Summary of comments on CEIOPS-CP-35/09 **Consultation Paper on the Draft Advice on Valuation of Assets and 'Other Liabilities'**	CEIOPS-SEC-99/09 **22.10.2009**

CEIOPS would like to thank **Munich Re, Aviva, Pearl, ABI, Centre Technique des Institutions de Prévoyance (CTIP), Pacific Life Re Limited, FFSA, Federation of European Accountants (FEE), Institute of Chartered Accountants in England and Wales (ICAEW), Lloyd's, Groupe Consultatif (GC), UNESPA (Association of Spanish Insurers), Legal and General Group (L&G), RSA Group, FAIDER[1] (Fédération des Associations Indépendantes de Défense des Epargnants pour la Retraite), Investment & Life Assurance Group (ILAG), German Insurance Association (GDV); CEA; CRO Forum; DIMA (Dublin International Insurance & Management Association)Ireland; European Union member firms of Deloitte Touche Tohmatsu, KPMG, XL Capital Group (including XL Insurance Company Ltd and XL Re Europe Ltd) ("XL"), PricewaterhouseCoopers LLP UK, ROAM, CFO Forum**

The numbering of the paragraphs refers to Consultation Paper No. 35 (CEIOPS-CP-35/09).

No.	Name	Reference	Comment	Resolution
1.	Munich Re	General comment	Munich Re welcomes CEIOPS proposal to adopt IFRS as reference framework for building an economic balance sheet under solvency II principles (coherent framework). As a general rule, it should be the case that a fair value recognised as a fair value under IFRS is also recognised as an economic value under Solvency II. This must also apply to fair values disclosed in the notes which complement balance-sheet items which are not recognised at fair value.	Noted. The Solvency II balance sheet is based on an economic valuation in line with the Level 1 text and items should be recognised and measured accordingly regardless of the information disclosed under general purpose financial

[1] representing more than 1 million of French life policyholders and small investors

			We encourage CEIOPS to rely on audited financial statements as a source of fair values which are economic values in terms of solvency II.	statements. To the extent the accounting values satisfy the valuation principles under Solvency 2 (both Level 1 and Level 2), they can be used for Solvency 2 purposes. CEIOPS notes the comment on the reliance on audited accounting figures to the extent it provides a Solvency 2 value as per the Level 1 text and Level 2 principles. However, for clarification, the question of audit is outside the scope of this advice. It will be dealt with in the CEIOPS Level 2 advice on Supervisory Reporting and Disclosure Requirements.
2.	Munich Re	General comment	CEIOPS should give more guidance on how to deal with ongoing changes in IFRS. As mentioned above a fair value from IFRS in general should qualify as an economic value under Solvency II. Changes in IFRS should not alter that fact. Additionally there are currently three IASB projects on their way, which directly affect the here present consultation paper.	Noted. As stated in para 3.35 of the advice, CEIOPS believes that Level 2 implementing measures should include mainly high level principles, leaving supplementary guidance to level 3. This will

			1. Fair value definitions of IFRS are currently reviewed in the IASB's project "Fair Value Measurement". The Board is developing an exposure draft of an IFRS on fair value measurement guidance which it plans to publish this quarter already. We suggest that CEIOPS takes reference to the upcoming standard and keep the implementation guidance flexible to cope with new developments. 2. At the same time IAS 37 revised is expected to be published before the end of 2009. As IAS 37 revised will not know contingent assets nor contingent liabilities, passage 3.2.7 can be deleted completely. 3. IAS 19 also is subject to review. A new standard is expected to be in place by the end of 2012. The revision of IAS 19 includes a correction of the weaknesses in the assessment of post-employment benefits referred to in 3.146ff. The transitional parallel accounting requested for these liabilities until the adoption of the revised IAS 19 is therefore not necessary.	enable CEIOPS to monitor IFRS changes in a flexible way, assessing amendments that are relevant for the solvency II valuation purposes. CEIOPS acknowledges the IASB projects that are under way and will keep the Level 2 implementing measures flexible to cope with the forthcoming developments. CEIOPS will ensure that a monitoring mechanism is set up to ensure Level 2 measures are updated wherever necessary with future changes in IFRS. Refer new paragraph 3.11 added to the advice.
3.	Munich Re	General comment	Munich Re feels alarmed by the suggestion that fair values as such need further adjustments for risks. Munich Re is convinced that a fair value which meets IFRS requirements incorporates all risks relevant for valuation. If additional risk have to be considered this is the role of SCR calculation. Valuation and risk capital requirements must not be	Noted. Refer new wording of the paragraph 3.30.

			mixed.	
4.	Pearl	General comment	We support the overall objective of these proposals (although we have concerns about some of the detailed proposals and these are set out in our detailed response). We agree that the starting point for the valuation of assets and 'other liabilities' should be IFRS. We also agree that in some cases there will be a need for regulators to adjust these numbers in order to arrive at a valuation appropriate for solvency purposes.	Noted.
5.	Pacific Life Re	General Comment –	Pacific Life Re is a pure reinsurer which reinsures life and health business in the UK and Ireland and in selected Asian markets. Pacific Life Re is incorporated in the United Kingdom and regulated by FSA. It has its main offices in London, a branch office in Singapore and a representative office in Tokyo. Pacific Life Re is part of the Pacific Life group of companies and its ultimate holding company is Pacific Mutual Holding Company.	Noted
6.	FFSA	General comments	Thank you for giving the FFSA, which represents ninety percent of French insurance market, the opportunity to comment on your consultation paper 35 on level 2 measures for valuation of assets and other liabilities. Below we set out our high-level comments on the paper. Detailed comments are included as an annex to this note in the template requested by CEIOPS. High Level Comments:	Noted Noted.

			• Illiquidity is already taken into account in the valuation of the asset Paragraph 3.21 (and 3.33) points out the need for assessing the "illiquidity of the asset due to entity specific constraints". We disagree with this valuation adjustment, since we believe that the illiquidity of assets is already taken into account in the valuation of the asset. Also; the illiquidity risk is already taken into account in the concentration risk. Thus, we recommend this bullet point to be removed from the CP. • IAS12 appears to be a good proxy for valuating deferred taxes in a Solvency 2 balance sheet We carried out some examples of modelling that led us to think that IAS 12 is consistent in a Solvency 2 context, in comparison with some cash flows approaches. • Economic valuation to unused tax losses and tax credits We disagree with CEIOPS's position which attributes by default an economic nil value to unused tax losses and tax credits. This exception to IAS12 provisions has not been sufficiently justified by CEIOPS with a set of solid and clear arguments, while IAS 12 attributes explicitly an economic value to those assets under certain conditions. CEIOPS doesn't explain why those particular deferred tax assets would be intrinsically different to a general deferred tax asset (a general calculation of deferred taxes may end up to a deferred tax asset in a Solvency 2 balance sheet) and then would require a specific treatment. This economic value is the result of the recognition under the IAS 12 provisions - that these deferred tax assets can be recovered thanks to existing deferred tax liabilities - such as calculated in the Solvency 2 balance sheet - or, in their absence, thanks to future positive tax	Refer amended paragraph 3.30 that should possibly address this concern. For comments on specific items, please refer to comments on the relevant section.

			bases calculated on a prudent "ongoing concern" basis. • Deferred tax assets or liabilities should not be linked only with identifiable assets or liabilities on the Solvency II balance sheet We do not agree with the idea that deferred tax assets or liabilities shall be linked only with identifiable assets or liabilities on the Solvency II balance sheet. This is contrary to the Solvability II economic principles (as well as contrary to IAS12 principles). In a Solvency II perspective, recognition of deferred tax assets resp. liabilities should only be linked with their recoverability resp. exigibility (payability). • Participations should be considered at a group level It is our position that the participations should be considered at a gt-oup level and not at a solo level. As such, if various entities of a same group have an investment in one company, and that the overall investment of the group leads to consider this company as participation, the treatment of the participation should be applied consistently for each entity at a solo level. For example, if entity A owns 5% of a company C, and entity B owns 15% of C, and that A and B are in the same group, for solvency purposes, C should be considered as a participation in the economic balance sheet of both A and B. • Goodwill should have an economic value. We do not support a requirement that goodwill should be valued at nil. Goodwill has economic value. Furthermore assigning a nil value is inconsistent with the accounting requirements (under which goodwill is tested for impairment and if it is not impaired by definition it has a non-nil	

			value). The risks associated with the goodwill should be considered within the capital requirements, not a reduction in the economic valuation. The FFSA thanks you for the attention you will give to our comments and would be happy to discuss the details of our response with you at your earliest convenience.	
7.			Confidential comment deleted.	
8.	Lloyds	General comment	Lloyd's welcomes the opportunity to comment on this consultation paper. The approach set out in the is to value assets and 'other' liabilities (ie not technical provisions) in accordance with the principles of IFRS as adopted for use in the EU ('EU IFRS'), except where there are specific adjustments required to achieve a 'fair value' position. We note that there is no intention to mandate the usage of EU IFRS in the preparation of an insurer's financial statements; however any differences would need to be adjusted for in the Solvency II balance sheet, where material as assessed on a proportionate basis. We set out two observations: (i) The local supervisor should be able to allow an insurer, if it uses a locally based GAAP in preparing its financial statements, to use this GAAP instead of EU IFRS when assessing the valuation for Solvency II purposes, if it is economically based and materially consistent with EU IFRS.	Noted. Noted. Paragragh. 3.36 of the advice clarifies that: "*The adoption of IFRS as a framework for determination of the economic valuation does not in any way interfere with the set of accounting principles...used by the undertakings"* (i) Noted. Par. 3.13 is pretty clear: *For the purpose of building a SII balance sheet, undertakings shall, using IFRS as a reference, determine if the accounting figures provide for an economic valuation.* This means that if

			(ii) Different sets of rules for accounting and for solvency purposes create an administrative burden, add complexity and potentially require supervisors to issue a whole new set of rules. The last of these could represent a significant problem given the time frame and the difficulties the International Accounting Standards Board has had in agreeing their own standards. Therefore we believe that it is essential for the solvency valuation rules to deviate from those used in the insurer's financial statements only in the most limited of circumstances where the proportional benefit of a different economic value for solvency purposes is clear.	figures under local GAAP (whatever they are) provide for economic valuation, undertakings can use them in the solvency balance sheet. This valuation is done by undertakings without the necessity to get a prior approval by the local supervisor as this will be part of the Level 2 implementing measures. (ii) Agreed in principle. The Solvency II balance sheet is based on an economic valuation. Par. 3.13 states that undertakings "*shall use IFRS as a reference point and determine if the accounting figures provide for an economic valuation*". Undertakings should consider the materiality principle as explained under the paragraphs 3.14-3.16.
9.	GC	General comment	We feel it extremely important that the valuation of assets and liabilities is done on an economic approach in Solvency II. It is equally	Noted.

			important that valuation rules should be compatible with international accounting developments in order to enable a similar valuation infrastructure to be used for accounting and solvency purposes.	
10.	RSA	General comment	We concur with the position that maximum use should be made of valuations of assets and liabilities under IFRS where such valuations are consistent with the valuation basis required under the directive. This approach maintains maximum consistency between the financial statements of an undertaking and the valuations used for solvency purposes, limits additional work required by undertakings to comply with the solvency II rules and aids transparency where information is available for an undertaking that has been prepared under IFRS. We believe that the level 2 text should be sufficiently flexible to accommodate new accounting standards issued by the IASB without the need to rewrite the guidance (see example under section 3.2.2.below).	Noted. See resolution on comment 2
11.	FAIDER	General comment	Economic approach is a sound principle but should be understand in the light of the specificities of the insurance business which differ substantially from the banking business or any other industry as insurance regulators know well. Assets are held to cover liabilities and not to speculate. The management of an insurance company is based on asset-liabilities management which results from the strong link between assets and liabilities.	Noted.
12.	GDV		In general GDV supports the CEA positions on CP 35. On the following	Noted.

			topics GDV would like to explicitly communicate the GDV position. They are either more important for GDV or different from CEA positions.	
13.	GDV	Key comments	IFRS is one but not the only possible set of valuation principles for solvency purposes - CEIOPS recommends the adaptation of IFRS as reference framework for building an economic balance sheet under Solvency II principles. We support this view. Nonetheless, IFRS is one *but not the only* possible set of valuation principles for solvency purposes. In particular for small and medium-sized companies it would be appropriate to use local reporting requirements if these are recognized as equivalent to market consistent valuation. The objective is to ensure that the valuation meets economic principles and local GAAP may provide an appropriate proxy. Treatment of certain items, particularly deferred tax, should continue being evaluated in future Consultation Papers - We should note that GDV comments on deferred tax should be considered as preliminary. The treatment of deferred tax is a complex issue that needs further analysis and the GDV will give its final position based on this analysis and in particular when the loss absorbing capabilities of deferred tax are also addressed. Moreover, it should be discussed whether CEIOPS assumption of IAS 12 as a suitable proxy for the economic valuation of deferred taxes can be maintained due to the fact that the understanding of deferred taxes still seems to be inconsistent in the member states and SMEs are usually not familiar with IFRS.	Noted. See resolution on comment 8. Agreed in principle. SME as well as other undertakings can use local reporting requirements so far as they produce an economic valuation consistent with the Solvency II principles. For comments on specific items, please refer to resolution on comments on the relevant section.

14.	GDV	General comments	More guidance is requested in relation to adjusting accounting figures to achieve an economic valuation - It would be helpful if more guidance could be provided about cases when accounting figures do not provide an appropriate reference to adjust the accounting numbers to reflect an economic valuation. In practice, it is unlikely in most cases that the company will have this information so it is not clear how the company would know that it needed to make an adjustment. Secondly, it is not clear how significant the difference should be before an adjustment is required. We would support the usage (albeit in a modified form) of the guidance on materiality from IFRS.	Noted. See resolution on comment 1.
15.	CEA	Introductory remarks	The CEA welcomes the opportunity to comment on the Consultation Paper (CP) No. 35 on Valuation of Assets and “Other Liabilities”. It should be noted that the comments in this document should be considered in the context of other publications by the CEA. Also, the comments in this document should be considered as a whole, i.e. they constitute a coherent package and as such, the rejection of elements of our positions may affect the remainder of our comments. These are CEA’s views at the current stage of the project. As our work develops, these views may evolve depending in particular, on other elements of the framework which are not yet fixed.	Noted.
16.	CEA	Key comments	IFRS is one but not the only possible set of valuation principles for solvency purposes - CEIOPS recommends the adaptation of IFRS as reference framework for building an economic balance sheet under	See resolution on comment 8.

			solvency II principles (coherent framework). We support this view. Nonetheless, IFRS is one *but not the only* possible set of valuation principles for solvency purposes. In particular for small and medium-sized companies it would be appropriate to use local reporting requirements if these are recognised as equivalent to market consistent valuation. The objective is to ensure that the valuation meets economic principles and local GAAP may provide an appropriate proxy. Additional external verification should not be required on top of an auditor's verification - We encourage CEIOPS to rely on audited financial statements, rather than imposing additional tests. The auditor's confirmation of accounts should be sufficient for the external verification requirement in this context. Economic values reflect inherent uncertainty and do not require further adjustment - We are concerned by any suggestions that economic values would need further adjustment for risks. If additional risks have to be considered then this is the role of the SCR calculation. Valuation	On the additional external verification, CEIOPS would highlight that it will be required only under limited circumstances (refer paragraphs 3.42-3.44). The link between the need for external verification and audit will be further explained when CEIOPS position on the audit of the Solvency II balance sheet is finalized. Noted. Refer new paragraph. 3.30

			and risk capital requirements should not be mixed. Consideration needs to be given to the application of proportionality - The application of the principle of proportionality does not seem to be sufficiently addressed. For example proportionality should be applied in any requirement for insurers to apply the revaluation model to plant and equipment or the fair value model to investment property. This is particularly an issue for small and mid-sized undertakings.	Agreed. The definition of materiality has been further specified in paragraphs 3.14-3.16 of the level 2 advice.
17.	CEA	General comments	More guidance is requested in relation to adjusting accounting figures to achieve an economic valuation - It would be helpful if more guidance could be provided about cases when accounting figures do not provide an appropriate reference to adjust the accounting numbers to reflect an economic valuation. In practice, it is unlikely in most cases that the company will have this information so it is not clear how the company would know that it needed to make an adjustment. Secondly, it is not clear how significant the difference should be before an adjustment is required. We would support the usage (albeit in a modified form) of the guidance on materiality from IFRS. Internal economic capital models should be fully used - Valuation should be generally based on the application of appropriate market measures. For example, a life insurer may use its internal economic capital model to measure the defined benefit pension liabilities of its employees which may give a better market value of these liabilities than IAS 19.	Noted. Refer new paragraph 3.30 Agreed. The definition of materiality has been further specified in paragraphs 3.14-3.16 of the level 2 advice. Partially agreed. Refer new paragraphs 3.169 and 3.173 in the advice. Internal economic capital models will be allowed for post-employment benefits if based on Solvency II principles applied to

