



THE INSTITUTE
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ACCOUNTANTS
IN ENGLAND AND WALES

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Your ref: CEIOPS-CP-58/09

CEIOPS e.V
Westhafenplatz 1
60327 Frankfurt
Germany

Dear Sir or Madam

Draft CEIOPS Advice for Level 2 Implementing Measures on Solvency II: Supervisory Reporting and Public Disclosure Requirements

The Institute of Chartered Accountants in England and Wales is pleased to respond to your request for comments on *Draft CEIOPS Advice for Level 2 Implementing Measures on Solvency II: Supervisory Reporting and Public Disclosure Requirements*.

The Institute operates under a Royal Charter, working in the public interest. Its regulation of its members, in particular its responsibilities in respect of auditors, is overseen by the Financial Reporting Council. As a world leading professional accountancy body, the Institute provides leadership and practical support to over 132,000 members in more than 160 countries, working with governments, regulators and industry in order to ensure the highest standards are maintained. The Institute is a founding member of the Global Accounting Alliance with over 775,000 members worldwide. The Institute is listed in the European Commission's Register of Interest Representatives (reference 7719382720-34).

We provide our comments in your preferred template at Appendix 1. Please contact me should you wish to discuss any of the points raised in the attached response.

Yours sincerely

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Please insert your comments in the table below, and send it to secretariat@ceiops.eu in word format. In order to facilitate processing of your comments, we would appreciate if you could refer to the relevant section and/or paragraph in the Consultation Paper 42-09.

Reference	Comment
General comments	<p>1 We are pleased to provide you with our comments on Consultation Paper 58. Overall we agree with the principles that have been proposed, however, we believe that there are a number of areas where CEIOPS may wish to reconsider the level of detailed information suggested to ensure that it is:</p> <ul style="list-style-type: none">• proportionate to undertakings concerned;• appropriately meets regulatory requirements of Supervisors; and• meets the individual requirements of other users. <p>2 <i>Extent of disclosures required</i></p> <p>2.1 The requirements of Article 50 suggest the need for extensive disclosures within the Solvency and Financial Condition Report (SFCR), however, we believe it is important that this Level 2 guidance does not unduly increase these reporting requirements. We are concerned that excessive volumes of public disclosure will make it more difficult for readers to understand the key information being communicated.</p> <p>2.2 If the information is to be meaningful and not simply boilerplate wording there are likely to be significant administrative and operational costs in preparing the proposed public disclosures; it is likely that the additional monetary costs will be ultimately borne by policyholders. It is important that the benefits of making these additional disclosures exceed these additional costs.</p>

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- 2.3 In the current form the proposals are likely to lead to SFCR reports that for large organisations are likely to run to several hundred pages. Across the industry the resources required and environmental costs associated with producing material of this size are likely to be significant and we recommend that where possible cross-references can be made to existing information as envisaged by the directive. In the context of electronic publication, we believe that firms should be charged with ensuring that hyperlinks remain current, rather than prohibiting them altogether. A way of mitigating against CEIOPS's concern could be by companies having a dedicated section of their website for the SFCR and all supporting documentation, so that all supporting information for each year's SFCR is contained together, and removed at the same time.
- 2.4 Much of the proposed disclosure will be repeating information in financial statements; a format well understood by the public; examples of this include the material included in the Directors' report and the disclosures required by IFRS 7 *Financial Instruments: Disclosures* (FRS 29 for UK GAAP reporters). It would be helpful for insurers as far as possible to be able to utilise the potentially extensive disclosures contained within material such as their financial statements to meet the SFCR requirements. This seems to be envisaged in the penultimate bullet point of 3.56. However, at 3.74 the Consultation Paper states that the SFCR must be a stand alone report that does not utilise hyperlinks to other documents.
- 2.5 It would be helpful to confirm that provided the financial statements were, say, in the form of an annex to the SFCR they could be cross-referenced from the SFCR. If the format of the SFCR and RTS requires insurers to undertake extensive reformatting and duplicating of information this would potentially be a disproportionate burden on smaller insurers and be inconsistent with the proportionality principle. Such cross-references may also assist listed entities in ensuring they control the release and consistency of the disclosure of potentially price sensitive information.
- 2.6 We believe that there is duplication in the material that is required to be included in the SFCR and Report to Supervisors (RTS). On the basis that these are required to be stand alone documents we consider that this adds to the regulatory requirements for firms for modest benefit to Supervisors.
- 2.7 The current proposals do not appear to include a full reconciliation of the differences between the regulatory balance sheet and the financial statements, or a reconciliation of the annual movement in the regulatory balance sheet; such information is likely to be of interest to users of the SFCR (although this is covered in part at 3.157).

