

Valdis Dombrovskis  
Financial Stability, Financial Services  
and Capital Markets Union

Sent online

Brussels, 25 January 2018

**Subject: European Commission Public consultation on fitness check on supervisory reporting**

Dear Commissioner Dombrovskis,

Accountancy Europe is pleased to provide you with additional information not covered by the European Commission's questionnaire on the fitness check on supervisory reporting.

We welcome the Commission's decision to gather feedback on the European supervisory framework including assessing the effectiveness, efficiency, relevance, coherence, and added value of supervisory reporting requirements in place by the end 2016.

As a representative of the European accountancy profession, Accountancy Europe would like to focus on the issues of effectiveness and coherence, and more specifically whether the supervisory reporting requirements have produced relevant and high-quality data.

The accountancy profession has a key role to play in ensuring disclosures are consistent, reliable and responding to identifiable needs. Thanks to our role, the profession can have a comprehensive and objective view on possible inconsistencies or overlaps between reporting requirements in certain pieces of financial legislation. In the areas raised below, we have indicated evidence and flagged the profession's concerns and views on the impact of the latest legislative requirements (Solvency II, CRD IV etc.) in the areas of regulatory reporting and public disclosure for insurance undertakings and financial institutions including banks.

In combination with the need to provide high-quality data, the accountancy profession pays significant attention to facilitating reporting processes for financial institutions and insurance undertakings themselves. The profession remains open and supportive to any digital initiatives that can automatize the delivery of reporting requirements, such as RegTech, as long as the quality of data remains at a high-level and has been checked through.

## **Adding credibility to regulatory reporting and disclosures by insurance undertakings**

The application of the Solvency II supervisory regime for insurance undertakings started on 1 January 2016, requiring (re)insurance undertakings to publicly disclose information on their solvency and financial condition. The first prudential reports by undertakings under Solvency II were submitted to National Competent Authorities (NCAs) in April 2016. NCAs are looking for ways to ensure the reliability of these reports which some are considering to fulfil by expanding the scope of the statutory audit. Therefore, in September 2015, Accountancy Europe had performed a survey regarding the involvement of the auditor in the regulatory reporting (Solvency I) and the potential involvement of the auditor regarding Solvency II regulatory reporting of insurance undertakings in a number of European countries.

As the new legal framework Solvency II became applicable as of 1 January 2016, Accountancy Europe took the initiative to update the survey *Scope of audit of Solvency II reporting by insurance undertakings*<sup>1</sup> to take stock of the current status of the requirement for an audit of regulatory reporting in the insurance industry across Europe. More detailed information on the results of this survey are included in the Appendix. These results indicate a significant amount of divergence in the new and/or proposed requirements from the national regulators which may create doubts about the reliability and quality of reporting to NCAs, as well as public disclosures by insurance undertakings across Europe.

These considerable inconsistencies can also significantly impair the supervisory level playing field across Europe and create gaps in investor and consumer protection which could unfavourably impact the economy. Therefore, the European Commission, together with the European Insurance and Occupational Pensions Authority (EIOPA), should consider the need for high quality public disclosures of Solvency II reports on Solvency and Financial Condition Reporting (SFCR) and the divergence in national frameworks for the audit of Solvency II, which statutory auditors are ready to perform.

## **Reliance on financial and regulatory reporting by banks**

In an effort to develop the most effective approach to assume direct and indirect supervisory responsibilities, the European Central Bank (ECB) has taken a great interest in determining how and to what extent it can rely on work of externals, including that of statutory auditors on the financial and regulatory reporting by banks.

Providing assurance on the reports of banks to their regulators is a task which auditors can assume, and which is already required in some European countries. It contributes to restoring trust and improving the quality of reporting. Auditors can provide assurance in addition to the annual statutory audits of a bank's financial statements, which is required by EU law.

In September 2016, Accountancy Europe ran a survey *Scope of audit of banks across Europe*<sup>2</sup> on the profession's involvement with the financial and regulatory reporting for banks. The purpose of the survey was to further specify whether the requirements for assuring regulatory reporting either form part of the statutory audit of financial statements or are separate audit, assurance and other engagements.

The results of the survey reveal that the audit of financial statements, management reports, and compliance with laws and regulations falls within the scope of the statutory audit in all 30 countries. Both for 2015 and 2016, there is a divergence in practice regarding the scope of the audit of banks. Specifically, for 2016, this divergence occurs when it comes to additional supervisory requirements.