			It is important to consider how ongoing changes in IFRS will be taken into account - CEIOPS should give more guidance on how to deal with ongoing changes in IFRS and we would encourage CEIOPS to be wary of linking to the current IFRS without establishing a procedure to deal with any change in IFRS going forward. It would be important to ensure that if any change in IFRS standards (which currently appear suitable for solvency purposes) which moves away from alignment with economic principles would not mean that the principles used for Solvency II would also move away from economic principles. For information there are currently a number of IASB projects underway, which directly affect this consultation paper, including: • IAS 39 - Fair value definitions of IFRS are currently being reviewed in the IASB's project "Fair Value Measurement". The Board is developing an exposure draft which it plans to publish this quarter. We suggest that CEIOPS refers to the upcoming standard and keeps Level 2 flexible in order to cope with new developments. • IAS 37 is currently being revised. There is a possibility that the	insurance liabilities taking also into account the specificities of post employment benefits. Noted. See resolution on comment 2.

			revised IAS 37 will not recognize contingent assets or contingent liabilities. This type of change, and its suitability for solvency purposes, should be assessed. • IAS 19 also is subject to review as discussed in the CEIOPS paper.	
18.	ABI	General comment	We support the overall objective of these proposals (although we have concerns about some of the detailed proposals and these are set out in our detailed response). We agree that the starting point for the valuation of assets and 'other liabilities' should normally be IFRS. In the UK the convergence process between IFRS and UK GAAP eliminated some of the differences between the two and it is possible that these are likely to further diminish, or be eliminated, in advance of the introduction of Solvency II. However, CEIOPS should bear in mind that many UK firms continue to prepare accounts using national GAAP and this is likely to be the case in many Member States. We, therefore, believe that CEIOPS should accept national GAAP accounts as a starting point for Solvency II numbers where appropriate. Accounting standards are subject to frequent changes and CEIOPS will have to consider how such changes are adopted (or adapted) for Solvency II purposes. We also agree that in some cases there will be a need for regulators to adjust these numbers in order to arrive at a valuation appropriate for solvency purposes.	Noted. See resolution on comment 2. See resolution on comment 8.

19.	CROF	General comment	CEIOPS recommends the adaptation of IFRS as reference framework for building an economic balance sheet under solvency II principles (coherent framework). We support this view. IAS19 should not be necessarily a temporary solution for pension scheme. There are alternatives to those suggested in the paper for valuation of own debt.	Noted. For comments on specific items, please refer to resolution on comments on the relevant section.
20.	Deloitte	General comment	We welcome the additional guidance in respect of the valuation of assets and “other liabilities”. Our main observation relates to the valuation of intangible assets recognised on acquisition, where we believe that the advice given is inconsistent with the principles of article 74 of the directive, which implies that all assets should be valued at their fair value. We have also expressed our view that the “combined approach” to the valuation of other financial liabilities and amounts payable is the most appropriate.	Noted. As stated in para 3.35 of the advice, CEIOPS believes that Level 2 implementing measures should include mainly high level principles, leaving supplementary guidance to level 3. For comments on specific items, please refer to resolution on comments on the relevant section.
21.	KPMG	General	It would be helpful if more guidance could be provided about when to	Agreed.

		comment	adjust the accounting numbers to reflect market values. In practice, it is unlikely in most cases that the (re)insurance undertaking will have this information so it is not clear how the undertaking would know that it needed to make an adjustment. It might be clearer to require that (re)insurance undertakings use IFRS as described in this CP for certain assets and liabilities and impose no additional tests. Secondly, it is not clear how significant the difference should be before an adjustment is required. One solution might be to import (albeit in a modified form) the guidance on materiality from IFRS. It would be helpful if the rules did not mandate the use of IFRS if the (re)insurance undertaking has a more appropriate market measure. For example, a life insurer may use its internal economic capital model to measure the defined benefit pension liabilities of its employees which may give a better market value of these liabilities than IAS 19.	The definition of materiality has been further specified in paragraphs 3.14-3.16 of the Level 2 Advice. Partially agreed. Refer new paragraph 3.167 in the advice. Internal economic capital models will be allowed for post-employment benefits if based on Solvency II principles applied to insurance liabilities taking into account the specificities of post employment benefits.
22.	XL	General comment	XL welcomes the opportunity to comment on CEIOPS' draft advice on Valuation of Assets and Liabilities. (CP No. 35). CP 35 uses IFRS as the starting point for the valuation of assets and 'other liabilities'. We understand that for many European companies which already prepare financial statements under IFRS, this approach limits the administrative burden. However, for an entity which is not required to report under IFRS it could increase the burden significantly	Noted. See resolution on comment 8.

			by requiring another GAAP. For example it is unlikely that the US will have adopted IFRS by 2012. Therefore a European subsidiary of a US Group may well report under a relevant local European GAAP, as well as producing US GAAP financial statements for consolidation. We are concerned that such an entity may be forced also to report under IFRS for Solvency II purposes. We agree with Para 1.5 "*…The Level 1 text defines the main principles applicable to valuation of assets and liabilities, which largely coincides with the current definition of fair value under IFRS with the notable exception of the treatment of own credit standing for liabilities*." And also with Para 3.24 " T*he adoption of IFRS as a reference framework for the determination of the economic valuation does not in any way interfere with the set of accounting principles, standards and procedures that undertakings use to compile their financial statements (GAAP). For the purpose of building a Solvency II balance sheet, undertakings shall, using IFRS as a reference, determine if the accounting figures provide for an economic valuation. If that is not the case, they have to adjust the accounting figures, unless for the exceptional situations where a balance sheet item is not significant to reflect the financial position or performance of a (re)insurance undertaking or the quantitative difference between the use of accounting valuation principles and the Solvency II valuation rules is immaterial. In this regard, the proportionality principle will be taken into account.*" However, Para 3.16 "*It is expected that the economic values stemming*	

			from statutory financial statements will have been subject to external audit in accordance with applicable auditing standards. The extent to which reports to supervisors have to be subject to external verification will however be dealt with in a future CEIOPS paper on Solvency II Reporting Requirements." concerns us since we would not expect Solvency II to drive a requirement for an audit under IFRS, especially given what was said in 3.24 above. We would like clarification that an audit, under relevant local GAAP, rather than under IFRS is sufficient where a company has not transitioned to IFRS. In the UK, the convergence process between IFRS and UK GAAP means that there are relatively few significant differences between the two and these are likely to further diminish as time progresses. However, this is not necessarily the case in all Member States.	Noted. Refer comment 1 above. The question of audit is outside the scope of this advice. It will be dealt with in the Level 2 advice on Supervisory Reporting and Disclosure Requirements.
23.	ROAM	General comment	In this paper CEIOPS recommends the adaptation of IFRS as a reference framework for building an economic balance sheet under Solvency II principles. A majority of ROAM members are not subjected to the standards IFRS; it is thus desirable that when a reference is made for standards which are not compulsory these are clarified. Otherwise it implies a non acceptable supplementary workload. Ask the small companies to hold a solvency accounting in IFRS standards while they are not subjected to it, is totally incompatible with the principle of proportionality. Indeed it creates for small companies a significant additional load of work whereas bigger companies, subjected to IFRS, already hold accounting in IFRS standards.	Noted. See resolution on comment 8. Agreed in principle. SME as well as other undertakings can use local reporting requirements so far as they produce an economic valuation consistent with the Solvency II principles.

24.			Confidential comment deleted.	
			Confidential comment deleted.	
25.	PwC	General comment	The context and principles that support CP35 are set out in Recital 27 of the Level 1 text of the Directive. This states that, "the assessment of the financial position of insurance and reinsurance undertakings should rely on sound economic principles." The Directive requires (Article 74) that, except where an alternative method of valuation is specified, both assets and liabilities should be valued based on an arm's length transaction between willing parties (in the case of liabilities excluding adjustment to take account of own credit standing). CP35 states that these principles coincide with the current definition of fair value under IFRS. Consequently the majority of the proposals are consistent with existing IFRS standards, in most cases IFRS treatment is deemed to be a suitable approximation of 'economic valuation'. A number of significant accounting standards are currently in the process of being revised by the IASB including IAS39 on Financial instruments and IAS37 for non financial liabilities. To the extent these and any other significant revisions occur in the during the period up to the implementation of Solvency II CEIOPS may need to consider to what extent these may impact the Level 2 implementing measures issued. There are likely to be ongoing amendments to accounting standards issued by the IASB and CEIOPS will need to address how level 2 implementing measures will be updated for subsequent	Noted. See resolution on comment 2

			changes.	
26.	CFOF	General comment	IFRS as a reference framework – whilst the CFO Forum supports the use of IFRS as a reference framework for the Solvency II balance sheet (or alternative frameworks e.g. USGAAP, where it is substantially equivalent to IFRS), IFRS does not always provide an economic valuation for all assets and liabilities. Solvency II should carefully consider references to IFRS when the appropriate IFRS standard is not based on sound economic principles. IFRS Fair Value - we agree that assessing assets and liabilities should be based on a sound economic basis and that Level 1 text's main principles applicable to valuation of assets and liabilities largely coincide with the current definition of fair value under IFRS with the notable exception of the treatment of own credit standing for liabilities and the burden of proof and presumptions related to current prices as the best evidence of fair value when measuring financial assets not currently quoted in an active market. As a general rule, it should be the case that a value recognised as a fair value under IFRS is also recognised as an economic value under Solvency II. This must also apply to fair values disclosed in the notes which complement balance-sheet items which are not recognised at fair value. Consequently, we also concur with the use of the fair value proposed hierarchy for the valuation of assets ranging from mark to market to mark to model as outlined under IFRS, but point out the difficult application of some of the provisions of the application guidance developed by the IAS 39 IASB Expert Advisory Panel in October 2008.	Noted. The Solvency II balance sheet is based on an economic valuation and items should be recognised and measured accordingly regardless of the information disclosed under general purpose financial statements. Noted. Refer new paragraph 3.30

			We draw attention to the IASB's "Fair Value Measurement" project described below. For the purpose of constructing the Solvency II balance sheet we consider that the basis for mark to market and mark to model valuations in Solvency II should permit all valuations that are defined as fair value in IFRS without further adjustment (subject to the required valuations being required for the same underlying resources).	
			Fair valuing financial assets and other items of the Solvency II balance sheet – the CFO Forum starting point is our commitment to measure the Solvency II balance sheet on a market consistent basis while learning lessons from the current crisis. This is to ensure that Solvency II valuations are appropriate in a wide range of economic scenarios and therefore avoid pro-cyclical effects. In this context, the valuation of each item of the balance sheet, in order to be consistent, while measuring each component separately should take into account current market conditions. The measurement of technical provisions is out of the scope of this consultation paper, however, sound economic principles should apply consistently to the technical provisions as well as all other items on the economic balance sheet. Our comments are based on the assumptions that technical provisions measurement will be based on economic principles and should not be taken in isolation from our other responses to level 2 implementation measures consultation papers.	Noted. On audit:
			Audited financial statements and materiality - we encourage CEIOPS to rely on audited financial statements when they are a source of fair values which are economic values in terms of solvency II. It is not clear how significant the difference between the financially reported amount and the economic value should be before an adjustment is	Noted. Refer comment 1 above. The question of audit is outside the scope of this advice. It will be dealt with in the Level 2 advice on Supervisory Reporting and

			required. The principle of proportionality does not define guidelines of materiality. For the purpose of constructing the Solvency II balance sheet we would support the use of IFRS materiality principles, subject to the requirement that adjustments should be made where their value would have a material impact on risk adequacy within the SCR calculation. Consistent with the principle of proportionality it should be unnecessary to estimate assets and "other" liabilities on an economic basis where the difference in value is not material or would be materially off set by the increase in risks capital requirements if the additional value was included in the economic balance sheet. Supervisory review process - a harmonised basis of review of economic balance sheets is required. Estimation of market values - valuation should generally be based on the application of appropriate market measures including mark to model techniques. For example, a life insurer may use it internal economic capital model to measure the defined benefit pension liabilities of its employees, which may give a better market value of these liabilities than IAS 19. Mark to model approaches apply across Solvency II, not only to the measurement of the Solvency II balance sheet and the general approach should be defined once to apply universally across Solvency II. In this context we highlight that mark to model approaches do not seek to minimise the use of unobservable inputs but instead use entity	Disclosure Requirements. On materiality: Agreed. The definition of materiality has been further specified in paragraphs 3.14-3.16 of the Level 2 Advice. The Supervisory Review Process is outside the scope of this advice. Partially agreed. Refer new paragraph 3.167 in the advice. Internal economic capital models will be allowed for post-employment benefits if based on Solvency II principles applied to insurance liabilities taking also into account the specificities of post employment benefits.

			specific assumptions where relevant and reliable observable market inputs do not exist. Changes to IFRS - as mentioned above a fair value from IFRS in general should qualify as an economic value under Solvency II. Changes in IFRS should not alter that fact. Additionally there are a number of IASB projects underway, which directly affect the present consultation paper, including: 1. Fair value definitions of IFRS are currently reviewed in the IASB's project "Fair Value Measurement". The Board is developing an exposure draft of an IFRS on fair value measurement guidance which it plans to publish this quarter already. This project is still open to discussion and we recommend that CEIOPS revisits its advice on using and adjusting IFRS valuations when the IASB has reached its conclusions on this project. 2. Revisions to IAS 37 are expected to be published before the end of 2009. Current proposals suggest that a revised IAS 37 will not recognise the concept of contingent assets and contingent liabilities, referring instead to all assets and liabilities. The IASB has not reached its final conclusions on this project so we recommend that CEIOPS revisits its advice on using and adjusting IFRS valuations when the IASB has reached its conclusions on this project Interpreting IFRS valuations should be in level 2, not level 3, and should be reviewed when new standards are published - all advice on interpreting IFRS valuations in the context of Solvency II should be	Noted. See resolution on comment 2.

			contained in the level 2 implementing measures to avoid inconsistent application by territory due to variation in level 3 supervisory guidance, which should be restricted to advice on interpreting local GAAP accounting valuations, if required. Due to the number of projects the IASB is currently working on and the potential significance of the changes to current standards the CFO Forum recommends that the need to change the level 2 implementing measures is reviewed each time the IASB publish a new standard. Economic values reflect inherent uncertainties and do not require further adjustment - the CFO Forum firmly believes that economic values incorporate all risks relevant for that valuation. Additional uncertainty attaching to risks inherent to the assets and liabilities being valued should be allowed for in the SCR calculation. Valuation and risk capital requirements must not be mixed.	Noted. Refer new paragraph 3.30
27.			Confidential comment deleted.	
28.	CEA	Section 1	Assets and liabilities should be valued on an economic basis - We agree that accessing assets and liabilities should be based on sound economic basis and that the Level 1 text's main principles applicable to valuation of assets and liabilities largely coincide with the current definition of fair value under IFRS with a notable exception of the treatment of own credit standing for liabilities. We support the use of the fair value hierarchy as outlined under IFRS - Consequently, we also concur with the use of fair value proposed hierarchy for the valuation of assets ranging from mark to market to	Noted. The issue of reporting is outside the scope of this advice and will

			mark to model as outlined under IFRS. Further consideration should be given to undertakings reporting on local GAAP - Further consideration needs to be given to the circumstances for the use of local GAAP for undertakings not reporting on an IFRS basis taking into account national particularities.	be dealt with in the advice on Supervisory Reporting and Public Disclosure Requirements.
29.	CROF	Section 1	We agree that accessing assets and liabilities should be based on sound economic basis and that Level 1 test's main principles applicable to valuation of assets and liabilities largely coincide with the current definition of fair value under IFRS with the notable exception of the treatment of own credit standing for liabilities. Consequently, we also concur with the use of fair value proposed hierarchy for the valuation of assets ranging from mark to market to mark to model as outlined under IFRS. Further consideration needs to be given to the circumstances for the use of local GAAP for undertakings not reporting on an IFRS basis taking into account national particularities. In addition, the application of the principle of proportionality with respect to the valuation of assets and liabilities for small and mid-sized undertakings needs further consideration.	Noted. The issue of reporting is outside the scope of this advice and will be dealt with in the advice on Supervisory Reporting and Public Disclosure Requirements.
30.	FEE	3.3	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	Noted. Seee resolution on comment 1.

