EIOPA-CP-14/043

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Consultation Paper on the proposal for Guidelines on valuation of assets and liabilities other than technical provisions

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Responding to this paper

EIOPA welcomes comments on the proposal for Guidelines on valuation of assets and liabilities other than technical provisions.

Comments are most helpful if they:

- respond to the question stated, where applicable;
- contain a clear rationale; and
- describe any alternatives EIOPA should consider.

Please send your comments to EIOPA in the provided Template for Comments, by email Consultation_Set2@eiopa.europa.eu, by 2 March 2015.

Contributions not provided in the template for comments, or sent to a different email address, or after the deadline will not be processed.

Publication of responses

Contributions received will be published on EIOPA's public website unless you request otherwise in the respective field in the template for comments. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.

Please note that EIOPA is subject to Regulation (EC) No 1049/2001 regarding public access to documents and EIOPA's rules on public access to documents[1].

Contributions will be made available at the end of the public consultation period.

Data protection

Please note that personal contact details (such as name of individuals, email addresses and phone numbers) will not be published. They will only be used to request clarifications if necessary on the information supplied.

EIOPA, as a European Authority, will process any personal data in line with Regulation (EC) No 45/2001 on the protection of the individuals with regards to the processing of personal data by the Community institutions and bodies and on the free movement of such data. More information on data protection can be found at https://eiopa.europa.eu/ under the heading 'Legal notice'.

[1] https://eiopa.europa.eu/fileadmin/tx_dam/files/aboutceiops/Public-Access-(EIOPA-MB-11-051).pdf

Consultation Paper Overview & Next Steps

EIOPA carries out consultations in the case of Guidelines and Recommendations in accordance to Article 16 (2) of the EIOPA Regulation.

This Consultation Paper presents the draft Guidelines, explanatory text and a technical annex.

The analysis of the expected impact from the proposed policy is covered under Annex I Impact Assessment.

Next steps

EIOPA will consider the feedback received and expects to publish a Final Report on the consultation and to submit the Consultation Paper for adoption by the Board of Supervisors.

1. Guidelines on valuation of assets and liabilities other than technical provisions

Introduction

1.1. These Guidelines are drafted according to Article 16 of Regulation (EU) No 1094/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (hereinafter "EIOPA Regulation")[2].

1.2. The Guidelines relate to Article 75 of Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (hereinafter "Solvency II")[3] and to Articles 7 to 17 of the Implementing Measures.

1.3. These Guidelines are addressed to supervisory authorities under Solvency II.

1.4. These Guidelines are intended to facilitate convergence of professional practice across Member States and support undertakings in valuing assets and liabilities other than technical provisions.

1.5. Solvency II and its Implementing Measures generally provide for undertakings to recognise and value assets and liabilities other than technical provisions in accordance with International Financial Reporting Standards (IFRSs) adopted by the European Commission in accordance with Regulation (EC) No 1606/2002 of the European Parliament and of the Council of 19 July 2002 on the application of international accounting standards[4] except where this is not consistent with Article 75 of Solvency II.

1.6. The Implementing Measures state in which cases the valuation methods are not consistent with the valuation approach set out in Article 75 of Solvency II, and therefore, other valuation principles or adjustments to IFRSs shall be applied.

1.7. These Guidelines refer to the Implementing Measures, which specify measurement principles for the valuation of assets and liabilities other than technical provisions. Where the Guidelines refer to "valuation" it is defined as a valuation in accordance with Article 75 of Solvency II.

1.8. For the purposes of these Guidelines written premiums are defined as the premiums due to be received by the undertaking in the period. Applying this

[2] OJ L 331, 15.12.2010, p. 48
[3] OJ L 335, 17.12.2009, p. 1
[4] OJ L 243, 11.9.2002, p.1

definition means that written premiums in the given year are the premiums actually due to be received in that year, regardless of the coverage period. The definition of written premiums is consistent with the definition of “premium receivables”.

1.9. If not defined in these Guidelines, the terms have the meaning defined in the legal acts referred to in the introduction.

1.10. The Guidelines shall apply from 1 January 2016.

Guideline 1 – Materiality

When valuing assets and liabilities, undertakings should consider the materiality principle. Information is material if its omission or misstatement influences the decision-making or the judgement of the users of that information, including the supervisory authorities.

In making an assessment of materiality, it should be recognised that quarterly measurements may rely on estimates and estimation methods to a greater extent than measurements of annual financial data.

Guideline 2 – Consistency of applying alternative valuation methods

Undertakings should apply valuation techniques consistently. Undertakings should also consider if as a result of a change in circumstances, including those listed below, a change in valuation techniques or their application is required on the basis that such change would result in a more appropriate measurement in accordance with Article 75 of Solvency II.

Such changes may be as follows:

a) new market developments that change market conditions;

b) new information becomes available;

c) information previously used is no longer available;

d) valuation techniques improve.

Guideline 3 – Investment property and property, plant and equipment: alternative valuation methods

For the purposes of Article 10 (5) of the Implementing Measures when valuing investment property, and property, plant and equipment, undertakings should select the method that provides the most reliable estimate of the amount for which the assets could be exchanged between knowledgeable willing parties in an arm´s length transaction. These methods should be based on the following:

a) current prices in an active market for properties of a different nature, condition or location, or subject to different lease or other contractual terms, adjusted to reflect those differences;

b) recent prices of similar properties on less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices;

c) discounted cash flow projections based on reliable estimates of future cash flows, supported by the terms of any existing lease and other contracts and, when possible, by external evidence such as current market rents for similar properties in the same location and condition and using discount rates that reflect current market assessments of the uncertainty in the amount and timing of the cash flows.

In some cases, the various inputs listed above may suggest different valuations of a property. An undertaking should consider the reasons for those differences, in order to arrive at the most reliable valuation estimate within the range of estimates.

When undertakings determine the valuation of the property, they should not reflect future capital expenditure that will improve or enhance the property and related future benefits from this future expenditure.

When undertakings determine the valuation of the property they should take into account a market participant's ability to generate economic benefits by using the property to its highest and best use, or by selling it to another market participant that would use the asset in its highest and best use.

Guideline 4 – Investment property and property, plant and equipment: documentation of the valuation

Where undertakings use a valuation not carried out at the reporting date, they should be able to provide their supervisory authority with:

a) details of the adjustments made to reflect changes between the valuation date and reporting date; or

b) robust information supporting the assertion that the value at the valuation date and reporting date would not be materially different.

Guideline 5 – Financial liabilities

When valuing financial liabilities, undertakings should use techniques to determine a value for which the liabilities could be transferred, or settled between knowledgeable willing parties in an arm´s length transaction, excluding any adjustment to take account of changes in the undertaking's own credit standing after initial recognition. These techniques can be based on either:

a) a bottom up approach; or

b) a top down approach.

In a bottom up approach, undertakings should determine their own credit standing at recognition of the specific financial liability. That part of the spread of the discount curve that relates to the own credit standing should be kept constant after the initial recognition. In the subsequent valuation the value is calculated by determining the changes in the value stemming from changes in market conditions that affect the value of the financial liability, except changes in market conditions that affect the own credit risk.

When undertakings assess changes in market conditions that give rise to market risk, they should assess at least changes in a benchmark interest rate, the price of another undertaking's financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates.

In a top down approach, undertakings should determine the amount of change in the valuation of a financial liability that is attributable to changes in the undertaking's own credit risk and exclude it from the valuation.

Guideline 6 – Holdings in related undertakings – IFRS equity method

When undertakings value a related undertaking's assets and liabilities using the IFRS equity method in accordance with Article 13 (5) of the Implementing Measures, and if those related undertakings use an accounting framework other than IFRS, the undertakings should make adjustments where needed to recognise and value that related undertaking's assets and liabilities in accordance with IFRSs.

When applying Article 13 (5) of the Implementing Measures, an undertaking should be able to explain to its supervisory authority why it is has not applied the adjusted equity method and valued all balance sheet items according to

Article 75 of Solvency II.

Guideline 7 – Holdings in related undertakings: alternative valuation methods

Where undertakings value holdings in related undertakings using alternative valuation methods in accordance with Article 13 (1)(c) of the Implementing Measures, they should be able to explain to their supervisory authority why it is not possible to revalue the related undertaking’s assets and liabilities using the default valuation method or the adjusted equity method.

Guideline 8 - Contingent liabilities

When entering into an arrangement that represents an ancillary own-fund item for the counterparty, undertakings should consider whether to recognise a contingent liability in compliance with Article 11 of the Implementing Measures.

Undertakings should be able to provide a justification to the supervisory authority where they have not recognised a contingent liability in circumstances where they have entered into an arrangement with another undertaking, including any other undertakings belonging to the group that has received approval as an ancillary own funds item.

Guideline 9 - Deferred taxes - calculation

Undertakings should not discount deferred tax assets and liabilities.

Guideline 10 - Deferred tax - documentation

Undertakings should document:

a) sources of deferred taxes and their calculation;

b) the assumptions related to their recognition.

Undertakings should be able to provide supervisory authorities with, at a minimum, information on:

a) temporary differences and the forecasting of their reversal;

b) unused tax losses or unused tax credits and whether or not they are recognised;

c) the amounts of the recognised deferred taxes;

d) a description of the evidence supporting the recognition of deferred taxes;

e) past financial performance and forecast of the financial performance of the undertaking to substantiate the availability of future tax profits.