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We believe a full reconciliation together with appropriate explanatory text could provide a more concise and readily understandable means of presenting certain information within the SFCR.

3 Reporting timescales

3.1 With the proposed requirement for SFCR and RTS to be submitted within either 3 or 4 months of the year end and requirements for ever more detailed disclosures within financial statements as well as the need to prepare an ORSA and detailed documentation to support solvency internal models, the burden of Solvency II is likely to be significant for insurers and particularly key staff within the finance and risk functions. If the ORSA is required to be submitted to supervisors this would be presenting a lot of similar information to the SFCR/RTS in yet another format.

3.2 For groups there is the additional burden of preparing and aggregating the SFCRs of several companies. Bearing these factors in mind a timescale of 4 months may be more appropriate for the group SFCR and 3 months for the solo SFCR. This would allow an additional month to aggregate the information across entities, including those outside the EEA that will not have a solo SFCR.

3.3 We consider that providing the quarterly reporting in 3.510 within 4 weeks of the year end may present a number of practical difficulties to organisations if they are to operate an appropriately robust review process. It may not be practical to seek an external audit review within this window, and we would ask for clarity regarding CEIOPS thoughts on this, given the Directive's requirements that the MCR should be auditable.

4 Audit scope

4.1 We agree with the principle of independent assurance being provided on certain information contained within an SFCR or RTS.

4.2 There are international standards on auditing that are produced by the International Federation of Accountants (IFAC) which accountants would seek to apply as appropriate to any audit of the reporting within this consultation paper.

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- 4.3 We are aware that there is ongoing dialogue between CEIOPS and FEE and we recommend that this dialogue continues in order to assist in the clarification of the exact requirements: the information to be reported upon, whom the report is to be addressed to and the style of report and opinion required. A draft standardised form of reporting could then be prepared for consideration which would assist consistency and transparency of reporting across Member States. Users of the SFCR and preparers must also be included in consultations to define the scope of any assurance requirements.
- 4.4 There are a number of issues that will need to be resolved regarding any audit opinion which will include the nature of opinion required and the necessary work to provide that opinion. These include the following, although this should not be regarded as an exclusive list:
- Clarification on what will be reported upon; that is confirmation of which documents will be subject to audit and the aspects of each of those documents will need to be clearly defined both for the auditor to scope the work and for the reader to understand on what information an opinion is given. The scope of the assurance will be a key factor in the cost of its provision.
 - The criteria to be applied to the audit or review, particularly what responsibility will there be in respect of relevance, completeness, reliability, neutrality and understandability.
 - Whether there is likely to be appropriate evidence available to support the opinion required.
 - Whom the opinion should be addressed to, for example will auditors be reporting to the supervisor, to the administrative or management body of the undertaking or to its shareholders. This will influence the audience to whom the auditor has a duty of care.
 - The extent of any potential liability to persons to whom the opinion is given. This could include agreed monetary limits.
 - Whether the audit scope will relate solely to annual submissions or will be extended to the documents that Undertakings will be required to prepare on a quarterly basis.

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- The extent to which auditors will be requested to review any revised reports, whether initiated at the undertaking's or supervisor's request.

4.5 Under the current proposals, an SCR calculated using an approved internal model will not fall directly within the scope of an audit. There may be benefits to policyholders and the industry as a whole if consideration be given to whether it is appropriate for there be some form of external assurance of an undertaking's internal model; for example a report such as the UK's "Report by a Skilled Person" (as defined by Section 166 of the Financial Services & Markets Act 2000).