			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). 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.	
31.	KPMG	Para 3.6	We agree with the use of EU endorsed IFRS as a reference framework, but as stated above do not believe its use should be mandated.	Noted. Paragraph 3.36 of the advice clarifies that: "The adoption of IFRS as a framework for determination of the economic valuation does not in any way interfere with the set of accounting principles...used by the undertakings"
32.	FFSA	Section 3.1.2 3.8	Paragraph 3.8 indicates that if accounting items under local GAAP or IFRS are different from Solvency II expected balance sheet, they should be adjusted, "unless for the exceptional situations where balance sheet item is not significant to reflect the financial position or performance of a (re)insurance undertaking or the quantitative difference between the use of accounting valuation principles and the Solvency II valuation rules is immaterial". We recommend that level 2 or 3 gives guideline on the concept of proportionality, and what could be considered as immaterial: threshold	Partially agreed. The definition of materiality has been further specified in paragraphs 3.14-3.16 of the level 2 advice.

			based on a percentage of own funds, of total assets…	
33.	CFOF	3.11	"Methodology for determination of economic values" - The headline should make clear, that the following descriptions are referring to the valuation of assets only. As a general rule, it should be the case that a fair value recognised as a fair value under IFRS is also recognised as an economic value under Solvency II. This must also apply to fair values disclosed in the notes on the balance-sheet items which are not recognised at fair value.	Noted. See resolution on comment 1.
34.	FFSA	3.14	The CP indicates that in case of use of internal model to mark to model assets, there should be an appropriate degree of qualification on the selection of the model and parameters, documented policies, an internal review process of compliance, and this should be subject to periodic verification by the Senior Management. Also, valuation adjustments should be made to cover the uncertainty of the model valuation. We emphasize the following remarks: - "*Valuation should be […] internally reported so that senior management is well aware of information to be used*": we would like to get precision to the extent the (re)insurance undertakings should communicate information used for mark-to-modelling to SM. Indeed, it is thought that a continual communication of hypotheses to SM over the year might be a very time-consuming task; therefore we believe that this should be restricted to the communication made as part of the financial statements	On the first point, CEIOPS would like to recall par. 3.118 in the CEIOPS level 2 advice on Governance: " Where mark-to-model valuation is applied, undertakings should devote sufficient resources, both in terms of quality and quantity, to model approval and review, independent price verification and stress testing, as well as to internal control processes. On a regular basis, undertakings should assess the need to develop back-up valuation models for complex or potentially

			disclosures. - "*Valuation adjustments should be made as appropriate, for example to cover the uncertainty of the model valuation*": we think that the concept of "valuation adjustments" should be removed, since it is in contradiction with the economic value principles (refer to comments hereafter). As such, we propose to remove the last sentence of the paragraphs 3.14 and 3.29: "*Valuation adjustments should be made as appropriate, for example to cover the uncertainty of the model valuation*". - The paper does not refer to the case where the mark to model is performed by a third party, such as a bank. It could be difficult for an undertaking to have the expected qualifications in-house, as well as adequate and challenging review process. We recommend that value provided by an external third party, such as an independent bank, be accepted to assess the fair value of the asset	illiquid instruments*"*. Furthermore, undertakings should refer to the public disclosures under Solvency II (the SFCR) where they can use, as appropriate, valuation disclosures in the financial statement. On the second point, please refer new paragraph 3.30. On the third point, CEIOPS would like to refer to 3.119 in level 2 advice on Governance: "*Undertakings need to have access to basic expertise in order to understand, monitor and steer structured products and their embedded risks. Also, the undertakings need procedures to evaluate hidden and non-standard risks associated with these products, especially concentration risks that may not be obvious*."

35.	FEE	3.14	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.	Noted.
36.	Munich Re	3.14/3.28/3.29	Issues concerning system of governance should be dealt with in Pillar II. The present paragraphs should be deleted.	CEIOPS appreciates that whilst general governance requirements are dealt with under Pillar II, governance requirements related to valuation process are considered in this advice, in order to build a comprehensive framework for valuation under Solvency II.
37.	Munich Re	3.15 3.17	We understand that CEIOPS seems to expect regular external verification (further to the auditor's statement), at least with regard to assets not subject to homogenous markets. Given the fact that the auditor is obliged to ask for external verification as well if it is not able to confirm values provided by the undertaking, the fair values presented in audited financial statements should fully qualify for	Noted. As stated in par. 3.42 the external verification should be done by a party independent from the insurance undertaking and

			acceptance as economic value under Solvency II. We think that the auditor's confirmation should be sufficient for the external verification requirement in this context.	therefore may include a verification performed by an expert asked by the auditor. Refer new paragraphs 3.42-3.44
38.	FFSA	3.15 to 3.19	This section of the CP states that "it may also be important to obtain external, independent value verification in a number of cases". This includes investment properties and property for own occupation, as well as in specific cases complex financial instruments. - "*The economic values stemming from statutory financial statements will have been subject to external audit*" (3.16): since statutory financial statements are audited by external auditors, we do not understand why there should be a second audit or opinion or verification on these instruments. As such, we recommend an additional verification be made only in the case where the statutory auditors are not auditing the economic values (which is rarely the case in France). - "*In specific cases of enhanced complexity of instruments and valuation techniques*" (3.17): we would like these specific cases to be more precisely defined. Indeed, some instruments are complex although they are traded; other can be mark to model easily. We expect the CP to provide with a list of type of investments subject to independent review. Additionally, we consider that the definition is too imprecise. For complex instruments, valuations are mainly	Noted. The question of audit is outside the scope of this advice. It will be dealt with in the Level 2 advice on Supervisory Reporting and Disclosure Requirements. Not agreed. Level 2 implementing measures should be principle-based.

			provided by external experts such as banks. As such, the last sentence of 3.17 has to be removed ("*In specific cases of enhanced complexity of instruments and valuation techniques, external independent value verification may also be appropriate*"), and the scope of the requirement has to be limited to Real Estate. - "*External, independent value verification may need to take place at least every 3 years*" (3.18 and 3.32): as indicated before, we agree with the need for a periodic value verification conducted by an external expert; this obligation already exists in France for Real Estate, nonetheless, it has to be done every 5 years. Thus, we recommend this sentence to amend the CP as follows: "*In any case, such external, independent value verification may need to take place at least every* <u>5 years</u>" - Finally, in the case where the economic value already stems from an independent third party, such as banks, we consider that there is no need for a second valuation from another expert.	Noted. On the additional external verification, CEIOPS would highlight that it will be required only under limited circumstances (refer paragraphs 3.42-3.44). CEIOPS is of the opinion that when the conditions specified in par. 3.42 apply, an external verification should be obtained irrespective of the source.
39.	DIMA	3.15	External independent value verification requirement – this issue should be considered in the context of quarterly reporting requirements; financial statement figures are audited only annually. Should a	The CP is clear that, when conditions in par. 3.42-44 apply, external value

			requirement for external independent verification be implemented on information submitted to the Regulator quarterly, this would result in additional time, effort and also cost to the stakeholder. Frequency of such requirement should be considered.	verification should be obtained, at least every 3 years. However, this raises the question of the frequency of audit which will be included in the CEIOPS level advice on Supervisory Reporting and Public Disclosure Requirements.
40.	FEE	3.16 and 3.17/3.31 and 3.32	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. 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	Noted. As stated in the new paragraph 3.23 this subject will be dealt with in the CEIOPS advice on Supervisory Reporting and Public Disclosure Requirements. Noted. As stated in par. 3.42 the external verification should be done by a party independent from the insurance undertaking and therefore may include a verification performed by 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.	expert asked by the auditor. Refer new paragraphs 3.42-3.44
41.	FFSA	3.21 3.33	The 3.21 (and 3.33) of CP 35 indicates that some assets could be subject to valuation adjustments in order to assess the economic value for solvency purposes. Considering this paragraph, we raise up following commentaries: - First bullet point of 3.21: the paragraph points out the need for assessing the "*illiquidity of the asset due to entity specific constraints*". We disagree with this valuation adjustment, since we believe that the illiquidity of assets is already taken into account in the valuation of the asset. Also; the illiquidity risk is already taken into account in the concentration risk. Thus, we recommend this bullet point to be removed from the CP. - Second bullet point of 3.21: even though we consider the need for addressing the "*inherent uncertainty linked to the use of models for the determination of economic value*" as a fair concept, we recommend that the CP details the specific situations where these valuation adjustments occur, and the way to reflect it in the fair value. We believe that the internal or external models used to assess the value are already embedding the uncertainty. As such, we propose to remove this bullet point also.	Agreed. Refer redrafting of paragraphs 3.30 and 3.45

42.			Confidential comment deleted.	
43.	FEE	3.21/3.33	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. We observe that the IASB published guidance in October 2008 to assist preparers of financial statements to determine fair value in illiquid markets. 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.	Noted. See resolution on comment 41.
44.	Lloyds	3.21	Entity-specific constraints altering the value of assets: For solvency purposes, a short term constraint in the value of an asset’s realisability should be taken into account. We consider that reductions in the value of an asset due to entity-specific concerns are best dealt with by looking at the specific risk, be it concentration or liquidity risk.	Agreed. See resolution on comment 41.

45.	Lloyds	3.21	Using models to value an asset rather than direct market values: We consider that marking to direct market prices is the preferable approach. If this is not possible reliance on IFRS/GAAP external audited asset values should be sufficient.	Noted. See resolution on comment 41.
46.	GC	3.21	As regards liquidity there are other sometimes more important possibilities than those defined in this paragraph: - firstly, larger positions do of course not mean that the valuation should be lower. Instead there often is a premium that the buyer would be willing to pay for a larger position, and secondly, liquidity concerns often mean problems in the valuations of certain assets irrespective of the size of the position.	Noted. See resolution on comment 41.
47.			Confidential comment deleted.	
48.	Munich Re	3.22	We support the view that IFRS can be recognised as an adequate proxy with a view to building a coherent balance sheet which appropriately reflects the economic valuation principles of Solvency II.	Noted.
49.	Aviva	3.22	We support CEIOPS's recommendation that IFRS as endorsed in the EU should be the reference framework for valuation of assets and liabilities in the Solvency II balance sheet.	Noted.
50.			Confidential comment deleted.	
51.	Pearl	Paras 3.22 – 3.33	We agree with the valuation principles set out in paragraphs 3.22 to 3.25.	Noted.

			We also agree with the proposals in paragraphs 3.26-3.30 on the use of fair values and the considerations to be taken into account when valuations are derived by marking-to-model. However, we believe that the guidance should make clear that mark-to-model valuations which follow relevant IASB guidance will normally be accepted by regulators. Current accounting practice is not to take account of entity specific constraints (paragraph 3.21) when valuing a holding and, except perhaps in stressed situations, we do not believe that any adjustments are needed for this in solvency calculations. The allowance for model risk should take into account the number of models that the firm use, the significance of the investment that is being marked to model and whether any residual model risk is mitigated and any adjustments made to the valuation as a result of any independent review carried out on the model. Any allowance for model risk would also take into account liquidity risk of the investment. We consider that it is appropriate to take account of liquidity risk but that more examples of how this would work in practise would be helpful. Illiquid assets that are used to back illiquid liabilities, e.g. pension annuity liabilities, should not need to include allowance for liquidity risk, especially if the assets and liabilities are segregated in separate funds. This principle should be made explicit in the Level 2 guidance.	Noted. See resolution on comment 41
52.	ABI	3.22-3.33	We agree with the valuation principles set out in paragraphs 3.22 to 3.25.	See resolution on comment 41

			We also agree with the proposals in paragraphs 3.26-3.30 on the use of fair values and the considerations to be taken into account when valuations are derived by marking-to-model. However, we believe that the guidance should make clear that mark-to-model valuations which follow relevant IASB guidance will normally be accepted by regulators. Current accounting practice is not to take account of entity specific constraints (paragraph 3.21) when valuing a holding and, except perhaps in stressed situations, we do not believe that any adjustments are needed for this in solvency calculations. We believe that the model risk referred to in paragraph 3.21 should be taken into account in the accounting valuation and no further adjustment would normally be required – any such marking to model will have to be sufficiently robust to meet audit requirements.	
53.	ICAEW	3.22	We strongly agree with the use of IFRS as endorsed in the EU as the reference framework for these valuations. This provides a coherent basis for valuations and should enable a minimal need for restatement from financial statements. Although we recognise that Article 74 requires arm's length values we recommend that as far as possible any values permitted by IFRS are used even if they may not be strictly based upon a fair value.	Noted.
54.	Lloyds	3.22	The approach set out in the paper is to value assets and 'other' liabilities (ie not technical provisions) for Solvency II purposes in accordance with the principles of IFRS as adopted for use in the EU ('EU IFRS'), except where there are specific adjustments required to achieve a 'fair value' position, as specified in the paper. We suggest that a local supervisor should be permitted to allow an	Noted. See resolution on comment 8

			insurer using a locally based GAAP in preparing its financial statements to replace EU IFRS for this purpose with this GAAP when assessing the valuation for Solvency II purposes, if it is economically based and materially consistent with EU IFRS.	
55.	RSA	3.22 to 3.33	We agree with the basic principles described in this section, but we believe that a valuation made under IFRS should have the adequate rigour necessary for use for solvency purposes and so additional guidance should normally not be necessary. Whilst we understand the position expressed in respect of entity specific constraints (e.g. large holdings), it would be helpful to establish the principle that, immediate realisation is unlikely to be a prerequisite for meeting insurance liabilities as they fall due. Hence, a full valuation may be appropriate if the undertaking can demonstrate that an orderly disposal would realise the required resources. We believe that the valuation established under IFRS should take into account the model risk and that no further adjustment would be necessary to uphold the principles within the level 1 text.	Agreed. See resolution on comment 41
56.	GDV	3.22	Fair values recognized under IFRS should be recognized as economic values under Solvency II - We support CEIOPS´ approach concerning the adaptation of IFRS endorsed within the EU as a reference framework for building an economic balance sheet under solvency II principles (coherent framework). But IFRS is not the only set of principles that may be applicable for Solvency purposes - In particular	Noted. See resolution on comment 8

			it is necessary to allow companies to take local reporting requirements for solvency purposes as long as these are recognized as equivalent to (or an acceptable simplification to) a market consistent valuation.	
57.	CEA	3.22	Fair values recognised under IFRS should be recognised as economic values under Solvency II - We support CEIOPS´ approach concerning the adaptation of IFRS endorsed within the EU as a reference framework for building an economic balance sheet under solvency II principles (coherent framework). As a general rule, it should be the case that a value which has been recognised as a fair value under IFRS should also be recognised as an economic value under Solvency II. This must also apply to fair values disclosed in the notes on balance-sheet items which are not recognised at fair value in the balance sheet. IFRS is not the only set of principles that may be applicable for Solvency purposes - Nonetheless, we consider it as highly important to stress that IFRS is one *but not the only* possible set of valuation principles for solvency purposes. In particular it is necessary to allow companies to take local reporting requirements for solvency purposes as long as these are recognised as equivalent to (or an acceptable simplification to) a market consistent valuation. We assume that the recognition of balance sheet items is not covered in this CP - We should state that IFRS does not only cover the valuation of balance sheet items, but also the recognition of certain items in the balance sheet. We assume that this CP only covers measurement issues and does not also encompass recognition issues.	Noted. See resolution on comments 1 and 8 CEIOPS recommends the reference to IFRS not only for the purpose of valuation but also to determine the recognition criteria to be applied to balance sheet items (refer new para. 3.9).