Guideline 11 - Deferred tax treatment where undertakings are excluded from group supervision

Undertakings should apply the following principles for the recognition of deferred taxation where related undertakings are excluded from the scope of group supervision under Article 214(2) of Solvency II:

a) where holdings in related undertakings are excluded from the scope of group supervision under Article 214(2)(a) of Solvency II, the deferred tax related to that excluded undertaking should not be recognised at either individual or group level;

b) where holdings in related undertakings are excluded from the scope of group supervision under Article 214(2)(b) or (c) of Solvency II, the deferred tax related to that related undertaking should not be recognised at group level.

Guideline 12 – When applying the derogation

Undertakings applying the derogation in Article 9 (4) of the Implementing Measures should use these Guidelines and the comparison table in Technical Annex 1 as a reference when determining whether its valuations are consistent with Article 75 of Solvency II.

Undertakings that are within the scope of consolidation of a group preparing consolidated financial statement under IFRSs should not apply the derogation in Article 9 (4) of the Implementing Measures.

Compliance and Reporting Rules

1.11. This document contains Guidelines issued under Article 16 of the EIOPA Regulation. In accordance with Article 16(3) of the EIOPA Regulation, Competent Authorities and financial institutions shall make every effort to comply with guidelines and recommendations.

1.12. Competent authorities that comply or intend to comply with these Guidelines should incorporate them into their regulatory or supervisory framework in an appropriate manner.

1.13. Competent authorities shall confirm to EIOPA whether they comply or intend to comply with these Guidelines, with reasons for non-compliance, within two months after the issuance of the translated versions.

1.14. In the absence of a response by this deadline, competent authorities will be considered as non-compliant to the reporting and reported as such.

Final Provision on Reviews

1.15. The present Guidelines shall be subject to a review by EIOPA.

2. Explanatory text

Guideline 5 – Financial liabilities

When valuing financial liabilities, undertakings should use techniques to determine a value for which the liabilities could be transferred, or settled between knowledgeable willing parties in an arm´s length transaction, excluding any adjustment to take account of changes in the undertaking’s own credit standing after initial recognition. These techniques can be based on either:

a) a bottom up approach; or

b) a top down approach.

In a bottom up approach, undertakings should determine their own credit standing at recognition of the specific financial liability. That part of the spread of the discount curve that relates to the own credit standing should be kept constant after the initial recognition. In the subsequent valuation the value is calculated by determining the changes in the value stemming from changes in market conditions that affect the value of the financial liability, except changes in market conditions that affect the own credit risk.

When undertakings assess changes in market conditions that give rise to market risk, they should assess at least changes in a benchmark interest rate, the price of another undertaking’s financial instrument, a commodity price, a foreign exchange rate or an index of prices or rates.

In a top down approach, undertakings should determine the amount of change in the valuation of a financial liability that is attributable to changes in the undertaking’s own credit risk and exclude it from the valuation.

Article 75 of Solvency II requires that, when valuing liabilities, no adjustment is made to take account of the undertaking’s own credit standing. This is clarified further by Article 14 of the Implementing Measures, which provides that financial liabilities need to be valued at initial recognition in accordance with international accounting standards as endorsed by the European Commission, but a subsequent adjustment for changes in own credit standing is not applicable.

This creates a difference between subsequent measurement of financial liabilities in Solvency II compared to the measurement according to IFRS where, in the case of the latter, the effect of own credit standing is taken into account in the valuation approach.

Undertakings can use a top down approach by starting with the fair value as calculated under IFRS and then exclude the subsequent adjustment for changes in own credit standing.

Undertakings may also use a bottom up approach, starting with the value at recognition and reflecting all changes in market developments in the subsequent valuation, except for the effect on own credit standing.

When determining the Solvency II value by using a top down approach, undertakings determine the amount of change in the fair value of a financial liability that is attributable to changes in the undertaking's own credit risk. Two possible methods that undertakings can use to measure are:

(a) the amount of change in fair value that is not attributable to changes in market conditions that give rise to market risk; or

(b) an alternative method which directly measures the amount of change in the liability's fair value that is attributable to changes in the undertaking's own credit risk.

When measuring the amount of change in the fair value that is attributable to changes in the undertaking's own credit risk, the undertaking makes maximum use of relevant observable inputs and minimum use of unobservable inputs.

If the only significant relevant changes in market conditions affecting the financial liability are changes in an observable interest rate, the amount of change in the fair value that is attributable to changes in the undertaking's own credit risk, can be measured as follows:

(a) the undertaking computes the effective interest rate of the liability at the start of the period using the fair value of the liability and the liability's contractual cash flows at the start of the period. It deducts from this rate of return the observable interest rate at the start of the period, to arrive at an instrument-specific component of the internal rate of return;

(b) the undertaking then calculates the present value of the cash flows associated with the liability using the liability's contractual cash flows at the end of the period and a discount rate equal to the sum of (i) the observable interest rate at the end of the period and (ii) the instrument-specific component of the internal rate of return as determined in (a);

(c) the difference between the fair value of the liability at the end of the period and the amount determined in (b) is the change in fair value that is not attributable to changes in the observable interest rate.

Guideline 6 – Holdings in related undertakings – IFRS equity method

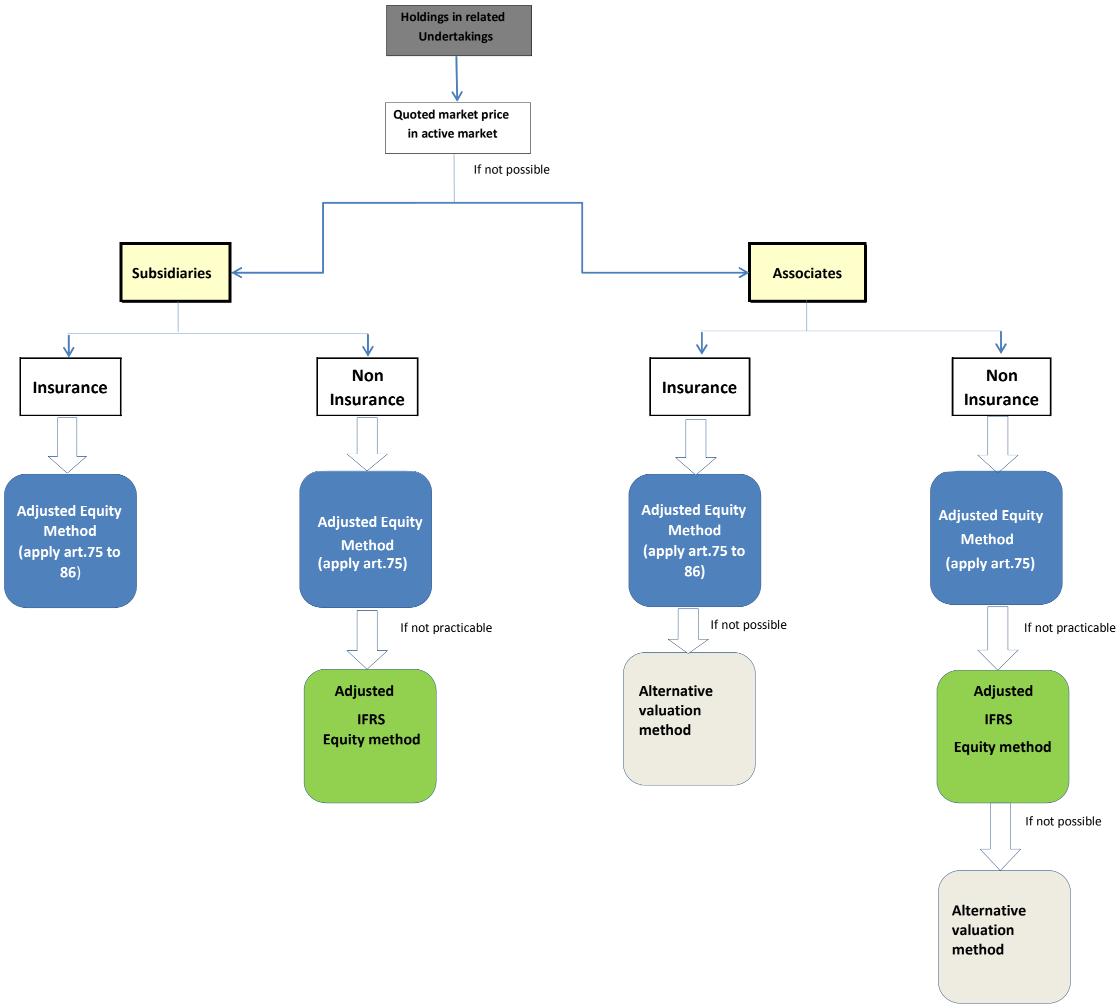
When, undertakings value a related undertaking's assets and liabilities using the IFRS equity method in accordance with Article 13(5) of the Implementing Measures, and if those related undertakings use an accounting framework other than IFRS, the undertakings should make adjustments where needed to recognise and value that related undertaking's assets and liabilities in accordance with IFRSs.

When applying Article 13(5) of the Implementing Measures, an undertaking should be able to explain to its supervisory authority why it is has not applied the adjusted equity method and valued all balance sheet items according to Article 75 of Solvency II.

