



4 June 2009

Mr. Carlos Montalvo Rebuelta
Secretary General
CEIOPS
Westhafen Tower
Westhafenplatz 1
D-60327 Frankfurt Am Main

Ref.: *CEIOPS-CP-35-09*

Our Ref.: INS/HvD/LF/SR

Dear Mr. Montalvo Rebuelta,

Re: FEE Comments to CEIOPS on Consultation Paper No. 35 Draft CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Valuation of Assets and "Other Liabilities"

- (1) FEE (the Federation of European Accountants) is pleased to provide you below with its comments on the CEIOPS Consultation Paper No. 35 Draft CEIOPS' Advice for Level 2 Implementing Measures on Solvency II: Valuation of Assets and "Other Liabilities" ("the Paper").

Detailed comments

Chapter 3.1.2.

- (2) We support that IFRS be taken as the basis for Solvency II purposes, at least where the measurement objective is fair value, in the sense of a current exit value, unless different objectives justify or require a different measurement. We have also noted this in our letters to CEIOPS when commenting on some of the other Consultation Papers of the Draft CEIOPS' advice for Level 2 Implementing Measures on Solvency II (namely Consultation Paper No. 26 on the calculation of the best estimate, No. 30 on the treatment of future premiums and No. 32 on the assumptions about future management actions).

- (3) We note that where IFRS does not require measurement at fair value in the balance sheet, it requires additional disclosures in the notes to the financial statements that could form a basis or reference for the purposes of Solvency II.

Paragraphs 3.16 and 3.17/3.31 and 3.32

- (4) The accountancy profession is contributing to the debate within CEIOPS on the extent to which provision of assurance is desirable and practicable regarding specific reports/returns made by the insurance undertaking to the supervisor. Those discussions include consideration of the approach adopted by the statutory auditor during the examination of the insurer's financial statements taken as a whole, as well as the extent to which regulatory returns reproduce information disclosed in the audited financial statements. We note this matter will be the subject of a future CEIOPS consultation.
- (5) In determining whether, for an individual insurer, appropriate valuation policies/techniques have been applied to assets, and whether an independent external valuer should be engaged, consideration will need to be given to the experience and expertise of the valuers employed within the undertaking, the consistency of the approach adopted with the reporting framework under which the financial statements are prepared, whether the approach adopted reflects an industry consensus and why a particular valuation model was chosen in preference to others, etc. We note that an external verification should not be required to the extent that the financial information is subject to external audit, or based on the audit of the same values in the financial statements, or through an extension of the statutory audit to certain Solvency II financial information.

Paragraphs 3.21/3.33

- (6) CEIOPS has decided to adopt the IFRS as endorsed in the EU as a reference framework, with additional specifications only required in circumstances where IFRS is incompatible with Article 74 of the "Solvency II Framework Directive". In that context, where fair value is applied to relevant assets or liabilities reflected in the insurer's audited financial statements – amount at which the assets and liabilities could be exchanged between knowledgeable willing parties in an arm's length transaction – risks such as those exemplified in Paragraph 3.21 are taken into account in determining economic value for solvency purposes.
- (7) We observe that the IASB published guidance in October 2008 to assist preparers of financial statements to determine fair value in illiquid markets.
- (8) We acknowledge that a combination of extreme illiquidity and a (near) absence of observable data supporting the relevant inputs may bring into question the relevance of a valuation model, in which case the supervisor may apply pillar II measures.

Paragraph 3.42

- (9) We are of the opinion that the treatment of the present value of future profits (PVFP or PVP) or value of business acquired (VOBA) should be consistent with that of self-generated portfolios, since the economic consequences are the same and support the CEIOPS' advice in this respect.

Paragraphs 3.58/3.62 and 3.68/3.71

- (10) We would like to understand more about CEIOPS possible request to obtain external valuations. In major companies sufficient inhouse expertise will be in place to properly evaluate an insurer's property. Hence, a general requirement may cause additional costs not justified by the benefits obtained. We suggest that, the decision whether an external valuation or confirmation is requested, should be taken on an individual basis, taking into account the individual circumstances of the (re)insurer and the property concerned. We believe that it should be the responsible supervisor, not CEIOPS, who may ask for external valuations or confirmations in determined cases. Such cases may be when an auditor's opinion is not available because other valuation methods are applied in the audited financial statements. It would be useful to address those cases in the implementation guidance in Level 2 or Level 3. We refer also to the question on the extent to which reports to supervisors have to be subject to external verification referred to in paragraphs 3.16 and 3.17 of the Paper.
- (11) We refer also to our earlier comments on the provision of assurance in paragraphs 4 and 5 of this letter.

Paragraph 3.81 iii

- (12) See our comments (on the model risk) on Paragraphs 3.21/3.33 of the paper in paragraph 6 of this letter.

Paragraph 3.84

- (13) We believe that both methods (equity method and measurement of the participation in its entirety) can lead to adequate results. The applicability of the equity method depends however on the availability of the economic values of the individual assets and liabilities which may make its application impossible for practical reasons in many instances.

Chapter 3.2.7

- (14) We support that the principles established in IAS 37 be applied for Solvency II, despite the fact that the recognition criteria may lead to the non-recognition of expected inflows that are not virtually certain, or expected outflows that are not probable.

Paragraph 3.109

- (15) If the total of deferred tax liabilities exceeds the deferred tax assets for the respective tax subject, in an assumed liquidation a loss carry-forward can be used. Therefore, deferred tax assets for loss carry-forwards should be considered recoverable in a solvency balance sheet.

Paragraph 3.14

- (16) The reflection of creditworthiness in the measurement of liabilities is one of the issues still under discussion by the IASB, both for insurance contracts and for financial instruments. Financial theory and the concept of a transfer value, which is the basis for Solvency II, justify reflection of creditworthiness and its changes in the balance sheet. In addition, the current practice of companies buying back issued bonds at prices below the amounts repayable demonstrate its economic relevance. However, the “Framework Directive” has introduced limitations to a full economic approach. In our view, any further deviations from IFRS and the concept of economic value should be prevented as far as possible.

Paragraph 3.155

- (17) In many instances, companies use external experts for the calculation of the pension liabilities under IAS 19. We understand that the expected IFRS on Pensions should eliminate many of the current differences between an economic value and current IAS 19. We suggest not making the tentative treatment mandatory before there is a greater clarity on the adoption timetable and the content of the new IFRS on Pensions.

For further information on this letter, please contact Ms. Saskia Slomp from the FEE Secretariat.

Yours sincerely,



Hans van Damme
President