58.	CROF	3.22.	*"CEIOPS recommends to adopt the IFRS as endorsed in the EU as a reference framework with a view to building a coherent balance sheet which appropriately reflects the economic valuation principles of Solvency II."* We support CEIOPS´ approach concerning the adaptation of IFRS endorsed within the EU as a reference framework for building an economic balance sheet under solvency II principles (coherent framework).	Noted.
59.			Confidential comment deleted.	
60.	CFOF	3.22	IFRS as a reference framework for Solvency II balance sheet valuations - we support CEIOPS´ proposal to use IFRS endorsed within the EU as a reference framework for building an economic balance sheet under solvency II principles (or alternative frameworks e.g. USGAAP where it is substantially equivalent to IFRS). As a general rule, it should be the case that a value which has been recognised as a fair value under IFRS should also be recognised as an economic value under Solvency II except when the appropriate IFRS standard is not based on sound economic principles. We should state that IFRS does not only cover the valuation of balance sheet items, but also the recognition of certain items in the balance sheet. Whilst recognition and derecognition of insurance liabilities and own funds will need to be considered for Solvency II in separate consultation papers, we recommend that for other assets and other liabilities the IFRS principles for recognition and derecognition should	Noted. See resolution on comment 8. See resolution on comment 1.

			be applied.	
61.	Aviva	3.23	To the extent that IFRS is still evolving, particularly in respect of key measurement principles for financial instruments and fair value, we believe that level 2 implementing measures should be revisited as new IFRS are published or updated. We do not believe it is appropriate for changes to IFRS to be dealt with in level 3 as this creates a risk of variation in interpretation and inconsistency between member states.	Noted. See resolution on comment 2.
62.	Munich Re	b.	Methodology for the determination of economic values. – The headline should make clear, that the following descriptions are referring to the valuation of assets only. As a general rule, it should be the case that a fair value recognised as a fair value under IFRS is also recognised as an economic value under Solvency II. This must also apply to fair values disclosed in the notes on balance-sheet items which are not recognised at fair value.	CEIOPS is of the opinion that some of the principles described in this section are also applicable to the determinatuion of economic values of liabilities. Noted. See resolution on comment 1.
63.	ICAEW	3.23	We agree that it will be important for Level 3 guidance to be produced to address changes to IFRS as it evolves.	Noted. See resolution on comment 2.
64.	CEA	3.23	Further guidance should be developed as IFRS progresses - We believe that CEIOPS in the future should provide further guidance in accordance with the development of IFRS and corresponding financial, technical or academic progress (high level guidance in Level 2, with detailed guidance in Level 3).	Noted. See resolution on comment 2.

65.			Confidential comment deleted.	
66.	CFOF	3.23	Level 2 implementing measures should cover all key aspects of valuation of assets and liabilities – this is necessary to avoid variation in application through level 3 guidance. In particular the level 2 implementing measures should explain when IFRS valuations can be uses as a proxy such that the guidance will continue to be relevant as IFRS changes. IFRS should be used as a proxy when the IFRS valuation is defined as fair value in or when the described valuation is equivalent to economic value on a mark to model basis. Level 3 supervisory guidance should not cover use of IFRS valuations - in order to avoid inconsistent application of IFRS to Solvency II, level 3 supervisory guidance, should be restricted to advice on interpreting local GAAP accounting valuations, if required. The IASB has a number of projects underway to change existing standards or introduce new standards and some of these will directly affect the present consultation paper. The CFO Forum recommends that the need to change the level 2 implementing measures is reviewed each time the IASB publish a new standard, taking into account the appropriateness of the new IFRS standard and its consistency with sound economic principles.	Noted. See resolution on comment 2.
67.	ICAEW	3.24	It would be helpful if the Level 3 guidance could identify areas where local GAAP is inconsistent with IFRS. This should assist insurers and supervisors in identifying additional valuations that require adjustment to align with Solvency requirements.	Noted. See resolution on comment 2.

68.	ICAEW	3.24	As an overview matter it would be helpful to clarify that the valuation principles in this CP only need to be applied if an asset is to be taken into account for solvency purposes. This would clarify that an insurer has the option of excluding an asset for solvency purposes rather than entering into cost and effort to meet valuation requirements if the insurer is willing to exclude the asset for solvency purposes.	Not agreed. Insurance undertakings do not have the option of exclude any asset for Solvency 2 purposes. Refer new para 3.9 on recognition criteria for solvency purposes.
69.	ICAEW	3.24	With regard to proportionality it would be helpful to clarify what amounts would be considered not significant to require valuation adjustment. Ideally this might be an amount of say 1% of the balance sheet total possibly with an amount limit as well. If the value of a class of assets were below this limit it could be considered that the value of those assets (which have obviously met an accounting test to be included on the balance sheet in the first place) could be accepted as sufficiently insignificant that they would not undermine the overall fair value requirements of the Level 1 text for the balance sheet even if this small element of the total assets had not been specifically subjected to fair value. With regard to proportionality, where fair value is only being used to support a carrying value in financial statements it seems reasonable that a less onerous test of fair value should be applied compared to circumstances where an insurer is seeking to establish an asset value for solvency above that used in its financial statements?	Agreed. The definition of materiality has been further specified in the Advice. Refer new paragraphs 3.14-3.16.
70.	Lloyds	3.24	We note that the proposal at paragraph 3.22 does not impinge on the GAAP used by undertakings in preparing their financial statements. The undertaking simply assesses whether the number reported is an economic valuation using EU IFRS as a reference. If not the numbers have to be adjusted, unless the difference is immaterial.	Noted. See resolution on comment 8.

			We believe that our proposal to allow insurers to use locally based GAAP instead of EU IFRS, in accordance with the conditions in our comments on paragraph 3.22, is consistent with this objective.	
71.	CEA	3.24	We agree that adjustments should be made to accounting figures that are not in line with an economic approach - CEIOPS' approach concerning the adjustments to be made when accounting figures/ the IFRS framework are not consistent with a market-consistent approach is in principle supported by the CEA. Further guidance on materiality is requested - However, we request further guidance on materiality. In particular, we believe that reference should be made to the IFRS definition of materiality (IFRS Framework document paragraph 29 and 30). It has to be clear that the size or nature of the item, or a combination of these, could be the determining factor. High costs of calculation should not be the primary excuse for a valuation adjustment - A valuation adjustment must not be forgone with the excuse of high cost if the item is a material item in the balance sheet of the company. That is the proportionality issue has to be considered with respect to valuation adequacy. At the same time the waiver of an adjustments will for most companies be adequate in one or the other balance sheet item (e.g. receivables from insurance business, liabilities from insurance business) without	Noted. Agreed. The definition of materiality has been further specified in the Advice. Refer new paragraphs 3.14-3.16. Not agreed.

			violating the materiality rule. We therefore recommend the deletion of the words "*exceptional situations*".	
72.	CROF	3.24.	*"For the purpose of building a Solvency II balance sheet, undertakings shall, using IFRS as a reference, determine if the accounting figures provide for an economic valuation."* Any adjustments made by CEIOPS should be as limited as possible in order to lessen the administrative burdens in having to maintain two sets of valuation infrastructure by the insurers.	Noted. See resolution to comment 8. The definition of materiality has been further specified in the Advice. Refer new paragraphs 3.14-3.16.
73.	XL	3.24	We agree that "The adoption of IFRS as a reference framework for the determination of the economic valuation does not in any way interfere with the set of accounting principles, standards and procedures that undertakings use to compile their financial statements (GAAP)." However, as noted in the General Comments above, we are concerned that the interaction of paragraphs 3.24 and 3.16 which states "the expectation that the statutory financial statements will have been audited", could suggest an IFRS audit is required. We would like to see clarification that this is not the case. There is a significant difference between obtaining an IFRS based asset or liability valuation and producing full audited IFRS financial statements with complete disclosures.	Noted. CEIOPS will take this into account in its ongoing work on the Level 2 advice on "Supervisory Reporting and Public Disclosure Requirements".
74.	CFOF	3.24	The CFO Forum agrees with this paragraph except that we anticipate that for some balance sheet items (e.g. receivables and payables) the waiver of an adjustment will for most companies be adequate without violating the Solvency II principle of proportionality. We therefore recommend the deletion of the words "*exceptional situations"* in	Not agreed. The definition of materiality has been further specified in the Advice. Refer new paragraphs 3.14-3.16.

			reference to the materiality of adjustments of IFRS valuations.	
75.	GC	3.25	We would prefer on grounds of clarity that a specific solvency capital requirement rather than an adjustment to the economic valuation be mandated.	Noted. Refer amended paragraph 3.30 that should possibly address this concern.
76.	GDV	3.25, 3.33	Economic values reflect inherent uncertainty and do not require further adjustment - We do not agree with CEIOPS' proposal. If an asset or liability is valued at its economic value this will already take account, to the appropriate extent, of all risks which arise from holding that asset or liability and the value will not require a further adjustment. Additional risks should be considered in the SCR rather than by "redefining" the economic valuation. We would request the text "*or adjustments to the economic valuation*" be removed.	Noted. Refer amended paragraph 3.30.
77.	CEA	3.25	<u>Economic values reflect inherent uncertainty and do not require further adjustment</u> - We do not agree with CEIOPS' proposal. If an asset is valued at its economic value this will already take account, to the appropriate extent, of all risks which arise from holding that asset and the value will not require a further adjustment. Additional risks should be considered in the SCR rather than by "redefining" the economic valuation. Mixing approaches makes calibration rather difficult and would perhaps not result in a proper understanding of the solvency and financial condition of the undertaking.	Noted. Refer amended paragraph 3.30.

			We would request the text "*or adjustments to the economic valuation*" be removed.	
78.	CROF	3.25.	*"These requirements could include, for instance, specific solvency capital requirement, or adjustments to the economic valuation (calculated in accordance with the principles set out in this paper)."* We agree, as long as an adjustment is not already reflected within the market value or is required to arrive at an economic value (i.e. where there is no active market); please draw attention to this. CEIOPS mentions to address risks inherent in assets in the SCR or via adjustments to the economic valuation. As basic own fund are a result of the valuation (Art. 87) these adjustments have to be checked against the requirement of Art. 101 (3) (99.5 % VaR over a one-year-time horizon). We think that risks should rather be considered by the SCR than by "redefining" the economic valuation according to Art. 74. Mixing both approaches makes calibration rather difficult and would perhaps not result in a proper understanding of the solvency and financial condition (public disclosure).	Noted. Refer amended paragraph 3.30.
79.	CFOF	3.25	Economic value will reflect inherent uncertainties - we do not agree with CEIOPS' proposal. If an asset is valued at its economic value this will already take account, to the appropriate extent, of all risks which arise from holding that asset and the value will not require a further adjustment. Additional risks should be considered in the SCR rather than by "redefining" the economic valuation. Mixing approaches makes calibration rather difficult and would perhaps not result in a proper understanding of the solvency and financial condition of the	Noted. Refer amended paragraph 3.30.

			undertaking. We would request the text "*or adjustments to the economic valuation*" be removed.	
80.	Lloyds	3.26	We concur that assets should be valued on a marked to market basis where this is available.	Noted.
81.	GC	3.26	While mark to market approach makes sense it would be desirable to have more guidance on how to decide prices can be observed from the market. During the current financial crisis in some cases markets became inactive while on the same time there existed daily quotations (so there were market values but no trades were executed with these prices).	Noted. See resolution on comment 2. Refer to footnote 6 in the advice
82.	CEA	3.26	We agree; see section 1	Noted.
83.	CFOF	3.26	Mark to market approach - we agree; see comments on section 1 above	Noted.
84.	Lloyds	3.27 to 3.29	We agree that a valuation based on marking to model is appropriate where a marked to market valuation is unavailable, and consider that the paper sets out sensible provisions re procedures and policies to be used for valuation.	Noted.
85.	CEA	3.27	We agree; see section 1	Noted.

86.	CFOF	3.27	Mark to model approach - we agree when marking to market is not possible, a mark to model approach should be used. Mark to model approaches apply across Solvency II, not only to the measurement of the Solvency II balance sheet and the general approach should be defined once to apply universally across Solvency II. In this context we highlight that mark to model approaches do not seek to minimise the use of unobservable inputs but instead use entity specific assumptions where relevant and reliable observable market inputs do not exist.	Noted.
87.	ILAG	Sect 3.28 3.109 and 3.118	Future tax charges / tax reliefs should be valued if it is likely that the relief will be gained or the charge is likely to be paid. An example might be excess E brought forward with the office becoming excess I in the near term. The tax relief brought forward should be allowed for. Another key point is that these assets and liabilities need discounting and will need some form of assumptions on the likely due date and their likely rate of relief.	Partially agreed. Refer new paragraph 3.150
88.	CEA	3.28- 3.30	Governance should be dealt with in pillar II - Issues concerning system of governance should be dealt with in Pillar II. These paragraphs should be deleted. Economic values reflect inherent uncertainty and do not require further	CEIOPS appreciates that whilst general governance requirements are dealt with under Pillar II, governance requirements related to valuation process are

			adjustment - We should also note that the concept of "*valuation adjustments*" in Para 3.29 is not acceptable. The text states: "*Valuation adjustments should be made as appropriate, for example to cover the uncertainty of the model valuation*": this is in contradiction with the economic value principles. As such, we propose to remove the last sentence of the paragraphs 3.14 and 3.29: "*Valuation adjustments should be made as appropriate, for example to cover the uncertainty of the model valuation*" (see comments to Para 3.25 for discussion).	considered in this advice, in order to build a comprehensive framework for valuation under Solvency II. Noted. Refer new paragraph 3.30.
89.	CFOF	3.28 -3.30	Governance - issues concerning system of governance should be dealt within together and not as ad hoc additions to measurement guidance. These paragraphs should be deleted. Economic values reflect model uncertainty - the concept of "*valuation adjustments"* in Para 3.29 is not acceptable. The text states "*Valuation adjustments should be made as appropriate, for example to cover the uncertainty of the model valuation":* this is in contradiction with the economic value principles (see comments to para 3.25 for discussion) and should be deleted.	Noted. See resolution on comment 88.
90.	ILAG	3.114/115 and 3.122	As the tax is some years in the future (as is the investment return and expenses) then it would seem sensible to discount it. CGT liabilities also need discounting as does guaranteed tax charges from 7ths being carried forward on taxable unrealised gains on collectives. The tax relief on commission should also be discounted. The fact that the commission may not be on the balance sheet also means that the suggested rule that the tax relief cannot be brought into account	Noted. Refer paragraphs 3.143 and 3.145.

			appears somewhat over prudent.	
91.	GDV	3.31/3.32	We do not support a requirement for additional external verification, on top of the auditor's verification - CEIOPS seems to expect regular external verification (further to the auditor's statement), at least with regard to assets not subject to homogenous markets. We do not support this requirement as: • "*The economic values stemming from statutory financial statements will have been subject to external audit*" (3.16): since statutory financial statements are audited by external auditors, we do not understand why there should be a second audit or opinion or verification on these instruments. As such, we recommend an additional verification be made only in the case where the statutory auditors are not auditing the economic values. • "*In specific cases of enhanced complexity of instruments and valuation techniques*" (3.17): we would like these specific cases to be more precisely defined. Indeed, some instruments are complex although they are traded; others can be marked to model easily. • Given the fact that the auditor is obliged to ask for external verification as well if it is not able to confirm values provided by the undertaking, the fair values presented in audited financial statements should fully qualify for acceptance economic values under Solvency II. We think that the auditor's confirmation should	On the additional external verification, CEIOPS would highlight that it will be required only under limited circumstances (refer paragraphs 3.42-3.44). The question of audit is outside the scope of this advice. It will be dealt with in the Level 2 advice on Supervisory Reporting and Disclosure Requirements. Not agreed. Level 2 implementing measures should be principles-based The link between the need for external verification and audit will be further explained when CEIOPS position on the audit of the Solvency II balance sheet is finalized.