Guideline 7 – Holdings in related undertakings: alternative valuation methods

Where undertakings value holdings in related undertakings using alternative valuation methods in accordance with Article 13 (1)(c) of the Implementing Measures, they should be able to explain to their supervisory authority why it is not possible to revalue the related undertaking's assets and liabilities using the default valuation method or the adjusted equity method.

Where it is difficult to revalue the complete balance sheet of the related undertaking according to Solvency II principles the IFRS equity method may be used in accordance to Article 13 of the Implementing Measures as illustrated below.



Generally, undertakings recognise and value individual assets and liabilities in a related undertaking's balance sheet in accordance with the Solvency II principles. In some cases however the undertaking may not have sufficient knowledge of the individual assets and liabilities in the related undertaking to apply an economic valuation to them or even IFRS recognition and measurement criteria. This may happen when, for example, the related undertaking is not controlled by the undertaking, i.e. the related undertaking is not a subsidiary. In these circumstances an undertaking can apply an alternative valuation method.

In the circumstances specified in Article 13(2) of the Implementing Measures, holdings in related undertakings are valued at zero on the balance sheet of the individual undertaking.

Guideline 8 - Contingent liabilities

When entering into an arrangement that represents an ancillary own-fund item for the counterparty, undertakings should consider whether to recognise a contingent liability in compliance with Article 11 of the Implementing Measures.

Undertakings should be able to provide a justification to the supervisory authority where they have not recognised a contingent liability in circumstances where they have entered into an arrangement with another undertaking, including any other undertakings belonging to the group that has received approval as an ancillary own funds item.

Article 11 of the Implementing Measures requires contingent liabilities to be recognised on the Solvency II balance sheet if they are material.

Valuation of contingent liabilities is based on the probability weighted cash-flow method defined in Article 14 of the Implementing Measures.

a) In some cases, an undertaking might have access to extensive data and be able to identify many scenarios with their projected outcomes, in others the information available to the entity might be more limited. Even if there is evidence to support many outcomes, it is not always necessary to consider probability weighted distributions of all possible outcomes using complex models and techniques. Rather, a limited number of discrete outcomes and probabilities can often provide a reasonable estimate of the distribution of possible outcomes.

b) The expected value of a contingent liability would reflect all expectations about possible cash-flows and not the single most likely or the expected maximum or minimum cash flow. However, the more likely it is that any particular outcome will occur, the greater the effect that the outcome has on the expected value.

An undertaking needs to consider the risk that the actual outflows of resources might ultimately differ from those expected.

The draft implementing measures specifically address the recognition of contingent liabilities; contingent assets are not mentioned. Therefore, undertakings do not recognise contingent assets.

Guideline 9 - Deferred taxes – calculation

Undertakings should not discount deferred tax assets and liabilities.

IAS 12 defines the principles for recognition and valuation of deferred taxes. These principles are applicable to the Solvency II balance sheet, except for the fact that temporary differences are based on the differences between the values in accordance with Article 75 of Solvency II and the values for tax purposes. According to IAS 12, a reliable determination of deferred tax assets and liabilities on a discounted basis would require detailed scheduling of the timing of the reversal of each temporary difference, which in many cases is impracticable or highly complex. Therefore, IAS 12 does not allow discounting of deferred tax assets and liabilities; nor does Solvency II.

Guideline 10 - Deferred tax - documentation

Undertakings should document:

a) sources of deferred taxes and their calculation;

b) the assumptions related to their recognition.

Undertakings should be able to provide supervisory authorities with, at a minimum, information on:

c) temporary differences and the forecasting of their reversal;

d) unused tax losses or unused tax credits and whether or not they are recognised;

e) the amounts of the recognised deferred taxes;

f) a description of the evidence supporting the recognition of deferred taxes;

g) past financial performance and forecast of the financial performance of the undertaking to substantiate the availability of future tax profits.

When an undertaking has a history of recent losses, convincing and reliable evidence (such as consistent planning projections, new cooperation agreements, cost cutting programs, evidence that losses were triggered through non-recurring events) needs to be provided to the supervisory authority to demonstrate the appropriateness of any forecasted taxable profits.

To fulfil the requirements set out in Article 15 (3) of the Implementing Measures, the assessment of the probability of future taxable profits considers the normal planning cycle of the undertaking, to the extent that this can be projected with a certain amount of assurance.

Guideline 11 - Deferred tax treatment where undertakings are excluded from group supervision

Undertakings should apply the following principles for the recognition of deferred taxation where related undertakings are excluded from the scope of group supervision under Article 214(2) of Solvency II:

a) where holdings in related undertakings are excluded from the scope of group supervision under Article 214(2)(a), the deferred tax related to that excluded undertaking should not be recognised at either individual or group level;

b) where holdings in related undertakings are excluded from the scope of group supervision under Article 214(2)(b) or (c), the deferred tax related to that related undertaking shall not be recognised at group level.

Where group supervisors apply Article 214(2)(a) of Directive 2009/138/EC, because the undertaking is situated in a country where there are legal impediments to the transfer of adequate information, the holding in the related holding will be valued at zero at the individual level in accordance with Article 13 (2) of the Implementing Measures. Since this absence of adequate information will also prevent the performance of a proper deferred taxation calculation no deferred taxation will be recognised at either individual or group level.

The Article 214(2)(b) and (c) exclusions of Solvency II are only relevant in the context of group supervision. Therefore deferred tax effects are recognised in the individual balance sheet of the undertaking. However at group level, since the related undertaking is excluded, either because of its negligible interest or because its inclusion as a whole would be inappropriate or misleading in a group context, then it would also be negligible, inappropriate or misleading to include deferred taxation related to that related undertaking.

Article 229 of Solvency II states that the group supervisor may decide on a case-by-case basis to deduct a holding in a related undertaking. This holding will be valued at zero at the individual level following Article 13 of the Implementing Measures but can originate deferred taxation effects on the balance sheet. The same applies for the group level. However, for the purposes of calculating the own funds eligible for the group solvency, any deferred taxation effects will be deducted.

Table consistency of IFRS Valuation

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
IAS 1 Presentation of financial statements	IAS 1 sets overall requirements for the presentation of financial statements, guidelines for their structure and minimum requirements for their content.		**no**	IAS 1 does not prescribe valuation methodologies for balance sheet items.
IAS 2 Inventories	IAS 2 prescribes the accounting treatment for inventories. Following IAS 2, inventories shall be measured at the lower of cost and net realisable value (IAS 2.9). Net realisable value refers to the net amount that an entity expects to realise from the sale of inventory in the ordinary course of business while fair value reflects the amount for which the same inventory could be exchanged between knowledgeable and willing buyers and sellers in the marketplace. As the net realisable value is an entity-specific value, may not equal fair value less costs to sell (IAS 2.7). **Solvency II framework:** In many cases the estimated cost of completion and the estimated costs necessary to make the sale	Net realisable value is a consistent option. Adjustment may be needed where estimated cost are material.	**yes**	Undertakings shall apply the IAS 2 net realisable value for inventories if the estimated cost of completion and the estimated costs necessary to make the sale are not material.

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	are not material. This means the net realisable value is option consistent with Article 75 of Directive 2009/138/EC if the estimated costs of completion and the estimated costs necessary to make the sales are not material.			
IAS 7 Statement of cash flows	IAS 7 requires disclosures about historical changes in cash and cash equivalents of an entity by means of a statement of cash flows.		**no**	IAS 7 does not prescribe valuation methodologies for balance sheet items.
IAS 8 Accounting policies, changes in accounting estimates and errors	IAS 8 specifies criteria for selecting and changing accounting policies, together with the accounting treatment and disclosure of changes in accounting policies, changes in accounting estimates and corrections of errors.		**no**	IAS 8 does not prescribe valuation methodologies for balance sheet items.
IAS 10 Events after the Reporting Period	IAS 10 prescribes when an entity should adjust its financial statements for events after the reporting period and the complementing disclosure requirements.		**no**	IAS 10 does not prescribe valuation methodologies for balance sheet items.

