



Federation of European Accountants
Fédération des Experts comptables Européens

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Our Ref.: INS/HvD/LF/ID

Dear Mr. Montalvo Rebuelta,

Re: FEE comments to CEIOPS on Consultation Paper No. 58 Draft CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Supervisory Reporting and Public Disclosure Requirements

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the Consultation Paper No. 58 Draft CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Supervisory Reporting and Public Disclosure Requirements ("the Paper"). In this letter we share our vision with respect to issues that relate to the external auditors' function. We comment also on certain other detailed aspects of the CEIOPS paper.

General comments

- (2) In the Paper, CEIOPS sets out initial proposals on the qualitative and quantitative information to be published and to be provided to the supervisor, the frequency of reporting and the level of assurance to be provided by external auditors. We appreciate that some of the information will be included and more specifically defined in Level 3 supervisory guidance rather than Level 2 implementing measures. This will help to provide a comprehensive picture of how the Solvency and Financial Condition Report (SFCR) and the Report to Supervisors (RTS), together with the supporting quantitative templates, will probably look like.

- (3) We sympathise with CEIOPS' initial preference for supervisory reporting that is based upon quantitative information according to Annex D of the Paper, qualitative information according to the "material changes" principle, separation between a limited quarterly set and a full annual set, standardised quantitative information and qualitative information in a predefined order, but in a free format and audit of a selected subset of information only (Annex A of the Paper).
- (4) In the Paper, CEIOPS has not taken a position as to whether the results of the audit should be reported to the supervisor only nor as to whether part of the SFCR should be accompanied by an auditors opinion. We recommend that the paper clarifies that when audited information is made publicly available, the auditors' opinion is consistent with International Standards of Auditing issued by the IAASB (i.e. reasonable assurance/positive opinions for audits and limited assurance/negative opinions for reviews). Where the auditors work is on private reports to regulators, there would be more room for the agreement of specific requirements.
- (5) However, we would like to point out that information which is subject to formal audit reporting – whether in the form of an audit or review opinion - should always consist of quantitative information and certain qualitative information (principles of valuation, critical accounting principles, major assumptions, models and parameters used, link to risk management and control for "through the eyes of management" information, etc.) so that the user of that information will have a comprehensive and unambiguous picture of what the audit relates to. Concentrating this information in one clearly identifiable subsection of the reported information would be a courtesy to the reader.
- (6) Consequently, it may be necessary to review the information requirements discussed in Chapters 3.3 and 3.4 of the Paper to clearly identify which information provides the required underpinning of the quantitative templates to be audited.

Considerations for mandating involvement of the external auditor

- (7) We welcome CEIOPS' decision to open discussions around the need for independent assurance of certain information of the SFCR and the RTS. Firstly, it is important to create a level playing field as opposed to the inconsistent current state of supervisory reporting and auditor involvement within the European Union. Secondly, "auditability" of the information requires a timely dialogue between auditors and undertakings in order to ensure effective and efficient implementation of both the "audit requirements" and the underlying requirements relating to the undertaking's information systems and control structure.

- (8) We note the proposal that the SCR calculated information according to the standard formula would be within the scope of the audit. However, when (partial) internal models are used, the information according to the standard formula is only to be provided at the specific request of the supervisor (paragraph 3.369 of the Paper). This would mean that only undertakings that apply the standard model and are submitting this at the request of the supervisor would have their SCR under the scope of the audit. We recommend that the requirement for the audit of modelled SCR requirements be given further consideration. If the eventual decision would be that the SCR is within the scope of the audit in all situations, we note that there will need to be considerable education of users regarding the role of supervisors in approving internal models, the relation with the undertaking's internal control and risk management on the financial reporting framework and the work carried out by the auditor. Care should be taken in defining the information that specifically supports the model assumptions.
- (9) We propose that further discussions take place to identify the potential benefits to both regulators and other users of auditor involvement in the assurance over the SCR. Guidance on appropriate procedures for auditors might beneficially be developed timely with the development of Level 2 and 3 requirements. We would like to discuss the necessary procedures and steps with you directly.