5 Comparative information/transitional arrangements.

5.1 The consultation paper is currently silent on the following:

- The need to present any comparative information, especially on implementation.
- Whether there will be the need to include any disclosure of any adjustments to balances brought forward as a result of the Solvency II requirements.
- Any required transitional provisions.

5.2 We recommend that this be addressed by CEIOPS at an early opportunity.

3.31

It may be difficult to ensure that all insurers provide the required level of detail in the SFCR. This may either be because not all of the required heads of disclosure have been included or because the level of detail (particularly of say narrative matters) is considered to be too brief. This could arise from a combination of desire to minimise the preparation burden, from insurers seeing limited value in the SFCR and also from their not wishing to give away information considered to be commercially sensitive.

In such circumstances it does not seem clear how supervisors are expected to enforce an appropriate level of disclosure. This would also need to address whether an amended SFCR was required to be made public, particularly as insurers may be more readily prepared to make more information available to the supervisor than to provide additional information on the public

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record. This is also potentially important as per 3.491 a full RTS may not be required every year for many insurers. Although even more explicit requirements are not desirable, further guidance (possibly in the form of an example SFCR) may assist insurers with understanding the minimum level of disclosures that would be considered to meet the spirit of the requirements.

We consider there are likely to be a number of issues that insurers would wish to keep confidential for a variety of valid reasons, commercial sensitivity for example. The proposed regime of seeking approval from supervisors not to disclose this information is not likely to be practical other than for a few major issues. Matters that undertakings are likely to consider as commercially sensitive include specific details relating to the investment portfolio held, certain details of any Internal model and details of the 10 biggest facultative risks (non-life).

We believe it may be appropriate to reduce the level of detail in the SFCR and include some of this disclosure in the RTS, in order to reduce excessive public disclosure. This may help to reduce cost, confusion and address potential confidentiality issues.

3.45 We are pleased to note the recognition of proportionality as being an important factor within the consultation paper, but are concerned that there appears to be a mismatch between how this will operate in practice given the level of disclosures currently suggested. As noted in our general comments this consultation paper represents a potentially significant compliance requirement for all insurers and particularly smaller insurers.

Many of the disclosures appear to have limited use to the public and some seem to generate information that it is not clear that Supervisors will utilise. We would suggest CEIOPS reconsider the value of such disclosures.

3.46 We believe that it would be helpful to clarify the manner in which Supervisors will apply materiality in the regulatory context. For example, it should be clearer whether the materiality of an item should be considered by reference to the MCR, the SCR, the individual entity, the Group level or at all levels.

3.86 Recent experience of additional disclosures for insurers in the UK includes the Principles and Practices of Financial Management (PPFM) and there appears to be little evidence of this being used in the public domain. Consequently, we are concerned that the amount of interest third parties are likely to have in some of the information being proposed to be included in the SFCR may be limited. Whilst transparency is desirable, the effort entailed in the preparation of information should be proportionate to the benefits it will produce. There are certain steps that might reduce this effort.

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- 1 As noted above it would potentially be helpful for insurers with detailed relevant disclosures in their financial statements to be able to utilise this with a minimum of duplication.
- 2 As well as the list of 6 main headings to the SFCR there are some 37 sub-headings. Whilst this secondary level of detail is useful as guidance to what is required under the 6 main headings it seems excessive to require all of these sub-headings to be followed in strict order in the SFCR. We believe it would be preferable to allow more flexibility in the way insurers present the information required by the SFCR sub-headings within the main SFCR headings. The proposed detailed structure is likely to lead to either excessive cross referencing from the SFCR to financial statements or else significant re-ordering of information presented in financial statements or elsewhere within an organisation to accommodate the proposed detailed SFCR structure requirements. Although the overall content of the SFCR suggested appears reasonable, the detailed format listing may not be the best way of presenting the information. We consider that the sub-headings should just be a checklist of contents not a specified order. Putting the data into the full order specified in the SFCR would be more likely to lead to confusing and fussy presentation rather than lead to a benefit from standardising the SFCR. It should not be very difficult for supervisors and readers to find the information they require within the six main headings. The detailed list of sub-headings also may make it more difficult to produce disclosures that work for financial statements and the SFCR, thereby increasing the preparation burden for insurers. As an alternative the SFCR could be asked to show (if not presented under the 37 headings in order) where each of the different elements of the sub-headings are addressed, without forcing a presentation order on insurers.
- 3 For the RTS, a similar approach to above would be helpful to allow a minimum of redrafting. As the exact information to be included in the SFCR and RTS is not very tightly defined we do not think that disclosing it in the strict order of the 37 sub-headings will significantly improve comparability but it will make it difficult for organisations to express their performance in a manner that is appropriate to how they manage their business and risks.