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
IAS 11 Construction Contracts	IAS 11 describes the accounting treatment of revenue and costs associated with construction contracts in the financial statements of contractors.		**no**	Business not relevant for insurers.
IAS 12 Income taxes	IAS 12 prescribes the accounting treatment for income taxes. Current tax liabilities or assets for the current and prior periods shall be measured at the amount expected to be paid to or recovered from the taxation authorities, using the tax rates that have been enacted or substantively enacted by the end of the reporting period (IAS 12.46). Deferred tax liabilities and assets shall be measured at the tax rates that are expected to apply to the period when the asset is realised or the liability is settled, based on tax rates that have been enacted or substantively enacted by the end of the reporting period (IAS 12.47). Deferred tax liabilities (assets) correspond to the amounts of income taxes payable (recoverable) in future periods in respect of taxable temporary differences (deductible temporary differences,	Consistent measurement principles for current taxes. Consistent measurement principles for deferred taxes calculated based on the temporary difference between Solvency II values and the tax values.	**yes**	

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent** **Consistent option** **With adjustments**	**Applicable?**	**Other comments**
	carry forward of unused tax losses and unused tax credit) (IAS 12.5). **<u>Solvency II framework:</u>** For deferred tax liabilities (assets) Solvency 2 establishes a different concept of temporary differences, being the deferred taxes for Solvency II purposes, other than deferred tax assets arising from the carry forward of unused tax credits and the carry forward of unused tax losses, calculated on the basis of the difference between the values ascribed to assets and liabilities recognised and valued in accordance with Article 75 to 86 of Directive 2009/138/EC and the values ascribed to assets and liabilities as recognised and valued for tax purposes; instead of the differences between the carrying amount of an asset or liability in the statement of financial position and its tax base.			
IAS 16 Property, plant and equipment	IAS 16 prescribes the accounting treatment for property, plant and equipment. After initial recognition an entity shall choose either the cost model in paragraph 30 or the revaluation model in paragraph 31 as its accounting policy and shall apply that policy to an entire	Revaluation model is a consistent option.	**yes**	Undertakings shall apply the fair value model and the revaluation model of IAS 40 and IAS 16 respectively when valuing property,

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent Consistent option With adjustments**	**Applicable?**	**Other comments**
	class of property, plant and equipment (IAS 16.29). Cost model: After recognition as an asset, an item of property, plant and equipment shall be carried at its cost less any accumulated depreciation and any accumulated impairment losses (IAS 16.30) Revaluation model: After recognition as an asset, an item of property, plant and equipment whose fair value can be measured reliably shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations shall be made with sufficient regularity to ensure that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period (IAS 16.31). **Solvency II framework:** The revaluation model is an option consistent with Article 75 of Directive 2009/138/EC.			including investment property, plant and equipment. The cost model permitted by IAS 40 or IAS 16, whereby investment property and property, plant and equipment is valued at cost less depreciation and impairment shall not be applied.
IAS 17 Leases	IAS 17 prescribes, for lessees and lessors, the appropriate	Consistent measurement	**yes**	Undertakings shall value assets and

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	accounting policies and disclosure to apply in relation to leases. **Finance leases** <u>Lessees:</u> At the commencement of the lease term, lessees shall recognise finance leases as assets and liabilities in their statements of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. The discount rate to be used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease, if this is practicable to determine; if not, the lessee's incremental borrowing rate shall be used. Any initial direct costs of the lessee are added to the amount recognised as an asset (IAS 17.20). After initial recognition, a finance lease gives rise to depreciation expense for depreciable assets as well as finance expense for each accounting period (IAS 17.28). Minimum lease payments shall be apportioned between the finance charge and the reduction of the outstanding liability. The	principles for operating leases, and, lessors in finance leases. Adjustments needed for lessees in finance leases.		liabilities in a lease arrangement in accordance with IAS 17, applied as follows: undertakings which are lessees in a finance lease, shall value lease assets and liabilities at fair value. Undertakings shall not make subsequent adjustments to take account of the own credit standing of the undertaking.

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent** **Consistent option** **With adjustments**	**Applicable?**	**Other comments**
	finance charge shall be allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability (IAS 17.25). <u>Lessors</u>: Lessors shall recognise assets held under a finance lease in their statements of financial position and present them as a receivable at an amount equal to the net investment in the lease (IAS 17.36). Under a finance lease substantially all the risks and rewards incidental to legal ownership are transferred by the lessor, and thus the lease payment receivable is treated by the lessor as repayment of principal and finance income to reimburse and reward the lessor for its investment and services (IAS 17.37). **Operating leases** <u>Lessees</u>: Lease payments under an operating lease shall be recognised as an expense on a straight-line basis over the lease term unless another systematic basis is more representative of the time pattern of the user's benefit (IAS 17.33). <u>Lessors</u>: Lessors shall present assets subject to operating leases in their statements of financial position according to the nature of			

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	the asset (IAS 17.49). **<u>Solvency II framework:</u>** Lessees in finance leases have to fair value all lease assets For lessors in finance leases, the receivable measured at an amount equal to the net investment in the lease, with the income allocation based on the pattern reflecting a constant periodic return on the lessor's net investment in the finance lease is considered to be consistent with Article 75 of Directive 2009/138/EC. Operating leases measurement principles are considered to be consistent with Article 75 of Directive 2009/138/EC, having in mind that the lease items in the lessors balance sheet are valued according to the general valuation principles applicable for those assets and liabilities.			
IAS 18 Revenue	IAS 18 prescribes the accounting for revenue arising from the following transactions and events: (a) the sale of goods; (b) the rendering of services; and (c) the use by others of entity assets		**no**	IAS 18 does not prescribe valuation methodologies for

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	yielding interest, royalties and dividends.			balance sheet items
IAS 19 Employee benefits	IAS 19 prescribes the accounting and disclosure for employee benefits, except those to which IFRS 2 Share-based Payment applies. **Short-term employee benefits** When an employee has rendered service to an entity during an accounting period, the entity shall recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service: (a) as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a	**Consistent measurement principles for employee benefits.**	**yes**	

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	reduction in future payments or a cash refund; and (b) as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset (see, for example, IAS 2 Inventories and IAS 16 Property, Plant and Equipment) (IAS 19. 11). **Post-employment benefits: defined contribution plans** When an employee has rendered service to an entity during a period, the entity shall recognise the contribution payable to a defined contribution plan in exchange for that service: (a) as a liability (accrued expense), after deducting any contribution already paid. If the contribution already paid exceeds the contribution due for service before the end of the reporting period, an entity shall recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and (b) as an expense, unless another Standard requires or permits the inclusion of the contribution in the cost of an asset (see, for			

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	example, IAS 2 and IAS 16) (IAS 19.51). Where contributions to a defined contribution plan do not fall due wholly within twelve months after the end of the period in which the employees render the related service, they shall be discounted using the discount rate specified in paragraph 83 (IAS 19.52). See paragraph 83 on the discount interest rate below. **Post-employment benefits: defined benefit plans** Accounting by an entity for defined benefit plans involves the following steps: a) determining the deficit or surplus. This involves: (i) using actuarial technique, the projected unit credit method to make a reliable estimate of the ultimate cost to the entity of the benefit that employees have earned in return for their service in the current and prior periods (see paragraphs 67-69). This requires an entity to determine how much benefit is attributable to the current and prior periods (see paragraphs 70-74) and to make estimates			

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent** **Consistent option** **With adjustments**	**Applicable?**	**Other comments**
	(actuarial assumptions) about demographic variables (such as employee turnover and mortality) and financial variables (such as future increases in salaries and medical costs) that will influence the cost of the benefit (see paragraphs 75–98); (ii) discounting that benefit in order to determine the present value of the defined benefit obligation and the current service cost (see paragraphs 67-69 and 83-86); (iii) deducting the fair value of any plan assets (see paragraphs 113–115) from the present value of the defined obligation. b) determining the amount of the net defined benefit liability (asset) as the amount of the deficit or surplus determined in (a), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling (see paragraph 64). The rate used to discount post-employment benefit obligations (both funded and unfunded) shall be determined by reference to market yields at the end of the reporting period on high quality			

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent Consistent option With adjustments**	**Applicable?**	**Other comments**
	corporate bonds. In countries where there is no deep market in such bonds, the market yields (at the end of the reporting period) on government bonds shall be used. The currency and term of the corporate bonds or government bonds shall be consistent with the currency and estimated term of the post-employment benefit obligations (IAS 19.83). **Other long-term employee benefits** This Standard requires a simplified (when compared with post-employment benefits) method of accounting for other long-term employee benefits. In recognising and measuring the surplus or deficit in another long-term employee benefit plan, an entity shall apply paragraphs 56–98 and 113–115. An entity shall apply paragraphs 116–119 in recognising and measuring any reimbursement right. For other long-term employee benefits, an entity shall recognise the net total of the following amounts in profit or loss, except to the extent that another IFRS requires or permits their inclusion in the cost of an asset: a) service cost (see paragraphs 66-112);			

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent** **Consistent option** **With adjustments**	**Applicable?**	**Other comments**
	b) net interest on the net defined benefit liability (asset) (see paragraphs 123-126); and c) remeasurements of the net defined liability (asset) (see paragraphs 127-130). **Termination benefits** An entity shall recognise a liability for termination benefits at the earlier of the following dates: (a) when the entity can no longer withdraw the offer of those benefits; and (b) when the entity recognises costs for a restructuring that is within the scope of IAS 37 and involves the payment of termination benefits (IAS 19.165). Where termination benefits are not expected to be settled wholly before 12 months after the end of the annual reporting period, they shall apply the requirements for other long term employee			

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	benefits (IAS 19.169).			
IAS 20 Accounting for government grants and disclosure of governance assistance	IAS 20 shall be applied in accounting for, and in the disclosure of, government grants and in the disclosure of other forms of government assistance. Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate (IAS 20.12). A government grant may take the form of a transfer of a non-monetary asset, such as land or other resources, for the use of the entity. In these circumstances it is usual to assess the fair value of the non-monetary asset and to account for both grant and asset at that fair value. An alternative course that is sometimes followed is to record both asset and grant at a nominal amount. (IAS 20.23). **Solvency II framework:** Where government grants take the form of a transfer of a non-monetary asset, that asset shall be	Fair value for monetary and monetary government grants is consistent with Art. 75.	**yes**	