These inconsistencies can negatively affect the supervisory level playing field across Europe. **Having one banking supervisor for the Eurozone should result in a more coordinated approach to tackle the divergence in practice and better align regulatory policy, which could benefit all the stakeholders involved.**

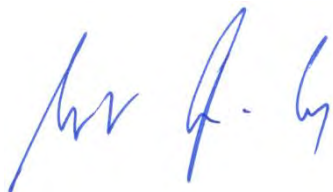
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<sup>1</sup> [https://www.accountancyeurope.eu/wp-content/uploads/1612\\_Scope\\_of\\_Audit\\_of\\_Insurance\\_v2.pdf](https://www.accountancyeurope.eu/wp-content/uploads/1612_Scope_of_Audit_of_Insurance_v2.pdf)

<sup>2</sup> [https://www.accountancyeurope.eu/wp-content/uploads/1612\\_Scope\\_of\\_audit\\_of\\_banks.pdf](https://www.accountancyeurope.eu/wp-content/uploads/1612_Scope_of_audit_of_banks.pdf)

We hope that the enclosed appendix on the surveys performed by Accountancy Europe can highlight the key points and enable discussion on their implication for European insurance undertakings and banks.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Edelfried Schneider'.

Edelfried Schneider  
President

A handwritten signature in blue ink, appearing to read 'Olivier Boutellis-Taft'.

Olivier Boutellis-Taft  
Chief Executive

#### About Accountancy Europe

Accountancy Europe unites 50 professional organisations from 37 countries that represent **1 million** professional accountants, auditors, and advisors. They make numbers work for people. Accountancy Europe translates their daily experience to inform the public policy debate in Europe and beyond.

Accountancy Europe is in the EU Transparency Register (No 4713568401)

## APPENDIX

### ADDING CREDIBILITY TO REGULATORY REPORTING AND DISCLOSURES BY INSURANCE UNDERTAKINGS

#### INTRODUCTION

In 2015, Accountancy Europe decided to gather information regarding the status of the involvement of the auditor with the regulatory reporting (Solvency I<sup>3</sup>) and on the status of the discussions at national level regarding the potential involvement of the auditor in Solvency II regulatory reporting of insurance undertakings among a selected sample<sup>4</sup> of EU Member States (Austria, Belgium, Denmark, France, Germany, Italy, Netherlands, Poland, Portugal, Spain, Sweden, and the United Kingdom).

As the new legal framework Solvency II<sup>5</sup> became applicable as of 1 January 2016, Accountancy Europe took the initiative to update the survey<sup>6</sup> in order to take stock of the current status of the requirement for an audit of regulatory reporting in the insurance industry across Europe<sup>7</sup>.

It should be noted that Regulation 537/2014 requires a constant dialogue between statutory auditors and supervisory authorities of insurance undertakings.

#### ANALYSIS OF THE RESULTS

The results show that in 12 countries (out of 13) the audit profession is involved in the audit of or assurance on regulatory reporting within the Solvency II regime.

However, there is a clear divergence in the new and/or proposed requirements by the NCAs which may create doubts about the level of reliability and quality of public disclosures across Europe. In some countries the scope of the statutory audit of insurance undertaking was expanded, while in some other countries the NCAs have decided to leave the decision for an audit of or assurance on Solvency II reporting to the discretion of the insurance undertakings. Furthermore, we have identified that there is a difference in the scope and level of assurance for regulatory reporting requirements (positive or negative assurance).

The results of the survey include the past status of the involvement of the auditor in the regulatory reporting in Solvency I and the current status of the decisions and discussions at national level regarding the potential involvement of the auditor in Solvency II regulatory reporting of insurance undertakings.

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<sup>3</sup> First Council Directive 73/239/EEC of 24 July 1973 on the coordination of laws, regulations and administrative provisions relating to the taking-up and pursuit of the business of direct insurance other than life assurance (<http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:31973L0239>) and First Council Directive 79/267/EEC of 5 March 1979 on the coordination of laws, regulations and administrative provisions relating to the taking up and pursuit of the business of direct life assurance (<http://eur-lex.europa.eu/legal-content/en/ALL/?uri=CELEX:31979L0267>)

<sup>4</sup> These countries represent more than 80% of the insurance market in the European Union (in terms of gross written premiums) - <http://www.insuranceeurope.eu/print/statistics/market-share>

<sup>5</sup> 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 (Solvency II) <http://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32009L0138>

<sup>6</sup> Luxembourg was included in the 2016 survey

<sup>7</sup> The information provided is based on the decisions and discussions at national level. The information has been gathered during June to November 2016 and it can change depending on developments in each Member State

In particular, we received input regarding a range of different fields:

- **past status of the scope of audit of regulatory reporting (Solvency I)**  
This field relates to the past status of the scope and level of involvement in audit of regulatory reporting under the Solvency I framework.
- **auditor's involvement in the preparatory phase of Solvency II**  
This field relates to the involvement of the auditor in the preparatory phase of Solvency II.
- **scope of Solvency II assurance: Balance sheet, OF, MCR and SCR**  
This field relates to the national requirements that have been or are still expected to be introduced for the audit of regulatory reporting of Solvency II (balance sheets (BS), OF, MCR and SCR) and the level of assurance (limited or reasonable).
- **Solvency II assurance: Opening balances**  
This field relates to the involvement of the auditor in the audit/assurance of the opening balance sheet for Solvency II (i.e. for the figures on Solvency II balance sheet as at 1 January 2016).
- **Solvency II: Pillar II requirements**  
This field relates to whether the national governments or the NCAs are requiring the audit/assurance on disclosures under Pillar II of Solvency II (i.e. risk management).
- **timing of audit reporting**  
This field relates to the timing of the involvement of an auditor, i.e. whether the audit/assurance will be finalized on the same date as the statutory audit or whether it can be at a later stage.
- **Solvency II assurance: Involvement of other professionals – e.g. actuaries**  
This field relates to any requirements for the involvement of other professional experts on the assurance aspects of Solvency II requirements for insurance undertakings, for instance actuaries.
- **guidance on the audit of regulatory reporting**  
This field relates to whether or not any guidance on the audit of regulatory reporting has been issued or is still expected either from the regulators or the audit profession.

For a more detailed overview of the responses please refer to our survey<sup>8</sup>.

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<sup>8</sup> *Scope of audit of Solvency II reporting by insurance undertakings*, available here: [https://www.accountancyeurope.eu/wp-content/uploads/1612\\_Scope\\_of\\_Audit\\_of\\_Insurance\\_v2.pdf](https://www.accountancyeurope.eu/wp-content/uploads/1612_Scope_of_Audit_of_Insurance_v2.pdf)

# RELIANCE ON FINANCIAL AND REGULATORY REPORTING BY BANKS

## ANALYSIS OF THE RESULTS

The institutions within the scope of this survey are the ones that are within the scope of the SSM. In comparison with the survey published in 2015, the requested information is more detailed. The requirements are now presented as either being part of the statutory audit, or as separate assurance or other engagements - either on a voluntary basis or requested by the national competent authorities (NCA). In the survey of 2015 the request for information was related to the overall involvement of the auditor in the audit of banks in Europe.

Accountancy Europe has received information on the audit profession's involvement on assuring financial and regulatory reporting for banks across Europe for 30 countries, including the 19 countries in the Eurozone. The audit of financial statements, management reports, and compliance with laws and regulations falls within the scope of the statutory audit in all 30 countries.

However, the results show a divergence in practice regarding the audit of additional supervisory requirements. In summary, in 12 countries the auditor's involvement in regulatory organisation reporting is part of the statutory audit, while in 8 countries it is a separate assurance engagement. In 1 country it is part of both, while in 9 countries the auditor does not have any responsibility to report on specific legal requirements regarding the organisation and governance of a bank.

In 7 countries, the scope of the statutory audit includes regulatory requirements (for example, anti-money laundering, loans, etc.), and in 12 countries the auditor is involved with other regulatory requirements as part of a separate audit or assurance engagement. In 1 country, it is part of both, while in 10 countries there are no requirements for assurance on regulatory requirements.

Furthermore, in 6 countries the audit on ongoing financial reports to supervisors is part of the statutory audit. In 8 countries a separate assurance engagement is performed on information in ongoing financial reports that are addressed to the regulators. In 16 countries, there are no additional requirements for the auditor when it comes to assurance of ongoing financial information.

Finally, in only 3 countries the scope of the statutory audit includes special reports that are addressed to the supervisors, and in 11 countries such work is performed as a separate engagement. In 1 country, assurance on special reports to supervisors is part of both the statutory audit and a separate assurance engagement. In 15 countries, the auditor does not have any responsibility to provide assurance on such reports.

For a more detailed overview of the responses please refer to our survey<sup>9</sup>:

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<sup>9</sup> *Scope of audit of banks across Europe – 2016 update* available here: [https://www.accountancyeurope.eu/wp-content/uploads/1612\\_Scope\\_of\\_audit\\_of\\_banks.pdf](https://www.accountancyeurope.eu/wp-content/uploads/1612_Scope_of_audit_of_banks.pdf)