be able to exercise those rights of access.

44 – 1: As part of its risk management system every insurance or reinsurance undertaking shall conduct its own risk and solvency assessment.

That assessment shall include at least the following:

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

(b) the compliance, on a continuous basis, with the capital requirements, as laid down in Chapters VI, Sections 4 and 5 and with the requirements regarding technical provisions, as laid down in Chapter VI, Section 2.

(c) the extent to which the risk profile of the undertaking concerned deviates significantly from the assumptions underlying the Solvency Capital Requirement as laid down in Article 101 (3), calculated with the standard formula in accordance with Chapter VI, Section 4, Subsection 2 or with its partial or full internal model in accordance with Chapter VI, Section 4, Subsection 3.

2. For the purposes of point (a) of paragraph 1, the undertaking concerned shall have in place processes which enable it to properly identify and measure the risks it faces in the short and the long term and also to identify possible events or future changes in economic conditions that could have unfavourable effects on its overall financial standing. The undertaking shall demonstrate the methods used to determine its overall solvency needs.

3. In the case referred to in point (c) of paragraph 1 when an internal model is used, the assessment shall be performed together with the recalibration that transforms the internal risk numbers into the Solvency Capital Requirement risk measure and calibration.

4. The own risk and solvency assessment shall be an integral part of the business strategy and shall be taken into account on an ongoing basis in the strategic decisions of the undertaking.

5. Insurance and reinsurance undertakings shall perform the assessment referred to in paragraph 1 regularly and without any delay following any significant change in their risk profile.

6. The insurance and reinsurance undertakings shall inform the supervisory authorities of the results of each own risk and solvency assessment as part of the information reported under Article 35.

45 – 1: Insurance and reinsurance undertakings shall have in place an effective internal control system. That system shall at least include administrative and accounting procedures, an internal control framework, appropriate reporting arrangements at all levels of the undertaking and a permanent compliance function.

Annex 2 Relevant articles Draft FWD

2. The compliance function shall include advising the administrative or management body on compliance with the laws, regulations and administrative provisions adopted pursuant to this Directive. It shall also include an assessment of the possible impact of any changes in the legal environment on the operations of the undertaking concerned and the identification and assessment of compliance risk.

50 – 1: Member States shall, taking into account the principles set out in paragraphs 3 and 4 of Article 35, require insurance and reinsurance undertakings to publicly disclose, on an annual basis, a report on their solvency and financial condition.

That report shall contain the following information, either in full or by way of references to equivalent information disclosed publicly under other legal or regulatory requirements:

- (a) a description of the business and the performance of the undertaking;
- (b) a description of the system of governance and an assessment of its adequacy for the risk profile of the undertaking;
- (c) a description, separately for each category of risk, of the risk exposure, concentration, mitigation and sensitivity;
- (d) a description, separately for assets, technical provisions, and other liabilities, of the bases and methods used for their valuation, together with an explanation of any major differences in the bases and methods used for their valuation in financial statements;
- (e) a description of the capital management, including at least the following:
 - (i) the structure and amount of own funds, and their quality;
 - (ii) the amounts of the Minimum Capital Requirement and of the Solvency Capital Requirement;
 - (iii) information allowing a proper understanding of the main differences between the standard formula and any internal model used by the undertaking for the calculation of its Solvency Capital Requirement;
 - (iv) the amount of any non compliance with the Minimum Capital Requirement or any significant non compliance with the Solvency Capital Requirement during the reporting period, even if subsequently resolved, with an explanation of its origin and consequences as well as any remedial measures taken.

2. The description referred to in point (e)(i) of paragraph 1 shall include an analysis of any significant changes as compared to the previous reporting period and an explanation of any major differences in relation to the value of such elements in financial statements, and a brief description of the capital transferability.

The disclosure of the Solvency Capital Requirement referred to in point (e)(ii) of paragraph 1 shall show separately the amount calculated in accordance with Chapter VI, Section 4, Subsections 2 and 3 and any capital add-on imposed in accordance with Article 37, together with concise information on its justification by the supervisory authority concerned.

However, and without prejudice to any disclosure mandatory under any other legal or regulatory requirements, Member States may provide that the capital add-on need not be separately disclosed during a transitional period not exceeding five years after the date referred to in Article 310.

The disclosure of the Solvency Capital Requirement shall be accompanied, where applicable, by an indication that its final amount is still subject to supervisory assessment.