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	measured at fair value.			
IAS 21 The effects of changes in foreign exchange rates	IAS 21 prescribes how to include foreign currency transactions and foreign operations in the financial statements of an entity and how to translate financial statements into a presentation currency. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements shall be recognised in profit or loss in the period in which they arise, except as described in paragraph 32 (IAS 21.28). In the financial statements that include the foreign operation and the reporting entity (e.g. consolidated financial statements when the foreign operation is a subsidiary), such exchange differences shall be recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal of the net investment in accordance with paragraph 48 (IAS 21.32).	Translation in reporting currency is consistent with Article 75 of Directive 2009/138/EC.	**yes**	
IAS 23 Borrowing	IAS 23 prescribes the accounting for borrowing costs.		**no**	IAS 23 does not prescribe valuation

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
costs	An entity shall capitalise borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset. An entity shall recognise other borrowing costs as an expense in the period in which it incurs them (IAS 23.8). **Solvency II framework:** Fair value approach, which is used according to Solvency II, prevents the application of IAS 23, which refers to a cost approach.			methodologies relevant for Solvency II balance sheet items.
IAS 24 Related party disclosures	IAS 24 requires disclosures about related parties and the reporting entity's transaction with related parties.		**no**	IAS 24 does not prescribe valuation methodologies for balance sheet items.
IAS 26 Accounting and reporting by retirement benefits plans	IAS 26 shall be applied in the financial statements of retirement benefit plans where such financial statements are prepared.		**no**	Out of scope.

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
IAS 27 Separate Financial Statements	IAS 27 prescribes the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.		**no**	Out of scope.
IAS 28 Investments in Associates and Joint Ventures	IAS 28 prescribes the accounting for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. Associates are accounted for using the equity method. The equity method is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition change in the investor's share of the investee's net assets. The investor's profit or loss includes its share of the investee's profit or loss and the investor's other comprehensive income includes its share of the investee's other comprehensive income. The investor's share of the profit or loss of the investee is recognised in the investor's profit or loss. Distributions received from an investee reduce the carrying amount of the investment. Adjustments to the carrying amount	Applicable equity method measurement principles.	**yes**	Limited application to the equity method.

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	may also be necessary for a change in the investor's proportionate interest in the investee arising from changes in the investee's other comprehensive income. Such changes include those arising from the revaluation of property, plant and equipment and from foreign exchange translation differences. The investor's share of those changes is recognised in other comprehensive income of the investor (see IAS 1 Presentation of Financial Statements (as revised in 2007)). (IAS 28.11). The entity's financial statements shall be prepared using uniform accounting policies for like transactions and events in similar circumstances (IAS 28.26). If an associate or joint venture uses accounting policies other than those of the entity for like transactions and events in similar circumstances, adjustments shall be made to conform the associate's or joint venture's accounting policies to those of the entity when the associate's financial statements are used by the entity in applying the equity method (IAS 28.36). **Solvency II framework:** When calculating the excess of assets over liabilities for related undertakings, other than related insurance and reinsurance undertakings, the participating undertaking shall value the related undertaking's assets and			

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	liabilities in accordance with the equity method as prescribed in international accounting standards, as endorsed by the Commission in accordance with Regulation (EC) No 1606/2002, where valuation in accordance with Articles 75 to 86 of Directive 2009/138/EC is not practicable. In such cases the value of goodwill and other intangible assets valued at zero shall be deducted from the value of the related undertaking.			
IAS 29 Financial Reporting in Hyperinflationary Economies	IAS 29 shall be applied to the financial statements, including the consolidated financial statements, of any entity whose functional currency is the currency of a hyperinflationary economy.		**no**	IAS 29 does not prescribe valuation methodologies relevant for Solvency II balance sheet items.
IAS 32 Financial instruments: Presentation	IAS 32 establishes principles for presenting financial instruments as liabilities or equity and for offsetting financial assets and financial liabilities. It applies to the classification of financial instruments, from the perspective of the issuer, into financial assets, financial liabilities and equity instruments; the classification of related interest, dividends, losses and gains; and the circumstances in which financial assets and financial		**no**	IAS 32 does not prescribe valuation methodologies for balance sheet items. Moreover the determination of own funds is outlined in

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	liabilities should be offset.			Solvency II.
IAS 33 Earnings per share	IAS 33 prescribes principles for the determination and presentation of earnings per share.		**no**	IAS 33 does not prescribe valuation methodologies for balance sheet items.
IAS 34 Interim financial reporting	IAS 34 prescribes the minimum content of an interim financial report and to prescribe the principles for recognition and measurement in complete or condensed financial statements for an interim period.		**no**	IAS 34 does not prescribe valuation methodologies for balance sheet items.
IAS 36 Impairment of Assets	IAS 36 prescribes the procedures that an entity applies to ensure that its assets are carried at no more than their recoverable amount. An asset is carried at more than its recoverable amount if its carrying amount exceeds the amount to be recovered through use or sale of the asset. If this is the case, the asset is described as impaired and the Standard requires the entity to recognise an impairment loss. The Standard also specifies when an entity should reverse an impairment loss and prescribes disclosures.		**no**	IAS 36 does not prescribe valuation methodologies relevant for Solvency II balance sheet items.

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent Consistent option With adjustments**	**Applicable?**	**Other comments**
IAS 37 Provisions, contingent liabilities and contingent assets	IAS 37 establishes the recognition criteria and measurement applied to provisions, contingent liabilities and contingent assets as well as information to be disclosed. **Provisions** A provision is a liability of uncertain timing or amount (IAS 37. 10). The amount recognised as a provision shall be the best estimate of the expenditure required to settle the present obligation at the end of the reporting period (IAS 37.36). The best estimate of the expenditure required to settle the present obligation is the amount that an entity would rationally pay to settle the obligation at the end of the reporting period or to transfer it to a third party at that time. It will often be impossible or prohibitively expensive to settle or transfer an obligation at the end of the reporting period. However, the estimate of the amount that an entity would rationally pay to settle or transfer the obligation gives the best estimate of the expenditure required to settle the present obligation at the end of the reporting period (IAS 37.37)	Consistent measurement principles for Provisions.	**yes**	Contingent liabilities are to be recognised.

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent** **Consistent option** **With adjustments**	**Applicable?**	**Other comments**
	Where a single obligation is being measured, the individual most likely outcome may be the best estimate of the liability. However, even in such a case, the entity considers other possible outcomes. Where other possible outcomes are either mostly higher or mostly lower than the most likely outcome, the best estimate will be a higher or lower amount. For example, if an entity has to rectify a serious fault in a major plant that it has constructed for a customer, the individual most likely outcome may be for the repair to succeed at the first attempt at a cost of 1,000, but a provision for a larger amount is made if there is a significant chance that further attempts will be necessary (IAS 37.40). Uncertainties surrounding the amount to be recognised as a provision are dealt with by various means according to the circumstances. Where the provision being measured involves a large population of items, the obligation is estimated by weighting all possible outcomes by their associated probabilities. The name for this statistical method of estimation is 'expected value'. The provision will therefore be different depending on whether the probability of a loss of a given amount is, for example, 60 per cent or 90 per cent. Where there is a continuous range of possible outcomes, and each point in that range is as			

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent** **Consistent option** **With adjustments**	**Applicable?**	**Other comments**
	likely as any other, the mid-point of the range is used (IAS 37.39). The risks and uncertainties that inevitably surround many events and circumstances shall be taken into account in reaching the best estimate of a provision. (IAS 37.42) The discount rate (or rates) shall be a pre-tax rate (or rates) that reflect(s) current market assessments of the time value of money and the risks specific to the liability. The discount rate(s) shall not reflect risks for which future cash flow estimates have been adjusted (IAS 37.47). **Contingent liabilities and contingent assets** A contingent liability is: (a) a possible obligation that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity; or (b) a present obligation that arises from past events but is not recognised because: (i) it is not probable that an outflow of resources embodying economic benefits will be required to settle the			

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	obligation; or (ii) the amount of the obligation cannot be measured with sufficient reliability (IAS 37.10). A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the entity. **Solvency II framework:** Provision's measurement principles are considered to be consistent with Article 75 of Directive 2009/138/EC. Contingent liabilities are recognised under Solvency II and valued based on the expected present value of future cash-flows required to settle the contingent liability over the lifetime of that contingent liability, using the basic risk-free interest rate term structure.			
IAS 38 Intangible assets	IAS 38 prescribes the accounting treatment for intangible assets that are not dealt with specifically in another Standard. This Standard requires an entity to recognise an intangible asset if, and only if, specified criteria are met. The Standard also specifies	Revaluation model is a consistent option.	**yes**	Goodwill is valued at zero.