			be sufficient for the external verification requirement in this context.	
92.	CEA	3.31/3.32	We do not support a requirement for additional external verification, on top of the auditor's verification - CEIOPS seems to expect regular external verification (further to the auditor's statement), at least with regard to assets not subject to homogenous markets. We do not support this requirement as: • "*The economic values stemming from statutory financial statements will have been subject to external audit*" (3.16): since statutory financial statements are audited by external auditors, we do not understand why there should be a second audit or opinion or verification on these instruments. As such, we recommend an additional verification be made only in the case where the statutory auditors are not auditing the economic values. • "*In specific cases of enhanced complexity of instruments and valuation techniques*" (3.17): we would like these specific cases to be more precisely defined. Indeed, some instruments are complex although they are traded; others can be marked to model easily. • Given the fact that the auditor is obliged to ask for external verification as well if it is not able to confirm values provided by the undertaking, the fair values presented in audited financial statements should fully qualify for acceptance economic values under Solvency II. We think that the auditor's confirmation should be sufficient for the external verification requirement in this	See resolution on comment 91.

			context.	
93.	CROF	3.31.	*"Undertakings may need to obtain regular external, independent value verification for assets for which there is no homogenous markets and when many valuation models are possible."* We do not share the view that economic values stemming from statutory financial statements, where no homogeneous market exists, should be subject to external audit. In most cases we expect these values to be audited as part the accounting audit companies have to comply with and which results with the auditors' statement.	See resolution on comment 91.
94.	PwC	3.31	We support the principle set out in CEIOPS draft advice that EU adopted IFRS should be used as the starting point for the valuation of assets and liabilities with adjustments made only where these rules are not consistent with the requirements of the Level 1 Directive. We concur that the proportionality principle should be taken into account in determining whether adjustments should be made. Paragraph 3.31 of the draft advice states "Undertakings may need to obtain regular external, independent value verifications for assets for which there is no homogenous markets and when many valuation models are possible. Paragraph 3.32 then goes on to discuss procedures to be adopted when such external valuations are "required". The use of the word "may" in paragraph 3.31 appears to imply there is some optionality for the insurer to determine whether such external valuations are to be performed which is not wholly consistent with the use of the term "required" in paragraph 3.32. The	Noted. Agreed. Refer amendments in paragraph. 3.42 ("Should" replaces "may"). The circumstances in which external independent value verifications are mandated are dealt with in para. 3.42-3.44

			circumstances in which external independent value verifications are mandated should be clarified.	
95.	CFOF	3.31 – 3.32	Internal opinions should be permitted - it is unclear whether the requirements for external, independent verification of valuations in a number of circumstances are in addition to the external auditor's statement. We do not support any requirement for additional external, independent verification of valuations. All valuations at fair value in the financial statements are covered by the external auditor's opinion. Where balance sheet items require material revaluation to estimate an economic value, we would support the requirement for an independent verification of the valuation, which could be conducted by either an internal or an external independent expert. This independent verification should consider both the appropriateness of the valuation basis to determine economic value and an explanation of the reconciliation to the audited amount. The frequency of independent value verification should be proportionate to the material variability of the value. Some items experience significant and volatile changes in economic value whilst other items with only experience insignificant changes in economic value. The CFO Forum recommends that when a value is based on IFRS, the frequency of independent revaluations should be consistent with the IFRS requirements in the relevant standard. Where the IFRS valuation is adjusted for Solvency II purposes the frequency of independent revaluation should take into account the materiality of the variability in that adjustment consistent with the principle of	See resolution on comment 91

			proportionality.	
96.	ICAEW	3.32	Does "when required" refer to required by circumstance or required by supervisors. In either case guidance would be helpful regarding what is considered to be a significant change in terms of percentage or amount that should prompt such an independent valuation.	See resolution on comments 91 and 94.
97.	Deloitte	. 3.32	Paragraph 3.32 refers to "When required". It appears to refer to when required by paragraph 3.31, and as such we suggest that this paragraph should be clarified by inserting a reference to paragraph 3.31.	See resolution on comments 91 and 94.
98.			Confidential comment deleted.	

99.	Munich Re	3.33	Fair-value measurement in line with IFRS includes those risks which impact market value. At the same time, the risk-capital requirement for the SCR is defined separately. Mixing these two concepts is not conducive to the objectives here. Additional risk adjustments should not be made to the fair value. The particular risks mentioned should be considered within the SCR calculation. Moreover the addressed situation of the sale of special size should consider the fact, that there may be a control premium received due to the size and not the opposite. This shows how arbitrary an adjustment to fair values would be. Equally, due to the assumptions made, every model will contain uncertainties. An "arbitrary adjustment" on top of this will not improve the situation. If the models are recognised under IFRS as suitable for fair value calculations, they should also be usable for Solvency II. As already said: Risks should be taken into account in the SCR calculation.	Noted. Refer redrafting of paragraph 3.30
100.	Aviva	3.33	We do not believe it is appropriate to take into account entity specific constraints when determining an economic value of an asset. Rather we believe asset valuation should be consistent with IFRS valuation principles. For IFRS purposes no adjustment is made, for example, in respect of blockage factors, since such adjustments are considered to be a characteristic of the transaction not a characteristic of the asset. Solvency II should be consistent with IFRS on valuation and capture risks associated with the economic valuation basis through the capital requirement.	Noted. Refer redrafting of paragraph 3.30
101.	ICAEW	3.33	Without clear guidance it is difficult to identify when a further constraint should be applied to the value of an asset for liquidity or	Noted. Refer redrafting of

			uncertainty. For simplicity such required adjustments should only be required where it is readily identifiable there is a significant constraint. Within the calculation of capital requirements there should be flexing for liquidity and uncertainty of balance sheet values which should address this issue on a more general basis which should be sufficient in circumstances other than where there is a specific issue with a significant asset.	paragraph 3.30.

102.	GC	3.33	There are currently discussions generally how the liquidity issue should be solved in valuations. We do not see a need to try to solve this issue separately in Solvency II.	Noted. Refer redrafting of paragraph 3.30
103.	GDV	3.33	Economic values reflect inherent uncertainty and do not require further adjustment - Fair value measurements include those risks which are expected from market participants The SCR is defined separately and comprises those risks, which are not expected (variance). Additional risk adjustments should not be made to the economic/fair value. We consider that there are not any additional risks that are not already reflected within the market price or in the calculation of the variance of the underlying value.	Agreed. Refer redrafting of paragraph 3.30
104.	CEA	3.33	Economic values reflect inherent uncertainty and do not require further adjustment - Fair value measurements include those risks which are expected from market participants The SCR is defined separately and comprises those risks, which are not expected (variance). Additional risk adjustments should not be made to the economic/fair value of an asset. We consider that there are not any additional risks that are not already reflected within the market price or in the calculation of the variance of the underlying asset value/return. In detail: • <u>First bullet point of Para 3.21:</u> the paragraph points out the need for assessing the "*illiquidity of the asset due to entity specific constraints*". We disagree with this valuation adjustment, since we believe that the illiquidity of assets is already taken into account in the valuation of the asset. Also; the illiquidity risk is already taken into account in the concentration risk. Thus, we recommend	Noted. Refer redrafting of paragraph 3.30

			this bullet point to be removed from the CP. • Second bullet point of Para 3.21: even though we consider the need for addressing the "*inherent uncertainty linked to the use of models for the determination of economic value*" as a fair concept, we recommend that the CP details the specific situations where these valuation adjustments occur, and the way to reflect it in the fair value. We believe that the internal or external models used to assess the value are already embedding the uncertainty. As such, we propose to remove this bullet point also.	

105.	CROF	3.33.	*"CEIOPS would like to receive feedback from stakeholders on the adequacy of taking into account when determining an economic value, particular risks such as the illiquidity of the asset due to entity specific constraints, or the inherent uncertainty linked to the use of models as expressed in paragraph 3.21."* Economic value for solvency purposes needs to take into account additional risks such as illiquidity of the asset due to entity specific constraints or the size of a position and the inherent uncertainty linked to the used of models (model risk) , if these are not already allowed for within the market consistent value. We consider that any additional risks that are not already reflected within the market price should be allowed for through the capital requirements, not in the obtaining an economic value, so as to better reflect the true risk profile of the assets or liabilities.	Noted. Refer redrafting of paragraph 3.30
106.	KPMG	3.33	We agree that where risks such as illiquidity due to size of position have not been taken into account in arriving at the market consistent valuation then they need to be taken account of for solvency purposes. However, it is not clear that the most appropriate place to make this adjustment is through amending the value to arrive at the economic value for solvency purposes. We believe that it may be better to adjust this through the SCR calculation and suggest this is given further consideration.	Noted. Refer redrafting of paragraph 3.30
107.	CFOF	3.33	Fair-value measurement in line with IFRS includes those risks which impact market value. At the same time, the risk-capital requirement for the SCR is defined separately and comprises those risks which are not expected (variance). Mixing these two concepts is not conducive to	Noted. Refer redrafting of paragraph 3.30

			the objectives here. Additional risk adjustments should not be made to the fair value. The particular risks mentioned should be considered within the SCR calculation. We consider that there are not any additional risks that are not already reflected within the market price or in the calculation of the variance of the underlying asset value/return. In detail: • First bullet point of Para 3.21: the paragraph points out the need for assessing the *"illiquidity of the asset due to entity specific constraints".* We disagree with this valuation adjustment, since we believe that the illiquidity of assets is already taken into account in the valuation of the asset. Also; the illiquidity risk is already taken into account in the concentration risk. Thus, we recommend this bullet point be removed from the CP. • Second bullet point of Para 3.21: even though we consider the need for addressing the *"inherent* un*certainty linked to the use of models for the of models for the determination of economic value"* as a fair concept, we recommend that the CP details the specific situations where these valuation adjustments occur, and the way to reflect it in the fair value. We believe that the internal or external models used to assess the value are already embedding the uncertainty. As such we propose to remove this bullet point also.	

108.	UNESPA	3.34	Goodwill on acquisitions We think that if we can demonstrate (for example, under the commented standards in the CP) that Goodwill on acquisitions has economic value we shall include it in the available capital. In order to be consistent, if finally such goodwill had economic value, all risk associated with it should be considered within the capital requirements under a stressed situation. Not considering the economic value of goodwill will generate inconsistencies between solo and group level At solo level an economic valuation of the subsidiary will incorporate this goodwill (or at least a significant part) turned into the market value of the participations. However, at group level a considerable goodwill will arise, (especially for Non Life business where a cash-flow projection above 1 year is not allowed) therefore not considering the economic value of this asset shall generate valuation inconsistencies on the business acquired between solo and group level that will be reflected in both available capitals.	Not agreed. For the reasons explained in par. 3.36-3.37, CEIOPS considers the economic value of goodwill should be nil for solvency purposes. CEIOPS acknolwedeges this potential inconsistency. This is also linked to the valuation of participation at both solo and group level and to their treatment as own funds. CEIOPS recognises the need to adopt a more joined up approach in the area of participations and will publish as part of the third wave of advice (October 2009) a consultation paper on this topic. This paper will cover all issues relating to the solo treatment of participations.

109.	Munich Re	3.38 + 3.41	We agree with CEIOPS that only intangibles which are valued at fair value according to IAS 38 should be presented in a solvency balance sheet. All other intangibles should be valued at nil.	Noted.
110.	DIMA	3.38	Per ref 3.35 the paper is looking at valuation on a stressed or liquidation valuation basis. The valuation for goodwill should not be treated differently to other assets; if other assets/liabilities were required to be valued on a liquidation/forced sale basis, it would likely result in different valuations. Disallowing goodwill for solvency purposes could have a significant impact on companies. Consideration should be given to attribution of value by Board.	Not agreed. For the reasons explained in par. 3.36-3.37, CEIOPS considers the economic value of goodwill should be nil for solvency purposes.
111.	FFSA	3.39	We truly understand that for the purpose of an economic balance sheet, Value of Business Acquired (VOBA) should be excluded and valued at nil, VOBA corresponding to the fair value of the technical reserves. However, we consider that the customer list and the brand can represent an asset as defined under IAS 38 (separately identified and arising from contractual rights). As such, we recommend that these assets be taken into account in the solvency and economic balance sheet. Furthermore, if (re)insurance undertakings can justify a goodwill through a cash-generating unit analysis, we believe that this economic value shall be recognized for solvency purposes. Finally, these assets could be internally generated, versus IFRS that stipulates that they are accounted for only in case of acquisition. As	The paragraph on VOBA/PVFP has been deleted, as the valuation of technical provisions is outside the scope of this paper. Noted. Refer paragraphs 3.58-3.59. Not agreed. For the reasons explained in par. 3.36-3.37, CEIOPS considers the economic value of goodwill should

			long as they can be fairly measured, we recommend including all this IFRS intangible plus economic intangible in the solvency balance sheet. This would remedy to the difference of treatment between one undertaking that operated business combination, and the other one that did not. This is in accordance with 3.45, that states that a fair value measurement (foreseen in IAS 38) could be in compliance with Article 74 if there is an history or evidence of exchange transactions for a similar asset, which could be the case of a brand or customer list.	be nil for solvency purposes.

112.	Pearl	3.41 –3.42	We agree that for solvency purposes the valuation of goodwill and PVIF not accounted for in the valuation of technical provisions should be nil.	Noted. The paragraph on VOBA/PVFP has been deleted, as the valuation of technical provisions is outside the scope of this paper.
113.	ABI	3.41-3.42	We agree that for solvency purposes the valuation of goodwill should be nil. We also agree that where the valuation of technical provisions is on a proper economic basis PVIF not accounted for within technical provisions should be valued at nil – however, we do not agree that CP 30 represents an economic basis.	See resolution on comment 112
114.	ICAEW	3.41	We agree that it is reasonable to value goodwill to have a nil value for solvency.	Noted.
115.	Lloyds	3.41	We agree that for solvency purposes the value of goodwill on acquisitions should be nil. With respect to the present value of future profits goodwill, we consider that this sits appropriately within the consideration of technical provisions but we agree it is different to purchased goodwill in that it may under certain circumstance have some solvency value.	Noted. See resolution on comment 112.
116.	GC	3.41	While the argumentation to support this conclusions has its merits we feel that there are problems also. The conclusion would mean important discontinuities in certain cases. We could think of a situation where the investment into a company increases gradually. At a certain	See resolution on comment 108.

			stage after a threshold value consolidation should be done resulting in goodwill. The partly owned company can however remain listed in a stock exchange. Valuing goodwill at nil would then not give the correct economic valuation. We would therefore suggest that (and this seems to be in line with 3.47): - goodwill and the corresponding asset should not be treated in isolation from each other, and - where there is a reliable market consistent valuation for the total amount this should form the basis of the valuation of the asset and corresponding goodwill	

117.	L&G	3.41	Acceptable	Noted
118.	RSA	3.41 to 3.42	We agree with the proposed treatment of goodwill arising on acquisitions should be valued at nil for solvency purposes in order to achieve the consistency described in paragraph 3.37. Whilst the issue of future profits arising on insurance contracts is largely an issue for life businesses, we concur with the principle that the value would be recognised in accordance with the basis under which the insurance liabilities are valued.	Noted. See resolution on comment 112.
119.	GDV	3.41	Goodwill has economic value and as such the possibility to assign value to goodwill should not be excluded - We understand that it may be difficult to assess its economic value for solvency purposes, however assigning a nil value is inconsistent with the requirements for accounting purposes (under which goodwill is tested for impairment and if it is not impaired by definition it has a non-nil value). If goodwill is assigned a value then obviously the fact that its value maybe impaired under stress circumstances would be considered within the capital requirements.	Not agreed. For the reasons explained in par. 3.36-3.37, CEIOPS considers the economic value of goodwill should be nil for solvency purposes
120.	CEA	3.41	Goodwill has economic value and as such the possibility to assign value to goodwill should not be excluded - We understand that it may be difficult to assess its economic value for solvency purposes, however assigning a nil value is inconsistent with the requirements for accounting purposes (under which goodwill is tested for impairment and if it is not impaired by definition it has a non-nil value). If goodwill	Not agreed. For the reasons explained in par. 3.36-3.37, CEIOPS considers the economic value of goodwill should be nil for solvency purposes

			is assigned a value then obviously the fact that its value maybe impaired under stress circumstances would be considered within the capital requirements.	