51 – 1: Member States shall require the supervisory authorities to provide the following information to the Committee of European Insurance and Occupational Pensions

Supervisors on an annual basis:

- (a) the average capital add-on per undertaking and the distribution of capital add-ons imposed by the supervisory authority during the previous year, measured as a percentage of the Solvency Capital Requirement, shown separately as follows:
 - (i) for all insurance and reinsurance undertakings together;
 - (ii) for life insurance undertakings;
 - (iii) for non-life insurance undertakings and reinsurance undertakings;
- (b) for each of the disclosures set out in point (a), the proportion of capital add-ons imposed under points (a), (b) and (c) of Article 37(1) respectively.

2. The Committee of European Insurance and Occupational Pensions Supervisors shall publicly disclose, on an annual basis, the following information:

Annex 2 Relevant articles Draft FWD

(a) the total distribution of capital add-ons throughout the Community, measured as a percentage of the Solvency Capital Requirement, for each of the following:

- (i) all insurance and reinsurance undertakings;
- (ii) life insurance undertakings;
- (iii) non-life insurance undertakings and reinsurance undertakings;

(b) for each of the disclosures referred to in point (a), the proportion of capital add-ons imposed under points (a), (b) and (c) of Article 37(1) respectively.

In addition, that Committee shall disclose on an annual basis the following information:

(a) the distribution of capital add-ons, measured as a percentage of the Solvency Capital Requirement, covering all insurance and reinsurance undertakings in each Member State;

(b) for the disclosure referred to in point (a), the proportion of capital add-ons imposed under points (a), (b) and (c) of Article 37(1) respectively.

3. The Committee of European Insurance and Occupational Pensions Supervisors shall provide the information referred to in paragraph 2 to the Commission, together with a report outlining the degree of supervisory convergence in the use of capital add-ons between supervisory authorities in the different Member States.

52 – 1: Supervisory authorities shall permit insurance and reinsurance undertakings not to disclose information in the following cases:

(a) if, by disclosing such information, the competitors of the undertaking gain significant undue advantage;

(b) if there are obligations to policyholders or other counterparty relationships binding an undertaking to secrecy or confidentiality.

2. Where non disclosure of information is approved by the supervisory authority, undertakings shall state this in the report on solvency and financial condition and explain the reasons.

3. Supervisory authorities shall permit insurance and reinsurance undertakings, to make use of – or refer to - public disclosures made under other legal or regulatory requirements, to the extent that those disclosures are equivalent to the information required under Article 50 in both their nature and scope.

4. Paragraphs 1 and 2 shall not apply to the information referred to in point (e) of Article 50(1).

53 – 1: In the event of any major development affecting significantly the relevance of the information disclosed in accordance with Articles 50 and 52, insurance and reinsurance undertakings shall disclose appropriate information on its nature and effects.

For the purposes of the first subparagraph, at least the following shall be regarded as major developments:

(a) where non compliance with the Minimum Capital Requirement is observed and the supervisory authorities either consider that the undertaking will not be able to submit a viable recovery plan or do not obtain such a plan within one month;

(b) where a significant non compliance with the Solvency Capital Requirement is observed and the supervisory authorities do not obtain a recovery plan which they consider viable within two months.

In the cases referred to in point (a) of the second subparagraph, the supervisory authorities shall require the undertaking concerned to disclose immediately the amount of the non compliance, together with an explanation of its origin and consequences, including any remedial measure taken. Where, in spite of a recovery plan initially considered to be viable, a non compliance with the Minimum Capital Requirement has not been resolved two months after its observation, it shall be disclosed at the end of that period, together with an explanation of its origin and consequences, including any remedial measure taken.

In the case referred to in point (b) of the second subparagraph, the supervisory authorities shall require the undertaking concerned to disclose immediately the amount of the non compliance, together with an explanation of its origin and consequences, including any remedial measure taken. Where, in spite of the recovery plan initially considered to be viable, a significant non compliance with the Solvency

Capital Requirement has not been resolved four months after its observation, it shall be disclosed at the end of that period, together with an explanation of its origin and consequences, including any remedial measure taken.

Annex 2 Relevant articles Draft FWD

2. Insurance and reinsurance undertakings may disclose, on a voluntary basis, any information or explanation related to their solvency and financial condition which is not already required to be disclosed in accordance with Articles 50 and 52 and paragraph 1.

54 – 1: Member States shall require insurance and reinsurance undertakings to have appropriate systems and structures in place to fulfil the requirements laid down in Articles 50, 52 and 53(1), as well as to have a written policy ensuring the on-going appropriateness of any information disclosed in accordance with Articles 50, 52 and 53.

2. The solvency and financial condition report shall be subject to approval by the administrative or management body of the insurance or reinsurance undertaking and be published only after that approval.