IFRS	Summary of IFRS treatment: **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	how to measure the carrying amount of intangible assets and requires specified disclosures about intangible assets. An entity shall choose either the cost model in paragraph 74 or the revaluation model in paragraph 75 as its accounting policy. If an intangible asset is accounted for using the revaluation model, all the other assets in its class shall also be accounted for using the same model, unless there is no active market for those assets (IAS 38. 72). Cost model: After initial recognition, an intangible asset shall be carried at its cost less any accumulated amortisation and any accumulated impairment losses (IAS 38. 74) Revaluation model: After initial recognition, an intangible asset shall be carried at a revalued amount, being its fair value at the date of the revaluation less any subsequent accumulated amortisation and any subsequent accumulated impairment losses. For the purpose of revaluations: under this Standard, fair value shall be determined by reference to an active market. Revaluations shall be made with such regularity that at the end of the reporting period the carrying amount of the asset does not			

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	differ materially from its fair value (IAS 38.75). **<u>Solvency II framework:</u>** The revaluation model is an option consistent with Article 75 of Directive 2009/138/EC for the intangible items recognised in the Solvency II balance sheet. Intangible assets, other than goodwill, are recognised in the Solvency II balance sheet at a value other than zero only if they can be sold separately and the insurance and reinsurance undertaking can demonstrate that there is a value for the same or similar assets that has been derived from quoted market prices in active markets. Bespoke computer software tailored to the needs of the undertaking and "off the shelf" software licences that cannot be sold to another user shall be valued at zero.			
IAS 39 Financial Instruments: Recognition and	IAS 39 establishes principles for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. For the purpose of measuring a financial asset after initial	Fair value measurement principles applied to financial assets are	**yes**	The fair value measurement is applicable. However, there shall be no subsequent adjustment

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent** **Consistent option** **With adjustments**	**Applicable?**	**Other comments**
Measurement	recognition, this Standard classifies financial assets into the following four categories defined in paragraph 9: (a) financial assets at fair value through profit or loss; (b) held-to-maturity investments; (c) loans and receivables; and (d) available-for-sale financial assets. These categories apply to measurement and profit or loss recognition under this Standard. The entity may use other descriptors for these categories or other categorisations when presenting information in the financial statements. The entity shall disclose in the notes the information required by IFRS 7 (IAS 39.45). After initial recognition, an entity shall measure financial assets, including derivatives that are assets, at their fair values, without any deduction for transaction costs it may incur on sale or other disposal, except for the following financial assets: (a) loans and receivables as defined in paragraph 9, which	consistent. In case of financial liabilities adjustment might be needed if the IFRS fair value includes changes in own credit standing in subsequent periods.		to take account of the change in own credit standing of the insurance or reinsurance undertaking after initial recognition.

IFRS	Summary of IFRS treatment: **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	shall be measured at amortised cost using the effective interest method; (b) held-to-maturity investments as defined in paragraph 9, which shall be measured at amortised cost using the effective interest method; and (c) investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity instruments, which shall be measured at cost (see Appendix A paragraphs AG80 and AG81). Financial assets that are designated as hedged items are subject to measurement under the hedge accounting requirements in paragraphs 89-102. All financial assets except those measured at fair value through profit or loss are subject to review for impairment in accordance with paragraphs 58-70 and Appendix A paragraphs AG84-AG93 (IAS 39.46). After initial recognition, an entity shall measure all **financial liabilities** at amortised cost using the effective interest method, except for:			

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent** **Consistent option** **With adjustments**	**Applicable?**	**Other comments**
	(a) financial liabilities at fair value through profit or loss. Such liabilities, including derivatives that are liabilities, shall be measured at fair value except for a derivative liability that is linked to and must be settled by delivery of an unquoted equity instrument whose fair value cannot be reliably measured, which shall be measured at cost. (b) financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the continuing involvement approach applies. Paragraphs 29 and 31 apply to the measurement of such financial liabilities. (c) financial guarantee contracts as defined in paragraph 9. After initial recognition, an issuer of such a contract shall (unless paragraph 47(a) or (b) applies) measure it at the higher of: (i) the amount determined in accordance with IAS 37; and (ii) the amount initially recognised (see paragraph 43) less, when appropriate, cumulative amortisation recognised in accordance with IAS 18. (d) commitments to provide a loan at a below-market interest rate. After initial recognition, an issuer of such a commitment shall (unless paragraph 47(a) applies) measure it at the higher of: (i) the amount determined in accordance with IAS 37; and (ii) the amount initially recognised (see paragraph 43) less,			

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	when appropriate, cumulative amortisation recognised in accordance with IAS 18. Financial liabilities that are designated as hedged items are subject to the hedge accounting requirements in paragraphs 89-102 (IAS 40.47). **Solvency II framework:** Fair value measurement principles are considered to be consistent with article 75 of Directive 2009/138/EC, except for subsequent adjustments to take account of the change in own credit standing of the insurance or reinsurance undertaking after initial recognition in the measurement of financial liabilities.			
IAS 40 Investment property	IAS 40 prescribes the accounting treatment for investment property and related disclosure requirements. With the exceptions noted in paragraphs 32A and 34, an entity shall choose as its accounting policy either the fair value model in paragraphs 33 - 55 or the cost model in paragraph 56 and shall apply that policy to all of its investment property (IAS 40.30).	Fair value model is a consistent option.	**yes**	

IFRS	Summary of IFRS treatment: **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	Cost model: After initial recognition, an entity that chooses the cost model shall measure all of its investment properties in accordance with IAS 16's requirements for that model, other than those that meet the criteria to be classified as held for sale (…) in accordance with IFRS 5 (IAS 40.56). Fair value model: After initial recognition, an entity that chooses the fair value model shall measure all of its investment property at fair value (…) (IAS 40.33). When a property interest held by a lessee under an operating lease is classified as an investment property under paragraph 6, paragraph 30 is not elective; the fair value model shall be applied (IAS 40.34). **Solvency II framework:** The fair value model is an option consistent with Article 75 of Directive 2009/138/EC.			
IAS 41 Agriculture	IAS 41 prescribes the accounting treatment and disclosures related to agricultural activity. **Biological assets**	Fair value less costs to sell is a consistent option where estimated cost to sell	**yes**	Undertakings shall apply IAS 41 for biological assets if the estimated costs to sell are not material. If the

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent** **Consistent option** **With adjustments**	**Applicable?**	**Other comments**
	A biological asset shall be measured on initial recognition and at the end of each reporting period at its fair value less costs to sell, except for the case described in paragraph 30 where the fair value cannot be measured reliably (IAS 41.12). **Agricultural produce harvested** Agricultural produce harvested from an entity's biological assets shall be measured at its fair value less costs to sell at the point of harvest. Such measurement is the cost at that date when applying IAS 2 Inventories or another applicable Standard (IAS 41.13). **<u>Solvency II framework:</u>** Fair value less costs to sell is an option consistent with Article 75 of Directive 2009/138/EC if the estimated costs to sell are not material.	are not material.		estimated costs to sell are material, the undertaking shall adjust the value by including these costs.
IFRS 1 First-time adoption of International Financial Reporting	IFRS 1 applies when an entity first adopts International Financial Reporting Standards (IFRSs) in its annual financial statements.		**no**	Out of scope.

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent Consistent option With adjustments**	**Applicable?**	**Other comments**
Standards				
IFRS 2 Share-based payments	IFRS 2 specifies the financial reporting by an entity when it carries out a share-based payment transaction. An entity shall recognise the goods or services received or acquired in a share-based payment transaction when it obtains the goods or as the services are received. The entity shall recognise a corresponding increase in equity if the goods or services were received in an equity-settled share-based payment transaction or a liability if the goods or services were acquired in a cash-settled share-based payment transaction (IFRS 2.7). When the goods or services received or acquired in a share-based payment transaction do not qualify for recognition as assets, they shall be recognised as expenses (IFRS 2.8). **Equity-settled share-based payment transactions** For equity-settled share-based payment transactions, the entity shall measure the goods or services received, and the corresponding increase in equity, directly, at the fair value of the	Consistent measurement principles	**yes**	

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent Consistent option With adjustments**	**Applicable?**	**Other comments**
	goods or services received, unless that fair value cannot be estimated reliably. If the entity cannot estimate reliably the fair value of the goods or services received, the entity shall measure their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted (IFRS 2.10). To apply the requirements of paragraph 10 to transactions with employees and others providing similar services, the entity shall measure the fair value of the services received by reference to the fair value of the equity instruments granted, because typically it is not possible to estimate reliably the fair value of the services received, as explained in paragraph 12. The fair value of those equity instruments shall be measured at grant date. (IFRS 2.11). To apply the requirements of paragraph 10 to transactions with parties other than employees, there shall be a rebuttable presumption that the fair value of the goods or services received can be estimated reliably. That fair value shall be measured at the date the entity obtains the goods or the counterparty renders service. In rare cases, if the entity rebuts this presumption because it cannot estimate reliably the fair value of the goods or services received, the entity shall measure the goods or services			

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent** **Consistent option** **With adjustments**	**Applicable?**	**Other comments**
	received, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders service (IFRS 2.13). If the identifiable consideration received is less than the fair value of the equity instruments granted or the liability incurred, the unidentifiable goods or services are measured by reference to the difference between the fair value of the equity instruments granted (or liability incurred) and the fair value of the goods or services received at grant date (based on IFRS 2.13A). **Cash-settled share-based payment transactions** For cash-settled share-based payment transactions, the entity shall measure the goods or services acquired and the liability incurred at the fair value of the liability. Until the liability is settled, the entity shall remeasure the fair value of the liability at the end of each reporting period and at the date of settlement, with any changes in fair value recognised in profit or loss for the period (IFRS 2.30).			