121.			Confidential comment deleted.	
122.	CROF	3.41.	*"CEIOPS considers that the economic value of goodwill on acquisitions for solvency purposes is nil."* We do believe goodwill has economic value but we recognise and agree the challenges with its recognition for solvency purposes. If it were to carry a value on the solvency balance sheet, then goodwill should draw an appropriate capital charge. The CRO Forum would also like to point out that CEIOPS needs to be consistent in its treatment of goodwill whether on own balance sheet or on the balance sheet of subsidiaries.	Noted. For the reasons explained in par. 3.36-3.37, CEIOPS considers the economic value of goodwill should be nil for solvency purposes.
123.	Deloitte	3.41 and 3.42	We believe that the advice is inconsistent with the principles of article 74, which we support, to exclude from the Solvency II balance sheet, as indicated in paragraph 3.39, the fair value of intangible assets, other than goodwill or PVIF/VOBA, that are recognised on acquisition but would not be recognised under IAS38 in separate financial statements. In addition, we note that the advice paragraphs are inconsistent in that they do not reflect in full the content of explanatory note 3.39, in relation to the treatment of intangibles recognised on acquisition but not otherwise recognisable under IAS38.	Noted. For the reasons explained in par. 3.36-3.37, CEIOPS considers the economic value of goodwill should be nil for solvency purposes
124.	XL	3.41	We agree that the economic value of goodwill on acquisitions for solvency purposes should be nil.	Noted.
125.			Confidential comment deleted.	

126.	CFOF	3.41 – 3.42	Goodwill on acquisitions We do believe goodwill has economic value but we recognise and agree the challenges with its recognition for solvency purposes. If it were to carry a value on the solvency balance sheet, then goodwill should draw an appropriate capital charge.	Noted. For the reasons explained in par. 3.36-3.37, CEIOPS considers the economic value of goodwill should be nil for solvency purposes
127.	FEE	3.42	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.	See resolution on comment 112.
128.	ICAEW	3.42	We agree that it is reasonable to value future profits other than those that are part of the valuation of technical provisions at nil for solvency.	See resolution on comment 112.
129.	L&G	3.42	Acceptable	See resolution on comment 112.
130.	GDV	3.42	We agree that present value of future profits for existing business should be held within the technical provisions, in line with our comments on CP30. The part of future profits relating to future new business should not be considered as part of technical provisions as it is considered as part of the goodwill.	See resolution on comment 112 .
131.	CEA	3.42	We agree that present value of future profits for existing business should be held within the technical provisions, in line with our comments on CP30. The part of future profits relating to future new business should not be considered as part of technical provisions as it	See resolution on comment 112.

			is considered as part of the goodwill.	

132.	KPMG	3.42	We agree that the present value of future profits should be dealt with through the determination of technical provisions (as per CP 30) and not included as a separate asset.	See resolution on comment 112r.
133.	GC	3.43	We do not agree with the conclusion that only intangible assets that are measured at fair value in accordance with IAS 38 should be potentially deemed to represent an economic value in Solvency II. According to IAS 38, the balance sheet value for all intangible assets must annually be verified. This implies that intangible assets measured at cost should be written down if the annual impairment test calculating the fair value results in a lower value than the cost value. The intangible asset class involves in many cases assets for which there is an existing market. One example could be brand names and similar assets. In non-life insurance business often sales are based on sub brands acquired under long term contract from a brand provider (Ford Insurance, IKEA Insurance).Intangible assets of this type, we believe can represent economic values irrespective of which accounting measurement that has been chosen for accounting purposes.	CEIOPS would like to clarify that the proposed criterion is not to apply the measurement at fair value in published accounts (application of the revaluation model) but to assess whether the intangible is measurable at fair value according to the criteria specified in IAS 38. Refer new paragraphs. 3.58-3.59.
134.	GDV	3.43 (only as an example)	The definition should be given explicitly for the majority of undertakings which are not familiar with IFRS	Not agreed. Insurance undertaking should make reference to the IFRS framework
135.	FFSA	3.45 & 3.48	We agree with the fact that the solvency balance sheet fully relies on IAS 38 criteria for recognition of an intangible asset. Some examples of intangible assets are internal software or underwriting licences.	See resolution on comment 133.

			Nonetheless, we highlight that the principles for intangible assets recognition as set in the CP do not fully agree with the IFRS criteria of an intangible asset. Indeed, the CP sets that an intangible asset might be recognized if, and only if, "there is a history or evidence of exchange transactions for the same or similar assets, so that it is saleable in the market place" (paragraph 45). We believe that this condition might reduce highly the recognition of intangible assets as such. As an example, a software used by a (re)insurance undertaking would not be recognized as an intangible asset under the CP conditions, as it is not marketable. Thus, we believe this sentence should be removed from the CP.	

136.	DIMA	3.45/3.47	This is a very rules-based approach to valuation. It may be difficult in many cases to apply/prove past sales in the market due to the nature of intangible assets. There may be little relevant history to draw upon. Consideration should be given to attribution of value by Board.	See resolution on comment 133.
137.	Pearl	3.47 – 3.48	The paper proposes that only intangible assets which can be fair valued under IAS 38 should be given a value for solvency purposes. IAS 38 requires valuations of intangibles at fair value to be made with reference to an active market. Therefore, the CEIOPS proposal would appear to limit recognition to those intangibles where an active market exists. IAS 38 itself makes clear that such markets are rare (and cannot exist for unique items such as brands and trademarks). Therefore, it is likely to be very rare for the types of intangible which insurers currently recognise in their accounts, such as brands and contractual relationships (such as customer lists and access to distribution networks), to meet the proposed criteria for recognition for solvency purposes. We, nevertheless, believe that CEIOPS's proposal is reasonable.	Noted.
138.	ABI	3.47-3.48	The paper proposes that only intangible assets which can be fair valued under IAS 38 should be given a value for solvency purposes. IAS 38 requires valuations of intangibles at fair value to be made with reference to an active market. Therefore, the CEIOPS proposal would appear to limit recognition to those intangibles where an active market	Noted

			exists. IAS 38 itself makes clear that such markets are rare (and cannot exist for unique items such as brands and trademarks). Therefore, it is likely to be very rare for the types of intangible which insurers currently recognise in their accounts, such as brands and contractual relationships (such as customer lists and access to distribution networks), to meet the proposed criteria for recognition for solvency purposes. We, nevertheless, believe that CEIOPS's proposal is reasonable.	

139.	ICAEW	3.47	Although it seems reasonable (subject to any proportionality exemption) for intangible assets to be treated as nil if fair value cannot be demonstrated	Noted.
140.	ICAEW	3.47	Within intangible assets there will often be purchased software or similar purchased assets. Where this is amortised over a small number of years (say 5 or less) the treatment for fixed assets that we suggest in our response to paragraph 3.61 below might be reasonable.	Not agreed. Refer paragraph 3.58
141.	Lloyds	3.47	We agree that only intangible assets which may be fair valued under IAS38 may be recognised – otherwise a nil value is applied for solvency.	Noted.
142.	L&G	3.47	Acceptable, however this implies that intangibles can only have a value where an active market exists. This can give a problem in a few asset classes(e.g. trademarks)	Noted.
143.	RSA	3.47 to 3.48	We agree that in some cases it will not be possible to achieve a valuation of intangible assets that would provide the level of precision necessary to meet the level 1 requirement However, we believe that the level 2 guidance should contain sufficient freedom to accommodate new developments under IFRS as they arise. For example, the IASB is currently in the process of consulting on a discussion paper on leases, which proposes the recognition of lease obligations (future lease payments) and lease assets representing the rights to use leased items during the terms of the lease. The IASB have expressed alternative views on the nature of the lease assets including the recognition of the rights as intangible assets. Whilst the IASB's preliminary view is that the right is more akin to a tangible	Noted. See resolution on comment 2.

			asset, we believe that the level 2 guidance should be sufficiently flexible to accommodate developments on the scope of intangible assets.	

144.	KPMG	3.47	IAS 38 sets a very high bar regarding recognising intangible assets at fair value because there must be an active market. In practice, there are intangible assets that may be sold where an active market does not exist, for example licenses or software, for which reasonable valuations can be obtained. It seems inconsistent to require insurers to measure certain assets at market value where no active market exists (for example, investment property) but not others.	See resolution on comment 133.
145.	XL	3.47	We agree that if a fair value measurement is not possible, intangible assets should be valued at nil for solvency purposes.	Noted.
146.			Confidential comment deleted.	
147.	CFOF	3.47- 3.48	<u>Intangible assets</u> The CFO Forum does not agree with the conclusion that only intangible assets that are measured at fair value in accordance with IAS 38 should be deemed as having economic value under Solvency II. According to IAS 38, the balance sheet value for all intangible assets must be annually verified. This implies that intangible assets measured at cost should be written down if the annual impairment test calculating the fair value results in a lower value than the cost value. In practice, there are intangible assets that may be sold where an active market does not exist, for example licenses or software, for which reasonable valuations can be obtained. It seems inconsistent to require insurers to measure certain assets at market value where no active market exists (for example, investment property), but not others (such as intangible assets). The risks associated with the intangible assets should be considered	See resolution on comment 133.

			within the capital requirements, not a reduction in the economic valuation.	
148.	ICAEW	3.48	Likely intangible assets might typically include software, brand values, licences and patents; many of these may be difficult to demonstrate a market value for but may have a clear cost and a defined useful life. A particular asset that may apply to several UK insurers is Lloyd's auction capacity. This has a market that provides observable prices each year from trading during a few months each summer. These prices are reasonably transparent, but the market can be fairly illiquid and there is no trading at the typical 31 December year-end for insurers. It would be useful to provide guidance as to whether this is considered an adequate indicator of market value (as impairment should have been considered in arriving at the financial statement value).	Noted. See resolution on comment 2.
149.	DIMA	3.48	Examples of intangibles in reinsurance companies as requested: - contract based customer relationships/customer lists - intellectual property	
150.	FFSA	3.49 to 3.63 3.64 to 3.72	The CP deems that the value to be used to assess the real estate assets, whether investment property or property, plant and equipment, should be the fair value, and that IAS 16 (revaluation option) or IAS 40 is a good proxy for that purpose. Nonetheless, regarding the sentence "*External, independent value verification may need to take place at least every 3 years*" (3.18 and	Noted. Noted. Refer paragraph 3.69.

			3.32), we agree with the need for a periodic value verification conducted by an external expert; this obligation already exists in France for Real Estate, nonetheless, it has to be done every 5 years. Thus, we recommend this sentence to amend the CP as follows: “*In any case, such external, independent value verification may need to take place at least every* 5 years”	

151.	FEE	3.58/3.62 and 3.68/3.71	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 proper 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. We refer also to our earlier comments on the provision of assurance in paragraphs 4 and 5 of this letter.	Not agreed. External verification should be done by an expert and be independent from the insurer. To ensure consistent application and harmonization, the decision should not be taken by the responsible supervisor. Refer paragraph. 3.73-3.74 See also resolution to comment 16.
152.	KPMG	3.57	While we understand that the revaluation model may be appropriate for owner-occupied property, imposing a revaluation model on plant and equipment (which are typically small components of the insurer's assets) seems burdensome. We would prefer to permit a cost model or allow insurers to leave those assets out of their economic balance sheet if the costs of obtaining valuations outweigh the benefits.	Noted. CEIOPS is of the opinion that all assets should be valued at their economic value as per Article 74. Materiality principle applies under the conditions specified in par. 3.14-3.16
153.	PwC	3.57	The CP proposes that Property, Plant and Equipment ("PPE") that are	Noted.

			not measured at economic value should be re-measured at fair value for solvency purposes (as if the revaluation model was applied) (Para 3.57). For many insurers PPE is unlikely to be a significant or material asset. CEIOPS should consider and provide guidance as to relevance of proportionality in applying this approach.	See resolution on comment 152.

154.	Aviva	3.60 – 3.63	We support CEIOPS's recommendation that property plant and equipment should be measured at fair value for solvency purposes and that the revaluation model provided by IAS 16 should form the basis. We believe the requirements for external valuations should be consistent with IFRS requirements.	Noted. See also resolution to comment 16.
155.	Pear	3.60 – 3.63	The paper states that the revaluation model in IAS 16 is a reasonable proxy for a Solvency II valuation and proposes that all property, plant and equipment should be valued on this basis for Solvency II. We agree that this is appropriate in the case of buildings and that this reflects common accounting practice. However, in the case of other plant and equipment it is likely that the depreciated cost model remains the normal accounting practice. Therefore, the CEIOPS proposal would require most insurers to undertake additional work to convert these assets to a Solvency II basis. Given the relatively small amount of such assets as a proportion of most insurers' balance sheets and the relatively small differences in asset amounts that would be recognised we would query whether the work needed to undertake such a revaluation is necessary or can be justified on cost-benefit grounds.	Noted. See resolution on comment 152.
156.	ABI	3.60-3.63	The paper states that the revaluation model in IAS 16 is a reasonable proxy for a Solvency II valuation and proposes that all property, plant and equipment should be valued on this basis for Solvency II. We agree that this is appropriate in the case of buildings and that this reflects common accounting practice. However, in the case of other plant and equipment it is likely that the depreciated cost model remains the normal accounting practice. Therefore, the CEIOPS	See resolution on comment 152

			proposal would require most insurers to undertake additional work to convert these assets to a Solvency II basis. Given the relatively small amount of such assets as a proportion of most insurers' balance sheets and the relatively small differences in asset amounts that would be recognised we would query whether the work needed to undertake such a revaluation is necessary or can be justified on cost-benefit grounds.	

157.	Lloyds	3.60 to 3.62	We note that the approaches specified in the paper are a full economic model for each property, plant and equipment asset; cost less depreciation; or a revaluation model as set out in IAS 16.31. Out of these alternatives for assets material to the balance sheet (a percentage of the balance sheet either individually or and in total could potentially be prescribed) the revaluation method appears the most appropriate. We agree guidance should be issued to cover the regularity of revaluation, requirement for the valuer to be external to the company and qualified in the respective area of the asset class. Guidance should also force more frequent (than every three years) value checks in the event of changes in the market of a particular asset. We consider that external valuation (at least every three years) should only be required if the portfolio is material to the Solvency II balance sheet (measured on a proportionate basis).	Noted. See resolution on comment 152. See also resolution to comment 16.
158.	L&G	3.60 3.61 3.62 3.63	Acceptable, however the depreciated cost model is the normal accounting practice and given the relatively small %age of total assets plant and equipment are we would prefer to continue to use the existing practice.	Noted. See resolution on comment 152.
159.	RSA	3.60 to 3.63	We agree with the requirement for a valuation of higher value items such as owner occupied properties but do not believe that the proposal described in paragraph 3.61 is practicable for high volumes of lower value items such as those that may be capitalised as plant and machinery and furniture and fittings.	Noted. See resolution on comment 152.

			We acknowledge that the level 2 guidance must comply with the level 1 text but would urge CEIOPS to reconsider whether there is a more efficient basis to achieve a reliable valuation of such items.	