71 – 1: Member States shall provide at least that persons authorised within the meaning of Council Directive 84/253/EEC, who perform in an insurance or reinsurance undertaking the statutory audit referred to in Article 51 of Council Directive 78/660/EEC, Article 37 of Council Directive 83/349/EEC or Article 31 of Directive 85/611/EEC or any other statutory task, shall have a duty to report promptly to the supervisory authorities any fact or decision concerning that undertaking of which they have become aware while carrying out that task and which is liable to bring about any of the following:

- (a) a material breach of the laws, regulations or administrative provisions which lay down the conditions governing authorisation or which specifically govern pursuit of the activities of insurance or and reinsurance undertakings;
- (b) the impairment of the continuous functioning of the insurance reinsurance undertaking;
- (c) the refusal to certify the accounts or to the expression of reservations;
- (d) the non-compliance with the Solvency Capital Requirement;
- (e) the non-compliance with the Minimum Capital Requirement.

The persons referred to in the first subparagraph shall likewise have a duty to report any facts and decisions of which they have become aware in the course of carrying out a task as described in

the first subparagraph in an undertaking which has close links resulting from a control relationship with the insurance or reinsurance undertaking within which they are carrying out that task.

2. The disclosure in good faith to the supervisory authorities, by persons authorised within the meaning of Directive 84/253/EEC, of any fact or decision referred to in paragraph 1 shall not constitute a breach of any restriction on disclosure of information imposed by contract of or by any legislative, regulatory or administrative provision and shall not involve such persons in liability of any kind.

74 – 1: Member States shall ensure that, unless otherwise stated, insurance and reinsurance undertakings value assets and liabilities as follows:

- (a) assets shall be valued at the amount for which they could be exchanged between knowledgeable willing parties in an arm's length transaction;
- (b) liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction.

When valuing liabilities, no adjustment to take account of the own credit standing of the insurance or reinsurance undertaking shall be made.

2. The Commission shall adopt, implementing measures to set out the methods and assumptions to be used in the valuation of assets and liabilities as laid down in paragraph 1.

Those measures designed to amend non-essential elements of this Directive, by supplementing it, shall be adopted in accordance with the regulatory procedure with scrutiny referred to in Article 304(3).

75 – 1: Member States shall ensure that insurance and reinsurance undertakings establish technical provisions with respect to all of their insurance and reinsurance obligations towards policyholders and beneficiaries of insurance or reinsurance contracts.

2. The calculation of technical provisions shall be based on their current exit value.

3. The calculation of technical provisions shall make use of and be consistent with information provided by the financial markets and generally available data on insurance and reinsurance technical risks (market consistency).

4. Technical provisions shall be calculated in a prudent, reliable and objective manner.

76 – 1: The value of technical provisions shall be equal to the sum of a best estimate and a risk margin as set out in paragraphs 2 and 3.

2. The best estimate shall be equal to the probability-weighted average of future cash flows, taking account of the time value of money (expected present value of future cash-flows), using the relevant risk-free interest rate term structure.

The calculation of the best estimate shall be based upon current and credible information and realistic assumptions and be performed using adequate actuarial methods and statistical techniques.

The cash-flow projection used in the calculation of the best estimate shall take account of all the cash in- and out-flows required to settle the insurance and reinsurance obligations over the lifetime thereof.

The best estimate shall be calculated gross, without deduction of the amounts recoverable from reinsurance contracts and special purpose vehicles. Those amounts shall be calculated separately, in accordance with Article 80.

3. The risk margin shall be such as to ensure that the value of the technical provisions is equivalent to the amount insurance and reinsurance undertakings would be expected to require taking over and meeting the insurance and reinsurance obligations.

4. Insurance and reinsurance undertakings shall value the best estimate and the risk margin separately.

However, where the future cash flows associated with insurance or reinsurance obligations can be replicated using financial instruments for which a market value is directly observable, the value of technical provisions shall be determined on the basis of the market value of those financial instruments. In this case, separate calculations of the best estimate and the risk margin shall not be required.

5. Where insurance and reinsurance undertakings value the best estimate and the risk margin separately, the risk margin shall be calculated by determining the cost of providing an amount of eligible own funds equal to the Solvency Capital Requirement necessary to support the insurance and reinsurance obligations over the lifetime thereof.

The rate used in the determination of the cost of providing that amount of eligible own funds (Cost-of-Capital rate) shall be the same for all insurance and reinsurance undertakings.

The Cost-of-Capital rate used shall be equal to the additional rate, above the relevant risk-free interest rate, that an insurance or reinsurance undertaking holding an amount of eligible own funds, as set out in Section 3, equal to the Solvency Capital Requirement would incur to hold those funds.