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent** **Consistent option** **With adjustments**	**Applicable?**	**Other comments**
	In some cases, the entity or the other party may choose whether the transaction is settled in cash or by issuing equity instruments. The accounting treatment depends on whether the entity or the counterparty has the choice. **<u>Solvency II framework:</u>** IFRS 2 measurement principles are considered to be consistent with Article 75 of Directive 2009/138/EC.			
IFRS 3 Business combinations	IFRS 3 establishes principles and requirements for how the acquirer: (a) recognises and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; (b) recognises and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. IFRS 3 deals with business combinations. Subsequent (to the acquisition) measurement of acquired assets and liabilities follow		**no**	Out of scope.

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	the applicable IFRS of those items depending on their nature. **Solvency II framework:** Goodwill is valued at zero at the Solvency II balance sheet. All items shall be valued in accordance with Solvency II valuation methodologies.			
IFRS 4 Insurance contracts	IFRS 4 specifies the financial reporting for insurance contracts by any entity that issues such contracts (described in this IFRS as an insurer) until the Board completes the second phase of its project on insurance contracts. **Solvency II framework:** Solvency II establishes specific measurement principles for insurance liabilities		**no**	Out of scope.
IFRS 5 Non-current assets held for sale and discontinued operations	IFRS 5 specifies the accounting for assets held for sale, and the presentation and disclosure of discontinued operations. An entity shall measure a non-current asset (or disposal group) classified as held for sale at the lower of its carrying amount and fair value less costs to sell (IFRS 5.15).	Measurement principles not consistent.	**no**	

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent** **Consistent option** **With adjustments**	**Applicable?**	**Other comments**
	An entity shall measure a non-current asset (or disposal group) classified as held for distribution to owners at the lower of its carrying amount and fair value less costs to distribute (IFRS 5.15A). Immediately before the initial classification of the asset (or disposal group) as held for sale, the carrying amounts of the asset (or all the assets and liabilities in the group) shall be measured in accordance with applicable IFRSs (IFRS 5.18). On subsequent remeasurement of a disposal group, the carrying amounts of any assets and liabilities that are not within the scope of the measurement requirements of this IFRS, but are included in a disposal group classified as held for sale, shall be remeasured in accordance with applicable IFRSs before the fair value less costs to sell of the disposal group is remeasured (IFRS 5.19). **Solvency II framework:** In Solvency II, there is no distinction based on the use of the assets. The non- current assets held for sale and discontinued operations shall be measured in accordance			

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
	with the relevant Solvency II valuation methodologies.			
IFRS 6 Exploration for and evaluation of mineral resources	IFRS 6 specifies the financial reporting for the exploration for and evaluation of mineral resources.		**no**	Business not relevant for insurers.
IFRS 7 Financial instruments: Disclosures	IFRS 7 specifies disclosure for financial instruments.		**no**	IFRS 7 does not prescribe valuation methodologies for balance sheet items.
IFRS 8 Operating Segments	IFRS 8 requires disclosure of information about an entity's operating segments, its products and services, the geographical areas in which it operates, and its major customers.		**no**	IFRS 8 does not prescribe valuation methodologies for balance sheet items.
IFRS 9 Financial	Not applicable as not yet endorsed by the Commission.		**no**	

IFRS	**Summary of IFRS treatment:** **Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?**	**Fully consistent** **Consistent option** **With adjustments**	**Applicable?**	**Other comments**
Instruments				
IFRS 10 Consolidated Financial Statements	IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.		**no**	Out of scope.
IFRS 11 Joint Arrangements	IFRS 11 establishes principles for the financial reporting by entities that have an interest in arrangements that are controlled jointly (i.e. *joint arrangements*). This IFRS defines *joint control* and requires an entity that is a *party to a joint arrangement* to determine the type of joint arrangement in which it is involved by assessing its rights and obligations and to account for those rights and obligations in accordance with that type of joint arrangement. **Solvency II framework:** see IAS 28 for the application of the equity method.	Applicable only for the requirement to use the equity method.	**no**	Out of scope. See IAS 28 for the equity method.
IFRS 12 Disclosure of Interests in	IFRS 12 requires an entity to disclose information that enables users of its financial statements to evaluate: the nature of, and risks associated with, its interests in other entities; and the effects		**no**	IFRS 12 does not prescribe valuation methodologies for

IFRS	Summary of IFRS treatment: Measurement principles or options consistent with Article 75 of Directive 2009/138/EC?	Fully consistent Consistent option With adjustments	Applicable?	Other comments
Other Entities	of those interests on its financial position, financial performance and cash flows.			balance sheet items.
IFRS 13 Fair Value Measurement	IFRS 13 defines fair value and sets out in a single IFRS a framework for measuring fair value. IFRS 13 also provides more details on the characteristics of the assets and liabilities that an undertaking should take into account in a transaction e.g. it would not take into account a blockage factor. **Solvency II framework:** IFRS 13 is consistent with Art. 75 except for the requirement to reflect the effect of changes in the entity's own credit risk.		**yes**	

3. Technical Annex 1

Table on application of Accounting Directive (**Directive 2013/34/EU)** if derogation is applicable and used				
Accounting Directive	The following applies if the options to permit the below mentioned valuation methods are exercised by the respective Member State ("MS") and the undertaking uses the permitted valuation method for preparing its annual or consolidated financial statements.	Fully consistent Consistent option With adjustments	Applicable?	Other comments
MS Option Art. 7 (1)	Permit or require the measurement of fixed **assets at revalued amounts**	With adjustments	**yes**	Market-consistent valuation needs to be assessed in accordance with Article 75 of Solvency II, the Implementing Measures and these Guidelines.
MS Option Art 8 (1)b	Permit or require the measurement of **some financial instruments** (specifically identified in this Directive), including derivative financial instruments, at **fair value**	Consistent option	**yes**	Market-consistent valuation needs to be assessed in accordance with Article 75 of Solvency II, the Implementing Measures and these Guidelines.

MS Option Art 8 (1)b	Permit or require the measurement of specified categories of assets other than financial instruments at amounts determined by reference to **fair value**	Consistent option	**yes**	Market-consistent valuation needs to be assessed in accordance with Article 75 of Solvency II, the Implementing Measures and these Guidelines.
MS Option Art 8 (6)	In respect of any assets and liabilities which qualify as hedged items under a **fair value** hedge accounting system, or identified portions of such assets or liabilities, permit measurement at the specific amount required under that system	With amendments	**yes**	Market-consistent valuation needs to be assessed in accordance with Article 75 of Solvency II, the Implementing Measures and these Guidelines.
MS Option Art 8 (6)	Permit or require the recognition, measurement and disclosure of financial instruments in conformity with **IFRS** as adopted by EC	See guidance for individual IFRSs.	**yes**	Apply guidance on use of IFRSs (see above)

Annex I: Impact Assessment

Procedural issues and consultation with interested parties

According to Article 16 of the EIOPA Regulation, EIOPA conducts analysis of costs and benefits in the policy development process. The analysis of costs and benefits is undertaken according to an Impact Assessment methodology.

For the past several years, EIOPA has been working on providing practical guidance to apply a market-consistent valuation of assets and liabilities other than technical provisions. The key goal is hereby to foster convergent application of the provisions set out in Directive 2009/138/EC and the accompanying implementing measures. EIOPA, and its predecessor CEIOPS, has listened carefully to stakeholders' feedback that – whilst the approach to use a market-consistent valuation is broadly supported – in particular undertakings not using IFRSs would require some specifications to implement the general principles.

In its letter of 19 July 2007, the European Commission requested CEIOPS to provide final, fully consulted advice on implementing measures by October 2009 and recommended CEIOPS to develop guidance on certain areas to foster supervisory convergence. EIOPA followed this call and provided advice for the development of implementing measures by the Commission[5]. As stated in this letter, the work to be developed in this should be in line with the provisions in the Directive and should take into account the results of the Quantitative Impact Studies (QIS3 and QIS4) – as well as international accounting and financial reporting developments.

The Guidelines for the valuation of assets and liabilities other than technical provisions will complement the regulatory measures.

Starting from the public consultation of CEIOPS' Level 2 Advice to the European Commission (CEIOPS-CP-35/09) regarding valuation of assets and "other liabilities" in 2009, and the feedback received after QIS 5[6], EIOPA has continuously invited stakeholders' views to enable a proportionate regulation in the area of valuations. This included an informal pre-consultation with stakeholders and the relevant EIOPA stakeholder group in May and June 2012 as well as the public consultation of 2014.

EIOPA's predecessor's (CEIOPS) first public consultation in this area showed the stakeholders' wish to encourage a proportionate and consistently applicable market-consistent valuation of assets and liabilities other than technical provisions, which provides for a reliable basis for all relevant Solvency II calculations. The feedback received and relevant for these Guidelines covered in particular the wish to enable

[5] See https://eiopa.europa.eu/fileadmin/tx_dam/files/consultations/consultationpapers/CP35/CEIOPS-L2-Final-Advice-on-Valuation-of-Assets-and-Other-Liabilities.pdf

[6] See the QIS 5 final report and the feedback received on valuation here: https://eiopa.europa.eu/fileadmin/tx_dam/files/publications/reports/QIS5_Report_Final.pdf

(1) the consistent application through specific guidance on the use of IFRSs for economic valuations;
(2) a valuation approach that is current and consistent with international accounting developments – first and foremost with IFRSs as applicable in the EU;
(3) the appreciation of a proportionate approach, which provides for the use of IFRSs with departures from IFRSs only when genuinely required for regulatory purposes, which should limit the additional administrative burden.