160.			Confidential comment deleted.	
161.	Munich Re	3.61	IAS 16.79 proposes publishing a fair value if an at-cost valuation forms the basis of the balance sheet disclosure. Resulting disclosures in the notes should also be accepted as "economic value". While we understand that the revaluation model may be appropriate for owner-occupied property, imposing a revaluation model on plant and equipment, should this be immaterial, (which are typically small components of the insurer's assets) seems burdensome. We would prefer to permit the application of a cost model if the costs of obtaining valuations outweigh the benefits.	Noted. See resolution on comment 152. See also resolution on comment 1.
162.	ICAEW	3.61	With the exception sometimes of property, these classes of assets are usually valued in the financial statements at amortised cost. Within plant and equipment there is typically likely to be a large number of small value assets such as vehicles, computer equipment and furniture. Such assets are typically amortised over a small number of years (5 or less). It would potentially be burdensome for insurers to identify and document fair values for all of these assets. With proportionality in mind provided such assets did not comprise more than a given percentage of the balance sheet value (say 2%) could the amortised cost be considered to be a close enough proxy for fair value for such assets without any further proof provided they are amortised over a maximum of say 5 years, since impairment and useful lives will have been considered within the financial accounting values. Without such a concession the current fair value requirement may force many insurers to accept a nil value as the effort to demonstrate fair value may be	Noted. See resolution on comment 152.

			excessive. For property and some other assets in this class there may be higher value individual assets that are amortised over an economic life of a larger number of years. Where such assets exceed a certain level as a proportion of the total balance sheet or a monetary amount, it seems appropriate that external evidence of a fair value should be required.	

163.	CEA	3.61	A revaluation model requirement for plant and equipment could be burdensome - We agree that the revaluation model may be appropriate for owner-occupied property. However, imposing a revaluation model on plant and equipment, should this be immaterial, (which are typically small components of the insurer's assets) seems burdensome and not in line with the principle of proportionality. We would prefer to permit a cost model or allow insurers to leave those assets out of their economic balance sheet if the costs of obtaining valuations outweigh the benefits. IAS 16.33 already allows (to a certain extent) such a cost model : "*33. If there is no market-based evidence of fair value because of the specialised nature of the item of property, plant and equipment and the item is rarely sold, except as part of a continuing business, an entity may need to estimate fair value using an income or a depreciated replacement cost approach."* Therefore we request alignment with IFRS, and allow for the use of a cost model on immaterial plant and equipment items. IAS 16.79 requires disclosure in the notes of a fair value even if an at-cost valuation forms the basis of the balance sheet. We believe that the resulting disclosures in the notes should also be accepted as "economic value".	Noted. See resolution on comment 152. See also resolution on comment 1.
164.	XL	3.61	In terms of the full Solvency II balance sheet, we would not anticipate, for the majority of (re)insurance entities that the difference between	Noted. See resolution on comment 152.

			an IAS 16 cost model valuation of property plant and equipment and a re-measurement of those assets at fair value would be material. A re-measurement to fair value with independent external valuation at least every 3 years is likely to be costly and time intensive, and hence we believe that principle of proportionality should be applied and this re-measurement not required.	

165.	DIMA	3.61	"PPE that are not measured at economic value should be re-measured at fair value for solvency purposes (as if revaluation model was applied)". Clarification – does this require revaluation of PPE at each balance sheet date? Is IFRS valuation (depreciated cost) an acceptable proxy of economic value, as advocated in the main findings notes? Suggest proportionality considerations.	Noted. See resolution on comment 152.
166.	CFOF	3.61	Use of a revaluation model should be proportionate - we agree that the revaluation model may be appropriate for owner-occupied property. However, imposing a revaluation model on plant and equipment, should this be immaterial, is not consistent with the principle of proportionality. IAS 16 proposes a pragmatic valuation hierarchy that allows for circumstances when there is no market based evidence of fair value. The CFO Forum recommends that Solvency II permits unadjusted IAS 16 valuations for property, plant and equipment.	Noted. See resolution on comment 152.
167.	Munich Re	3.62	Expert opinions should suffice, even if prepared internally. The points made under 3.15 + 3.17 also apply here.	Not agreed. External verification should be done by an expert and be independent from the insurer. Refer paragraphs 3.41-3.42
168.	CEA	3.62	Expert opinions, even if prepared internally, should be sufficient - In general, expert opinions should be sufficient, even if prepared internally. The points made under 3.31 + 3.32 also apply here.	Not agreed. See resolution on comment 167.

169.	CFOF	3.62	Internal opinions should be permitted - expert opinions should suffice, even if prepared internally. Frequency of independent revaluations should be consistent with IAS 16 – consistent with the principle of proportionality; the frequency of independent revaluations for Solvency II should reflect the materiality of the variability of those valuations. For items where values vary immaterially an independent valuation at least every three years is unnecessarily onerous. The points made in relation to paragraphs 3.31 and 3.32 also apply here.	Not agreed. See resolution on comment 167.
170.	CEA	3.63	The disclosure of information concerning the methodologies used on (re-)valuation on request of the supervisor appears to be in line with the (future) pillar 3 requirements under Solvency II.	Noted. Information on the methodologies used for the valuation of property should be also reported annually according to the CEIOPS CP 58.
171.	CFOF	3.63	Consistent principle for disclosures to supervisors are required - the disclosure of information, on request of the supervisor, concerning the methodologies used on (re)valuation appears to be in line with the (future) pillar 3 requirements under Solvency II. We recommend that disclosures to supervisors are developed under a consistent set of principles that apply to the entirety of Solvency II, rather than on an ad hoc basis attaching to different elements of valuation. We propose that paragraph 3.63 is deleted.	Noted. See resolution on comment 170..

172.	Aviva	3.70 – 3.73	We support the use of the IAS 40 fair value model for valuing investment properties for solvency purposes. We believe the requirements for external valuations should be consistent with IFRS requirements.	Noted.
173.	ABI	3.70-3.73	We agree with the proposed CEIOPs advice.	Noted
174.	Lloyds	3.70 to 3.71	We agree that investment property should be valued on an IAS40 fair value basis. We consider that external valuation (at least every three years) should only be required if the portfolio is material to the Solvency II balance sheet (measured on a proportionate basis).	Noted.
175.	L&G	3.70 3.71 3.72	Acceptable	Noted.
176.	RSA	3.70 to 3.72	We agree with the requirements for investment properties.	Noted.
177.	CEA	3.70	Proportionality should be applied in the application of a fair value model for investment property - The application of IAS 40 (fair value model) appears to be a suitable proxy for solvency purposes. However, for undertakings that do not apply IFRS at this point, then it may not be appropriate to require them to recalculate the value of investment	Noted. See resolution on comment 152.

			property on a fair value model in light of the proportionality principle.	

178.			Confidential comment deleted.	
179.	CFOF	3.70	The application of IAS 40 (fair value model) appears to be a suitable proxy for solvency purposes. Where investment property is currently measured at cost, the requirement to revalue at an economic value should be in line with overall materiality in accordance with the principle of proportionality.	Noted. See resolution on comment 152.
180.	CEA	3.71	See comments on 3.62.	See resolution on comment 168.
181.	CFOF	3.71	Internal opinions should be permitted - expert opinions should suffice, even if prepared internally. The frequency of independent value verification should be proportionate to the material variability of the value. There should be no requirement to obtain independent revaluations where the change in the economic value will be immaterial since the previous valuation. Consistent with comments on 3.31, 3.32 and 3.62.	Not agreed. CEIOPS is of the opinion that the verification should be performed by an external party, independent from the undertaking.
182.	CEA	3.72	See comments on 3.63.	See resolution on comment 170.
183.	CFOF	3.72	Consistent principle for disclosures to supervisors are required - the disclosure of information, on request of the supervisor, concerning the methodologies used on (re)valuation appears to be in line with the (future) pillar 3 requirements under Solvency II. We recommend that	See resolution on comment 171.

			disclosures to supervisors are developed under a consistent set of principles that apply to the entirety of Solvency II, rather than on an ad hoc basis attaching to different elements of valuation. We propose that paragraph 3.72 is deleted. Consistent with comments on 3.63.	

184.	GDV	3.73-3.84	Participations We would like to ask CEIOPS for clarification of focusing "only on the valuation aspects of participations and not on their treatment for own funds/groups". Our questions would be the following: 1) Valuation for group purposes Art. 74 applies both at solo and group level (Art. 222). Does CEIOPS think that valuation of participations in the "Solvency II balance sheet" of a solo undertaking and of a group should differ, if the participation is not consolidated? If consolidated, assets and liabilities of the participations have to be valued under Art. 74. Art. 210 clarifies which participations have to be included in group supervision. At solo level the definition in Art. 13 (16) has to be applied. Does CEIOPS agree with that understanding of the level I text? We are aware that CEIOPS sent questions to the European Commission on the treatment of participations and are interested in which way the answer would be taken into account in the final advice. 2) Treatment for own funds We would like to know on which basis CEIOPS thinks that the Level I text allows for a deviating approach from Art. 87 for participations not included in the implementing measures in Art. 92 (1) b)? Art. 92 (1) b) is referring to participations which are defined in Art. 92 (2). The definition in Par. 2 does not include participations in insurance and reinsurance undertakings but only in credit and financial institutions. But other implementing measures cover the issue of	This advice focuses on valuation of participations at a solo level and not its treatment for own funds and group purposes that are outside the scope of CP 35. CEIOPS recognises the need to adopt a more joined up approach in the area of participations and will publish as part of the third wave of advice (October 2009) a consultation paper on participations. This paper will cover all issues relating to the solo treatment of participations. Regarding the consideration of participations at group level, CEIOPS is finalizing the level 2 advice on group solvency assessment, which will be provided end October 2009.	

			participations in insurance and reinsurance undertakings: at solo level Art. 109 (1) b) and at group level Art. 232. Both refer to the SCR calculation. As regard the valuation of participations in the solvency balance sheet Art. 74 is applicable for all participations. 3) Consistency with SCR market risk module Valuation of participations, treatment of participations for own funds determination and SCR calculations for participations as part of the market risk module have to be seen as interrelated. It would be helpful if CEIOPS clarify its view on these interdependencies. Recital (27) should be carefully considered ("…, solvency requirements should be based on an economic valuation of the *whole* balance-sheet"). It might be helpful to revisit the issue of participations if other draft advice for implementing measures was given.		

185.	FFSA	Section 3.2.5	It is our position that the participation should be considered at a group level and not at a solo level. As such, if various entities of a same group have an investment in one company, and that the overall investment of the group leads to consider this company as a participation, the treatment of the participation should be applied consistently for each entity at a solo level. For example, if entity A owns 5% of a company C, and entity B owns 15% of C, and that A and B are in the same group, for solvency purposes, C should be considered as a participation in the economic balance sheet of both A and B.	The definition of participation is included in the level 1 text and this is the definition to be applied for solvency purposes. See also resolution on comment 184.
186.	Munich Re	3.77	Some more guidance on CEIOPS' view of the definitions of participation according IFRS and Solvency II would be helpful. The term "participation" should apply as in IFRS.	The definition of participation is included in the level 1 text and this is the definition to be applied for solvency purposes. See also resolution on comment 184.
187.	Munich Re	3.78-3.82	Valuation in a solo entities balance sheet: In a solo entities balance sheet participations should be treated as IAS 39 financial instruments. This means that the hierarchy of valuation should be applied. If market prices are available, those should be taken for valuation. If models have to be used both the valuation methods proposed under 3.81 (discounted cash flow method and net asset value method) should be admissible. As a rule, depending on the type of	Noted. A minority of CEIOPS members agree with this approach, while the majority is in favour of applying market value only when the participation is listed (according to some members) or

			participation, more or less sufficient data is available for the application of one or the other method. 3.81 iii) It will certainly not be possible to quantify the risks of modelling. This section should be deleted. A figure accepted by the auditor should offer sufficient comfort. The same applies to 3.81) iv): Procuring data will always be difficult for associated companies. Valuation of participations in a group balance sheet: Participations are considered in a group balance sheet depending on the level of consolidation required (full consolidation, at equity valuation, shares only). The issue of consolidation should be dealt with in the paper dealing with participations. While in full consolidation assets and liabilities enter the group balance sheet and are thus valued using the guidelines given by this paper, at equity valuation should be considered separately. In practice the value reported at the balance sheet will be a percentage of the participated undertakings net asset value. The net asset value will be determined using best data available. However in some cases there might also be published price quotations, which are part of the disclosure requirements of IAS 28.37. An economic balance sheet should therefore include such an adjustment to at-equity values if public prices are available.	not controlled (according to other members) Refer amended paragraphs 3.110-3.122 The valuation and consolidation of particpations in a group balance sheet is outside the scope of this advice and is dealt with in the level 2 advice on group solvency assessment.

188.	L&G	3.78 3.79 3.80 3.81	Represents a move away from current solvency valuation which is based on local solvency valuation or GAAP balance sheet.	Noted. CEIOPS advice on level 2 implementing measures should be in line with the level 1 text.
189.	Deloitte	3.78 to 3.81	A key difference between the mark-to-market/mark-to-model approach and the equity method is that the mark-to-market/mark-to-model approach would include the economic value of assets not reflected in the balance sheet of the participation – i.e. goodwill and other intangibles that would be recognized on an acquisition. CEIOPS advice as currently drafted in paragraphs 3.41 and 3.42 is that such assets are valued at nil when they are included in the undertaking's balance sheet as a result of an acquisition. However, as noted above, we believe that article 74 enunciates a clear principle for the solvency valuation of assets, and we support this principle and the use of a mark-to-market/mark-to-model approach for the Solvency II valuation of participations in the solo solvency balance sheet.	Noted.
190.	CFOF	3.78 – 3.85	<u>Participations/associates, subsidiaries and joint ventures, SPVs</u> The treatment of participations in SII should be considered in a holistic manner – We understand that this consultation paper deals only with the valuation of participations at solo level. However, participations need to be considered in the wider context, also taking into account own funds and the consolidation of non insurance participations in group accounts.	See resolution on comment 184.

			Definition of participations – Solvency II should permit the same definition of participations as permitted in IFRS rather than applying the 20% threshold. Further in defining participations for solo entities, insurance groups regulated under Solvency II should consider the total group participation and treat all solo participations consistent with the overall group participation. Participation valuations – participations should be measured based on market values or value in use on a look through basis. This is consistent with economic valuations and the Directive defining the values of assets and liabilities as those that an insurer would have to pay or receive if it was to transfer its assets and liabilities immediately to another insurance or reinsurance undertaking.	The definition of participation is included in the level 1 text and this is the definition to be applied for solvency purposes. A minority of CEIOPS members agree with this approach, while the majority is in favour of applying market vakue only when the participation is listed (according to some members) or not controlled (according to other members).

191.	PwC	3.79	Para 3.79-3.81 recommend two potential techniques for the valuation of participations in associates/subsidiaries and joint ventures. The first method would seek to value the underlying net assets of the investment in accordance with the same principles as applied to the directly held assets and liabilities of the undertaking. The second option would seek to value the investment on essentially a mark to market/mark to model basis. Our main observation would be that the second option would potentially be exposed to arbitrage. For example goodwill and intangible assets that would otherwise not be admissible under Option 1 would attract a regulatory value through a mark to market approach considered under Option 2. As a consequence the particular structure of a group could give rise to different regulatory valuations. We recommend this be given particular consideration before a conclusion in reached. Option 1 gives rise to a more cautious regulatory valuation which is not necessarily consistent with an 'economic' approach to valuation. CEIOPS will consequently need to articulate in what way the respective approaches are consistent with the Level 1 principles. The draft advice (para 3.85) proposes that Option 2 be used for retained interests in SPVs but does not articulate the rationale for this conclusion. The basis for this conclusion should be articulated.	Noted. Majority of CEIOPS members recommend adopting a mixed valuation approach, by applying both net asset value of the investment and market prices depending on type of particpations. Some CEIOPS members recommend distinguishing participations between listed and unlisted and valuing listed participations based on market prices and unlisted participations based on the net asset method. Other CEIOPS members recommend the dividing line to use net asset method should be based on existence of control in that controlled particpations should be valued based on the net asset method and all other participations (with significant influence) be valued using either market prices or models.