If the subheadings are to be retained, then the order of headings to be followed for the SFCR and RTS seems confused under the Risk Management heading. We would expect that for the first 7 sub-headings detailing risk types (C.1 to C.7) that each risk would be required to be analysed by the next 5 sub-headings of key aspects (C.8 to C.11). Requiring sub-headings for this second set of issues to be adhered to in the SFCR and RTS documents will lead to a very confused presentation. We think if headings are retained it should only be a requirement that C.1 to C.7 plus C.12 are headings but that they should each be

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	required to comment on their underlying aspects as outlined in C.8 to C.11.
3.86	<p>It would be helpful to clarify within the SFCR qualitative comment and within the quantitative forms where accounting rather than solvency information can be used.</p> <p>To save duplication of effort by insurers it would be helpful if most of the commentary in the SFCR could be consistent with the financial statements other than where reporting is obviously linked to solvency such as MCR and SCR commentary.</p> <p>Most comments could logically focus on financial statement results. Similarly for the draft quantitative reporting templates in Annex D, other than the A and B forms it would probably be easiest for most insurers to deal with reporting performance and movements in the year on a financial statements basis rather than a solvency results basis. However, it is not clear whether the amounts such as the technical provisions on the E forms are to be based upon solvency or financial statements results.</p> <p>We appreciate that this approach may not be practical in all circumstances (for example, for life insurers with a significant proportion of insurance contracts restated as investment contracts within the accounts) but believe this is an option that should be considered further.</p>
3.97	We assume that only legal entities will be required to report and not branches. Whether it is anticipated that the level of reporting of a regulated entity's branch operations will be a limited to a listing of the principal branches or whether additional reporting will be required could be clarified. Also whether any SFCR requirements apply to non-EEA branches (which appears not, given Article 50 is not referenced into from Article 160).
3.243	Article 50 (e) (iii) requires information to allow a proper understanding of the main differences between the underlying assumptions of the standard formula and any internal model used. The vast amount of detailed information required in 3.243 to 3.262 to be publicly disclosed appears to be an excessive interpretation of that requirement. We note that there is no basis for the principle expressed in 3.243 in the Directive. Too much loosely defined information being disclosed in public may obscure the key information rather than assist public understanding. Although such information would presumably be required as part of the process of obtaining model approval and may be appropriate to provide to regulators as part of the RTS this seems excessive to put into the public domain. There is potentially commercially sensitive information within these requirements, a significant burden upon the insurer in preparing such information for public disclosure and an unclear benefit of public disclosure of this level of detail.

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3.277	<p>It would be helpful to clarify how group and solo reporting requirements will interact with regard to the SFCR and RTS. In addition, to assess the requirements for larger groups it would be helpful if 'undertaking', 'regulated entity' and 'group' are defined and the reporting requirements for each explicitly set out.</p> <p>For the avoidance of doubt it would be helpful to clarify whether the extent of reporting should cover the worldwide group or whether the level of detail stops at the EEA border.</p>
3.369	<p>It is currently proposed that an SCR calculated using the standard formula be included within the audit scope. However, we note that where undertakings have received approval to use an internal model they may be required to provide the Supervisor with an estimate of the SCR using the standard formula; it is not clear whether the estimate submitted by the undertaking in these circumstances would be subject to audit.</p> <p>For the avoidance of doubt it would be helpful to clarify whether the audit requirements extend to the responses to such information requests.</p>
3.517	<p>With regard to the investment forms to be audited the guidance suggests this is "summary investments by class". Which of the forms does this refer to? The description implies detailed listings such as D1, D3 and D4 would not be audited, which seems reasonable as there appears to be little value to having this detailed listing of investments audited. Even without being audited this level of detailed public disclosure of investments seems excessive as there is increasingly extensive disclosure of the nature and risks relating to investments within financial statements as a result of changes to accounting standards.</p>
3.517	<p>Within the information to be subject to external audit are qualitative (QRR) and quantitative (QRT) requirements. For the QRT requirements it is clear that these will be the final versions of the draft forms in Annex D. It is less clear what the QRR requirements refer to. If these are just sections within the SFCR it could be potentially confusing to readers if only certain sections within an extensive SFCR (possibly with significant cross references to say financial statements) have been subject to audit. To ensure clarity for the reader it will be important to clearly identify what information has and has not been subject to audit.</p>
3.517	<p>With regard to providing audit opinions upon the qualitative and quantitative information in the SFCR we would like to make</p>