The feedback received following from QIS 5 and the informal feedback received during May and June 2012 was fairly positive agreeing that EIOPA has struck a fair balance between a principle-oriented and a convergent approach to ensure an overall proportionate regulation. Most stakeholders commented that the requirements on valuation would not cause any major problems, in particular for those undertakings using IFRSs for their financial statements. However, undertakings from Member States where their local accounting requirements are based on historical and amortised cost, could not always ensure consistent practices and comparable results. In particular it was confirmed that some stakeholders appreciate more specific guidance on:
(1) the valuation when markets are non-existent or illiquid;
(2) the set-up of mark-to-model valuation techniques;
(3) guidance on the application of proportionality, and in particular on materiality;
(4) the recognition and valuation of deferred tax assets and liabilities
(5) the valuation of intangible assets, contingent liabilities, financial liabilities and employee benefits;
(6) the definitions of written or earned premiums.

Problem definition

Directive 2009/138/EC requires a market-consistent valuation of assets and liabilities for the purposes of fairly reflecting on the financial situation of insurers and reinsurers and to set their capital requirements on a comparable basis. That valuation concept is further refined in the Implementing Measures that set out the default valuation at market prices and specifies the use of IFRSs for the purposes of Solvency II.

Given the increasing cross-border nature of insurance business, divergences between Member States' current accounting regimes, valuation differences should be reduced to the greatest extent possible.

Considering the feedback from stakeholders as outlined above, EIOPA felt that the valuation principles as set out in the Directive and the Implementing Measures require further guidance in some areas to ensure consistent and efficient application of the provisions on valuation.

The legal framework needs to entertain insurance and reinsurance undertakings to conduct insurance business throughout the internal market thus making it easier for insurance and reinsurance undertakings with head offices in the Community to cover risks and commitments situated therein.

It is in the interests of the proper functioning of the internal market that coordinated rules be established relating to the supervision of insurance activities, in particular regarding cross-border activities, and, with a view to the protection of policyholders and creditors of insurance undertakings.

Baseline

When analysing the impact from proposed policies, the Impact Assessment methodology foresees that a baseline scenario is applied as the basis for comparing policy options. This helps to identify the incremental impact (costs and benefits) of each policy option considered. The aim of the baseline scenario is to explain how the current situation would evolve without additional regulatory intervention.

The baseline scenario is based on the current situation of EU insurance and reinsurance markets, taking account of the progress towards the implementation of the Solvency II framework achieved at this stage by insurance and reinsurance undertakings and supervisory authorities.

In particular the baseline includes:

a. The relevant content of Directive 2009/138/EC as amended by Directive 2009/51/EC (in particular Article 75).
b. The relevant Implementing Measures.

Objective pursued

The objective of these guidelines is to establish consistent, efficient and effective supervisory practices within the EEA and to ensure the common, uniform and consistent application of Union law with respect to the valuation of insurance and reinsurance undertakings' assets and liabilities other than technical provisions.

This objective needs to be read in the context of the general objectives of Directive 2009/138/EC and in particular with the aim to facilitate the taking-up and pursuit of the activities of insurance and reinsurance, for which it is necessary to eliminate the most serious differences between the laws of the Member States as regards the rules to which insurance and reinsurance activities are subject.

Policy Analysis

In order to achieve the objective as set out in the previous section, EIOPA has analysed and considered the advantages and disadvantages as well as the costs and benefits of the impact of each request for further application guidance by stakeholders.

The provisions in these Guidelines are not expected to have a material incremental costs compared to the baseline, which is Directive 2009/138/EC and the accompanying Implementing Measures. Those acts set out the valuation concepts and principles as well as some very specific requirements addressing particular assets or liabilities.

These Guidelines in fact do not accommodate any discretion, as the requirements all stem from the respective provisions of the Implementing Measures.

As a reflection of stakeholder requests, the Guidelines address the need for application guidance in the following areas and policy issues:

Policy issue 1: Materiality
Policy issue 2: Proportionate approach to comparability of valuations
Policy issue 3: Valuation approach for assets where there is not necessarily a liquid market: investment property and property, plant and equipment
Policy issue 4: Valuation of financial liabilities: assessment of own credit risk
Policy issue 5: Valuation of participations: IFRS equity method and alternative valuation methods
Policy issue 6: Contingent liabilities
Policy issue 7: Deferred taxes
Policy issue 8: Definition of written premiums
Policy issue 9: Derogation according to Article 9 of the implementing measures

Policy issue 1: Materiality
The Guidelines set out that:
- 1.1 materiality does apply as a matter of principle and the definition of materiality is used consistently with the definition in the implementing measures.
- 1.2 materiality does apply in a slightly different context when quarterly measurements are undertaken.

The application of materiality, as a form of proportionality, is inherent to Directive 2009/138/EC. Due to stakeholder comments requesting the actual application of the principle, this Guideline was added confirming that quarterly measurements may rely to a greater extent on estimates. EIOPA does not expect any incremental costs arising from these provisions.

Policy Issue 2: Proportionate approach to comparability of valuations
The Guidelines set out that:
- 2.1 a proportionate approach to valuation entails a consistent approach unless a change in the valuation would come up with better results.
- 2.2 circumstances that may ask for a change in valuation.

Due to stakeholder comments requesting the actual application of the proportionality principle, this Guideline was added confirming that valuation approaches can be consistently applied unless outside factors require a change to reflect a more appropriate measurement. EIOPA does not expect any incremental costs arising from these provisions.

Policy Issue 3: Valuation approach for assets where there is not necessarily a liquid market: investment property and property, plant and equipment.

The Guidelines set out:

- 3.1 which criteria and inputs can be considered for the valuation of these assets where markets are generally not liquid;

- 3.2 advise how to reconcile non-current measurements to the reporting date.

EIOPA acknowledges that these types of valuations may be difficult for undertakings coming from a cost-based accounting background, as these assets are generally not traded on an active market. Therefore, EIOPA has decided to add some guidance to the general principles set out in the Implementing Measures. EIOPA does not expect any incremental costs arising from these provisions.

Policy Issue 4: Valuation of financial liabilities: assessment of own credit risk

The Guidelines set out two possible approaches to assess changes in own credit risk, as required by the Implementing Measures.

The assessment and the calculation of valuation changes due to changes in own credit risk, as required by the Directive and the Implementing Measures, are difficult and entirely alien to undertakings coming from a cost-based environment. The Guideline sets out two proportionate approaches undertakings can follow. EIOPA does not expect any incremental costs arising from these provisions.

Policy Issue 5: Valuation of participations: IFRS equity method and alternative valuation methods

The Guidelines highlight areas for further consideration as required by the Implementing Measures.

Due to stakeholder comments requesting the actual application of the concepts as set out in the Implementing Measures, these Guidelines were added confirming and presenting in a transparent manner the treatments as required by the Implementing Measures. EIOPA does not expect any incremental costs arising from these provisions.

Policy Issue 6: Contingent liabilities

The Guidelines draw particular attention to the interaction of ancillary own fund items and potentially material contingent liabilities. This was added to illustrate considerations on materiality of contingent liabilities as requested by stakeholders. EIOPA does not expect any incremental costs arising from these provisions.

Policy Issue 7: Deferred taxes

The Guidelines:

- 7.1 confirm that for proportionality reasons, deferred taxes are not discounted

- 7.2 provide indication of documentation that is useful when applying the provisions as set out in the Implementing Measures

- 7.3 provide details on the required approach to participations in undertakings excluded from the group supervisions

Addressing stakeholder requests to help applying the requirements on deferred taxes, which is arguably the most complex field in accounting, the Guidelines merely illustrate the valuation approach as required by the Implementing Measures. IAS 12 *Income Taxes* does not permit to discount deferred taxes. Requiring doing so would be an additional burden for undertakings. EIOPA does not expect any incremental costs arising from the proposed provisions.

Policy Issue 8: <u>Definition of written premiums</u>
The introduction to the Guidelines confirms in a transparent and understandable manner what is understood as written premiums.
EIOPA understands that local accounting rules are quite diverse in the definition and actual application of written premiums. The definition provided here can be regarded as a mere illustration of a uniform, consistent approach, as required by the Directive and the Implementing Measures. EIOPA does not expect any incremental costs arising from these provisions.

Policy Issue 9: <u>Derogation according to Article 9 of the Implementing Measures</u>
The Guidelines:

- 9.1 confirm the Implementing Measures provisions' that when IFRSs are used for the consolidated financial statements, the derogation cannot apply.

- 9.2 when some specific options provided by the Accounting Directive are permitted or required by a Member State, allow for the use of the guidance on IFRSs as a reference for the assessment of local accounting standards providing for market-consistent valuation.

These are the only Guidelines not previously requested by stakeholders. EIOPA felt it may be useful to point out (1) the scope of the derogation in case of consolidated financial accounts according to IFRSs and (2) the applicable legal basis, Directive 2013/34/EU, to help supervisors understand and undertakings to appropriately apply the derogation as outlined in the Implementing Measures. EIOPA does not expect any incremental costs arising from these provisions.