Other comments

- (10) The information requirements of the RTS are partly of a static, partly of a dynamic nature. The static information requires a full initial submission and an overview of material changes in subsequent periods. Paragraph 3.485 of the Paper indicates which information is considered to be dynamic. We recommend performing a full analysis of which information is considered dynamic and which static, because the administrative and management approval process (and often the delivery process) is different.
- (11) We note that part of the static information within the RTS has the character of (parts of) risk management and internal control on financial reporting manuals, risk/control matrices, internal audit charters, actuarial charters, mission statements, etc. We suggest that this information could be supplied in the form of an "electronic data room" designed to enable efficient maintenance of the required information, which includes a clear standardised reference trail and index of all approved changes.

- (12) We also note that the updates on the static information are requested to be made available within three /four months after the end of the financial year. The “data room” type submission of this information would enable to better align the submission to the “organisational change management processes” (the changes due to revised strategies, new medium-term business plans, alignment of controls to external developments, etc.) and submit them after completion of the timetable of administrative or management approval procedures. This would enhance the supervisor’s insight in the “use” of the information submitted and reduce administrative burden, because the submission process can be aligned to the governance.

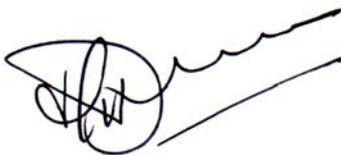
Detailed comments

- (13) A1 Business and external environment: Assuming that the SFCR should include factual information, we consider there would be benefits for prepares and users if the SFCR included information on material changes in the business environment and an explanation on the sources of earnings.
- (14) A3 Performance from investment activities: In our view, Paragraph 3.99 d) of the Paper on the impact of intangible assets does not belong to this debate. Moreover, key assumptions should also be part of the SFCR, especially in order to support “lower level” fair value measurement.
- (15) B3 Risk management information: The link between the proof on decision usefulness of information (RTS) and the key performance indicators/key risk indicators according to the SFCR could be made explicit.
- (16) B7 Actuarial function: It is not entirely clear what information should be provided in the RTS (e.g. descriptions of the work to be carried out and carried out, the results of the work performed, experience to assumption analyses and comments thereon). It is recommended to discuss these types of information separately.
- (17) C8 The nature of material risk exposures: In the absence of explicit argumentation why derivative instruments and structured products would give rise to the most material risks, we assume that this point of view results from the recent market turmoil. However, we suggest it is preferable to keep the Level 2 implementing measures on a more conceptual level and refrain from “hard-coding” contemporary situations. Specific supervisory guidance should address the actual themes from time to time.
- (18) C10 Risk mitigation practices: We would expect a clearer link between future plans on risk mitigation (required in the RTS) and future developments in risk exposures (C8 and C9). In addition, it could be made clearer what information on future expectations and which information on future plans is required.

- (19) D Regulatory balance sheet: Regulatory dialogue (e.g. on asset or liability measurement) is confidential. It is important to develop solutions on the communication of the outcome of regulatory dialogue concerning the implication for future periods, in order to prevent that such dialogue would affect the auditors' opinion when it is yet to be finalised.
- (20) E2 Minimum capital requirement and solvency capital requirement: The RTS requires future development of the SCR. We would expect this information integrated with the Own Risk and Solvency Assessment (ORSA).
- (21) There are apparent inconsistencies between the subset of audited information reported upon by the external auditor on the one hand and the SFCR, RTS and quantitative templates on the other. Examples are:
- We are not sure as to whether the summary of investments by class is covered by template D5;
 - We are not sure as to whether the expected maturities of assets and liabilities are covered by disclosure C8. The information requested in this disclosure does not embed the expected maturities on insurance liabilities, relates to the contractual maturities of other liabilities and does not consider assets;
 - We could not find the basis and assumptions for revenue and expense recognition.

For further information on this letter, please contact Ms. Saskia Slomp, Technical Director.

Yours sincerely,



Hans van Damme
President