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Chairman

European Commission
Directorate-General for Financial Stability,
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Mr Olivier Guersent
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Fitness Check on the EU Framework for Public Reporting by Companies

Dear Mr Guersent, *DEAR OLIVIER,*

Thank you for the opportunity to comment on your recent initiative assessing the fitness of the current European framework for the public reporting of companies. EIOPA has considered your questions with a particular focus on the public reporting of insurance and reinsurance undertakings in Europe.

We understand that the European Commission has initiated the survey to collect feedback on, amongst other questions, whether the current system of financial institutions' public reporting is appropriate and proportionate to fulfil its objectives. In order to respond to that question one needs to keep in mind that the financial reporting of insurers must fulfil three key objectives:

- (1) informing equity and debt investors in the financial markets, as well as other stakeholders, most importantly policyholders, about the financial situation and the performance of the entity;
- (2) determining profit and dividend distribution or equity allocation and often tax payments; as well as
- (3) supplementing the information relevant to supervisors.

Realising each one of these three objectives requires a specific set of information due to the different stakeholders' needs and interests.

There are significantly divergent needs that eventually determine which information is useful for decision-making and relevant for the specific purpose. However, there are also significant overlaps and common interests in the same set of information. For EIOPA that is not necessarily an expression of inefficiencies, but a consequence of the different objectives of financial reporting and public disclosures by financial institutions, and in particular, by insurance and reinsurance undertakings in Europe.

Relevance of the Insurance Accounting Directive (IAD)

Since the IAS Regulation is in place, many companies and financial actors, including supervisors, regard IFRS financial statements as the main source of information to equity and debt investors and the financial markets in general. Further, Solvency II requirements have harmonised the reporting to supervisors and the prudential public disclosures. These requirements have been extensively elaborated and tailored to the needs of the supervisors, as well as to the general public, to present prudential information about the solvency of an insurer.

Therewith, the relevance of the IAD is often perceived as limited to forming the basis for profit allocation to shareholders and policyholders, as well as for tax authorities' calculations, or to apply national insolvency law. The IAD also determines layouts of insurers' financial statements.

However, the IAD continues to be the legal framework for financial statements that inform the financial markets, investors, policyholders, the general public and to some extent the supervisors - for those insurers that do not apply IFRSs.

As the vast majority of insurance and reinsurance undertakings in the EEA apply Solvency II and with that a market-consistent, relevant and risk-sensitive valuation of insurance liabilities, it may make sense for Member States to allow for the use of Solvency II values for applying the IAD. Similarly, Member States may consider allowing for the use of IFRS 17 Insurance Contract's values for the IAD, once the standard is endorsed. Keeping in mind the different objectives of financial reporting, using Solvency II inputs could make the valuations of insurance liabilities in the statutory financial statements more relevant and current, whilst reaping efficiency gains by re-using Solvency II inputs.

Solvency II sets out a sophisticated valuation framework, which provides for a relevant precision to determine the expected future cash flows and obligations, and therewith would render a few provisions in the IAD redundant: for example, the equalisation reserve of Art. 30 or the use of discount rates reflecting expected investment returns of Art. 60.

Nevertheless, Member States may continue to opt for allowing amortised cost approaches with mandatory fair value disclosures.

Relevance of IFRSs for insurance and reinsurance undertakings

IFRS 4 Insurance Contracts sets out minimum requirements on the recognition and valuation of insurance liabilities in IFRS financial statements. The consistent implementation and application of that standard has remained challenging, as IFRS 4 allows for grandfathering of local GAAP and for the use of non-IFRS accounting standards, such as the US GAAP. Since the implementation of Solvency II and in line with IFRS 4 promoting the use of relevant, market-consistent valuations, insurers can employ Solvency II's valuation inputs and processes of technical provisions for the IFRS financial statements.

Utilising Solvency II figures and the introduction of Solvency II public disclosures have been welcomed by the actors on financial markets for bringing much needed consistency, comparability and transparency to financial indicators published by European insurers. However, one needs to be reminded that the Solvency II

framework primarily assesses the solvency position of insurers and is not designed to address the financial performance of an insurer in a reporting period – which has been the yet unfulfilled request of financial analysts towards Solvency II public disclosures.

The recently published IFRS 17 Insurance Contracts – together with IFRS 9 Financial instruments - is anticipated to bring further consistency and transparency to European insurers' IFRS financial statements through a principle-based approach that is consistent with the accounting by other sectors. For European insurers applying Solvency II, we acknowledge that there are efficiency gains to be reaped by using Solvency II inputs and processes for the application of IFRS 17.

Insurance and reinsurance business today is a very international business, where a number of European insurers act on a global basis. Therefore, it is important that insurers can use sound, internationally accepted, accounting standards. EIOPA continues to analyse IFRS 17 and to understand the concerns raised in relation to certain areas. We will keep you informed about EIOPA's assessment of IFRS 17.

Yours sincerely,

A handwritten signature in blue ink, appearing to be 'C. E. ...', with a long horizontal flourish extending to the right.