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the following observations.

- 1 We support the view that some of the qualitative and quantitative information in the reports may be subject to independent assurance, as such assurance can increase the confidence that supervisors and other users may have in the information being reported. However, as we argued above, it will be important to involve a wide range of interested parties in the decision as to what information is subject to assurance, not least to ensure that assurance is only provided where it provides real benefits to those using the information and does so cost-effectively. Where the supervisors are the main beneficiary the focus should be on ensuring only information that they cannot cost effectively double check themselves and which is important for their role of supervising insurers is subject to audit. Auditors may also usefully be involved through regular informal contact with the regulators or through the provision of ad-hoc reports commissioned by regulators (for example as applies in the UK under section 166 of the FSMA 2000). We recommend that CEIOPS keeps under review the audit requirements for reports in the banking sector and considers the extent to which the two different industries should be subject to similar or differing audit requirements.
- 2 One way of keeping assurance work proportionate would be to give an opinion that quantitative information in the returns on the MCR, SCR or technical provisions (if solvency amounts rather than financial statement amounts) have been agreed as extracted from the client's workings. If any greater reliance is required to be placed upon the audit of these figures auditors may need to review the workings of the internal model or SCR calculations to ensure they have been correctly prepared which would be a significant amount of additional work.
- 3 The cost of an audit of the quantitative technical information of amounts such as technical provisions will increase depending upon the data being reported upon. If the provisions being reported upon are solvency provisions and they are prepared and reported on a significantly different basis to the financial statements, there will be significant additional audit work beyond that carried out as part of the audit of the financial statements.

3.517

The level and cost of audit work will vary depending on the type of opinion given by the auditors. It will be less costly to obtain a "limited assurance" opinion that there is nothing they are aware of that would make a statement incorrect than to provide a positive "reasonable assurance" opinion that something is correct, as the former opinion will require less detailed audit work to be undertaken. With regard to the qualitative information this is always an area where it is by its nature more

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difficult for auditors to give an opinion. As a result it is often more appropriate for such information to be given on the basis of a negative rather than positive opinion.

Unless the responsibilities and type of opinion required on the qualitative data are carefully drafted additional obligations for auditors to fully investigate and endorse all of an insurer's statements regarding items such as quality of own funds or assumptions used for technical provisions may arise. This could lead to difficulties in forming opinions or significant additional cost. It may be that different forms of opinion are appropriate for different elements of the reporting. In such case it would be particularly important to ensure this is communicated clearly.

Annex D

It is not clear from Annex D whether all of the quantitative reporting templates are to be included in the SFCR and thereby disclosed in public, although the text elsewhere suggests it will be extracts. There are some forms such as J3, J4 and J5 which, if part of the public SFCR, would require disclosure of potentially commercially sensitive information for the insurer and their customers. Details of specific policies and terms with customer or reinsurer names and pricing details is information that would normally be considered highly confidential by both parties as well as commercially sensitive. Information on individual policies including insureds' names and policy terms also appears excessive detail to be put into the public domain. Although it is possible that such listings may include certain key policies of an insurer it could easily be merely a list of everyday policies for some insurers.

We question whether there is a real public benefit in making full public disclosure of what may be commercially sensitive information by making full listings of investments such as in D1, D3 and D4 part of the SFCR disclosures. It is not clear what use the public or supervisors would make of this information and therefore whether it should be collected.