				A minority of CEIOPS members is of the view that a market consistent methodology for the valuation of participations should be applied at solo level in the context of Solvency II, by applying either mark to market if market prices are available (e.g. quoted participations) or mark to model procedures, including the equity method (net asset method), in the absence of market prices. Refer amended paragraph 3.110-3.122.
192.	ICAEW	3.80	We believe the word "entirely" should read "entirety".	Noted, The paragraph has been amended.
193.	FEE	3.81 iii	See our comments (on the model risk) on Paragraphs 3.21/3.33 of the paper in paragraph 6 of this letter.	See resolution on comment 41.
194.	FFSA	3.81 & 3.84	Based on the two approaches presented in the CP, we recommend that participations be valued at economic value: - Where they have a market value, this value should be taken into account. - Where there in no market value, a Discounted Cash Flow, referred	Noted. See resolution on comment 191. Refer amended paragraph 3.110-3.122.

			net asset value or other mix approach could be taken into account. In case of different valuation methodologies, a weighted one could be retained, based on management judgment. Such an approach appears to us consistent with the IFRS fair value valuation framework (3 levels). Furthermore, it could save time and some burden required by the conversion to solvency balance sheet of small investments in affiliates. At group level, the same effect will apply. Nonetheless, we recommend the CP to be modified as follows: - "*Undertakings should be able to* <u>*identify, monitor and quantify*</u> *the solvency position of the participation using market consistent valuations of assets and liabilities*" (3.81, b. iii & iv): we believe that the carrying out of this advice might be hardly achievable for (re)insurance undertakings. Indeed, undertakings generally possess limited information on their participations (particularly when it is not a fully ownership). As such we dread that this will be tough to obtain the necessary data for identifying, monitoring and quantifying the solvency position of the participation. Also, some participations are not dealing with the insurance sector, so the concept of solvency is not adequate. Consequently, we recommend these bullet points to be removed from the CP. - "*Undertakings should demonstrate that the value arrived through the model represents a* <u>*market consistent economic value*</u>" (3.81, b. v): as expressed here, the "market consistent economic value" might be misunderstood as the need for (re)insurance undertakings to compute a MCEV for each of their participations, which would be	

			impractical. As such, we request the CEIOPS to re-formulate this expression into: "*through the model* is consistent with the market value".	

195.	ICAEW	3.81 (iv)	If this requirement is to be applied further explanation of what this requirement is anticipated to involve and its proportionality would be helpful.	The paragraph has been amended.
196.			Confidential comment deleted.	
197.	Munich Re	3.83 + 3.85	If an SPV fulfils the criteria for a "participation", its corresponding equal treatment is a given. Please note: An SPV which the entity holds no participation in, will not appear on a solo entities balance sheet. It might be included into consolidated statements however.	Noted.
198.	FFSA	3.83 & 3.85	The CP does not address the way to identify SPV, and to determine the retained interests. We believe the principle should be aligned to IAS 28 and SIC 12. We agree on the measurement proposed by the CP, i.e. either mark to market or mark to model.	This is outside the scope of this advice. For the identification of Insurance SPV, please refer CEIOPS advice on SPV which will be published in October 2009.
199.	CFOF	3.83 and 3.85	Special Purpose Vehicles If an SPV fulfils the criteria for a "participation", its corresponding equivalent treatment is a given. Where an entity holds retained interests or other investments in an SPV that SPV will not appear on a solo entities balance sheet. It might, however, be included in group balance sheet.	Noted.

200.	Aviva	3.84 to 3.85	We support the proposed option that values the participation as an investment using a market value or marked to model approach. We believe this is consistent with the article 74 economic approach to valuation of assets and liabilities for solvency purposes.	Noted. See resolution on comments 190-191.
201.	Pearl	Paras 3.84 – 3.85	We favour the proposed approach in paragraph 3.81 (fair value of the participation as a whole on either a mark-to-market or mark-to-model as appropriate) as opposed to the look through approach set out in paragraph 3.78. This basis is more in line with accounting practice (although the fair value model is different from the accounting model). The look through approach could seriously distort the view of the entity by seeming to give it full control over assets and liabilities when this will often not be the case in practice.	Noted. See resolution on comment 190-191.
202.	ABI	Paras 3.84 – 3.85	We would favour the proposed approach in paragraph 3.81 (fair value of the participation as a whole on either a mark-to-market or mark-to-model as appropriate) as opposed to the look through approach set out in paragraph 3.78. This basis is more in line with accounting practice (although the fair value model is different from the accounting model). The look through approach could seriously distort the view of the entity by seeming to give it full control over assets and liabilities when this will often not be the case in practice.	Noted. See resolution on comment 190-191.
203.	FEE	3.84	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 liablities which may make its application impossible for practical reasons in many instances.	Noted. See resolution on comment 191.

204.	ICAEW	3.84	In most cases these assets will be included in the insurer's financial statements on basis similar to the other assets described in this CP, subject to there being no differences between local GAAP and IFRS. This would seem to be an appropriate framework from which to start for such assets. Any attempt to value such entities on a fair value basis may significantly inflate the value of the asset from its carrying value in the financial statements unless they are already valued on that in accordance with IFRS and their circumstances. As commented elsewhere in our response it would be helpful if there could be a de minimis applied below which further detailed evaluation of the make up of the asset value is not required. This should help to avoid significant expense and time being incurred for little risk or benefit. Above that threshold it does seem appropriate that there should be a requirement for consistency with this CP's principles for valuing assets and other liabilities. Otherwise there is a risk of inappropriate and inconsistent valuation bases being allowed merely because of the structural differences between one entity and another. Such increases in value may be similar to goodwill which is ascribed a nil value for solvency.	Noted. See resolution on comment 190-191.
205.	Lloyds	3.84, 3.78 to 3.81	<u>Valuation of associates, subsidiaries, joint ventures (JVs) and special purpose vehicles (SPVs)</u> Developing a Solvency II specific model to deal with unquoted business combinations would require a huge amount of work, which would not be possible before Solvency II's implementation. The initial valuations for the above assets are appropriately dealt with by reference to IFRS 3, 27, 28 and 31. We consider that it would be more appropriate to focus on entity-	Noted. See resolution on comment 190-191. We appreciate the concerns around first time implementation of Solvency II and the amount of work industry has to undertake to align its regulatory balance sheet

			specific constraints around such assets, plus measuring liquidity, concentration and operational risks which alter the IFRS economic value of such assets. Attempting to come up with a new economic value for such assets is potentially fraught with difficulty and therefore subject to the considerable risk of divergence of value for similar assets. For quoted associates, subsidiaries, JV and SPVs the market value should be used with adjustments for liquidity and concentrations as for entity specific constraints. The link between group regulation and combining each undertaking's assets for valuation makes the use of the underlying assets not appropriate. In most case the legal form of the companies in each country's legal system is likely to break any combination artificially set up for calculation solvency assets. Therefore, the risk of a proportion of the combined assets not being available to policyholders is extremely high.	on an economic value basis. We believe the timeframe for S2 implementation and further CEIOPS level 3 measures on valuation should provide the industry with adequate time and guidance in implementing Solvency II. CEIOPS is of the view that, when participations are valued based on market value, risks like liquidity and concentration should be dealt with under Pillar I.

206.	RSA	3.84 to 3.85	Whilst we recognise that the market valuation of participations would most faithfully follow the level 1 text, we do not consider that the valuation of all participations on this basis would be practicable within a complex group. We believe that valuing participations on a solvency II basis (as described in paragraph 3.79) provides a practical alternative. Conversely, if the participations are valued by including net value of the assets and liabilities valued in accordance with the solvency 2 rules, adjustment should be made to exclude any credit risk adjustment in the valuation of the participation in respect of amounts owing from other group entities. The value of investments in SPVs should be based upon the economic valuation principles.	Noted. See resolution on comments 187 and 192.
207.	GDV	3.84	Market value should be the 1st consideration in the valuation of participations - Based on the two approaches presented in the CP, we recommend that participations be valued at economic value in line with the interpretation of CEIOPS in Para 3.80: • Where they have a market value, this value should be taken into account. • Where there is no market value, a Discounted Cash Flow, the “referred net asset value approach” or other mixed approach (i.e. as mentioned in 3.81c) could be taken into account. In case of	Noted. See resolution on comment 190-191.

			different valuation methodologies, a weighted one could be retained, based on management judgment. This method has the advantage that the value refers to market prices and so it is consistent with the economic balance sheet principles under Solvency II.	

208.	CEA	3.84-3.85 General Comment	The treatment of participations in SII should be considered in a holistic manner – We understand that this consultation paper deals only with the valuation of participations at solo level. However, participations need to be considered in the wider context, also taking into account own funds and the consolidation of participations in group accounts. For this reason our comments on participations will be subject to further review when the overall aspects of participations are considered and we will review these comments at that time. Our comments given below focus only on the valuation of participations within the solo balance sheet. Definition of participations – We would be keen to have consistency with the definition of participations used in IFRS – IAS 28 applies the "*significant influence criterium*" whereas the SII Framework Directive fixes a 20% threshold. However, if entity A owns 5% of a company C, and entity B owns 15% of C, and that A and B are in the same group, for solvency purposes, C should be considered as a participation in the economic balance sheet of both A and B. Therefore, it is key to look at the treatment of participations at group level. Flexibility is important. We would request that this point is addressed during the consultations for Level 2 measures. We refer to our previous position paper on participations: http://www.cea.eu/uploads/DocumentsLibrary/documents/1236094113_cea-paper-on-participations.pdf	See resolution on comment 184. See also resolution on comment 186.

209.	CEA	3.84	Market value should be the 1st consideration in the valuation of participations - Based on the two approaches presented in the CP, we recommend that participations be valued at economic value in line with the interpretation of CEIOPS in Para 3.80: • Where they have a market value, this value should be taken into account. • Where there is no market value, a Discounted Cash Flow, the "referred net asset value approach" or other mixed approach (i.e. as mentioned in 3.81c) could be taken into account. In case of different valuation methodologies, a weighted one could be retained, based on management judgment. This method has the advantage that the value refers to market prices and so it is consistent with the economic balance sheet principles under Solvency II.	Noted. See resolution on comment 190-191.
210.			Confidential comment deleted.	
211.	CROF	3.84.	*"CEIOPS would like to receive stakeholders' views on the methods described in 3.78 to 3.81 including on the borderlines between those."* Regarding the methods described in paragraphs 3.78 to 3.81, there are advantages and disadvantages of each method. The first method has the disadvantage of inconsistency with the rules for measuring assets and liabilities (with and allowance for goodwill) in the economic balance sheet. Additionally, it may not be possible to follow this method for	Noted. See resolution on comment 190-191.

			certain investments in associates or joint ventures as the company has insufficient information to value the underlying assets and liabilities on a timely basis (it does not control the investments in the same way that it does a subsidiary). The second method has the advantage that the value is referable to market prices and additionally it is consistent with the economic balance sheet principles under Solvency II. For example, the market value will include a value of future new business and goodwill that we consider should be recognised as assets under this framework. For subsidiaries, we believe that the underlying assets and liabilities are measured in accordance with the general rules in Solvency II. We would prefer the following hierarchy to be used for joint ventures and associates: • The company should use a market price or model to value the asset that represents the net cash it would receive for transferring the asset at the reporting date; and • Otherwise, if the company uses its economic model to value the asset then that valuation should be used. In principle the fair value hierarchy should also be applicable for the measurement of participations. For smaller participations the net asset	

			value could be deemed to be an acceptable proxy.	

212.			Confidential comment deleted.	
213.	KPMG	3.84	Regarding the methods described in paragraphs 3.78 to 3.81, there are advantages and disadvantages of each method. The first method has the advantage of consistency with the rules for measuring assets and liabilities in the economic balance sheet. The disadvantage is that it may not be possible to follow this method for certain investments in associates or joint ventures as the (re)insurance undertaking may not have sufficient information to value the underlying assets and liabilities on a timely basis (since it does not control the investments in the same way that it can control a subsidiary). The second method has the advantage that the value is related to market prices. The disadvantage is that it is not consistent with the economic balance sheet principles under Solvency II. For example, the market value will include a value of future new business and goodwill that are not recognised as assets under this framework. We believe an important consideration is whether the (re)insurance undertaking is able to transfer the asset at the reporting date. If it is not able to do so, then the asset is not available to absorb losses. For this reason, goodwill has a nil value in the economic balance sheet. Many subsidiaries will be intrinsic components of the (re)insurance undertaking's business model and probably can not be disposed of within a reasonable timeframe without disrupting that business model. Investments in associates are less likely to be part of the (re)insurance undertaking's business model and potentially therefore could be	Noted. See resolution on comment 190-191.

			disposed of without disruption. The reputational risk associated with such a disposal may be another consideration that needs to be taken into account. On balance, we are minded to prefer an approach where assets that can be disposed of at the balance sheet date without disrupting the (re)insurance undertaking's business model should be valued on a 'look through basis', whereas other assets should be held at their market value. In many cases, this may lead to subsidiaries (and potentially joint ventures) being valued on a look-through basis and associates at their market value.	

214.	XL	3.84	We would favour the approach set out in paragraph 3.81 (to fair value the participation as a whole) over the look-through approach set out in paragraph 3.78	Noted. See resolution on comment 190-191.
215.	CEA	3.85	Equal treatment should be given to SPVs fulfilling the criteria for a "participation" - If an SPV fulfils the criteria for a "participation", its corresponding equal treatment is a given.	Noted.
216.	FFSA	3.2.6	The CP does not give any guidance on hedging and non hedging instruments. Some of them could be used to cover exposure on the liabilities, other on the assets. In the absence of any paragraphs specifically relating to derivatives, we consider that IAS 39 is adequate and compatible with the article 74 of the directive, and shall be applied in a consistent manner in order to determine the economic balance sheet.	Hedge accounting has no impact on solvency measurement where all assets and liabilities are at economic value even if they are in a hedging relationship. Noted.
217.	FFSA	3.2.6	The CP does not consider any extraordinary situation such as the financial crisis. It indicates that the market value should be the first one in the hierarchy of the economic value. As it has been experienced, the market value may not be relevant in a distressed or dislocated market. For example, today, bonds market value includes a disproportionate liquidity premium. We suggest that the CP could allow in specific circumstances the consideration for adjusting the market value, using rather a mark to model. This would be in line with the current trend of FASB and IASB	Noted. This aspect is addressed in the general principles (section 3.13.b) where reference is made to IASB's principles and guidance, as well as to the IASB ED on Fair value Measurement. These IASB's publication including the Expert Panel paper on valuation in illiquid markets addresses the issues.

			thoughts.	

218.	L&G	3.90 3.93 3.94	Acceptable	Noted.
219.	FFSA	3.2.6 3.91	In compliance with IAS 39, some investment in equity instruments that do not have a quoted price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to are measured at acquisition cost. As such, we believe that the undertaking does not have the possibility to assess an economic value in accordance with article 74, and cannot be re-measured for solvency purposes. Using IAS 39 in this case seems to be the only feasible method.	Noted. Article 74 requires economic valuation of all assets and liabilities with no exception (except on own credit risk for liabilities). Hence, undertakings must endeavour to assess the economic value based on valuation techniques even in the circumstances mentioned in the comment. This is without prejudice to the proportionality principle.
220.	DIMA	3.93	Clarification: Can the language be adjusted here to clarify that “Held to Maturity” and “Loans & Receivable” categories of financial investments will be valued in accordance with IFRS rules and will not need to be revalued at market value for solvency purposes.	Not agreed. This will not be in line with article 74 that requires all items to be at economic value, aligned with the fair value definition under IFRS.
221.	Aviva	3.94	We support the CEIOPS recommendation to value all IAS 39 financial assets at fair value for solvency purposes.	Noted.
222.	Pearl	3.94	We agree that all financial assets should be measured at fair value for solvency purposes.	Noted.
223.	ABI	3.94	We agree that all financial assets should be measured at fair value for	Noted

			solvency purposes. However, as noted above this may be on a mark-to-model basis where appropriate.	

224.	ICAEW	3.94	IAS39 is currently under review and this together with insurers' reaction to the financial crisis may lead to an increased number of financial instruments being classified as held to maturity. As such assets are required to be reviewed for impairment in accordance with IAS39, there should be limited scope for such assets being held at values below ultimate maturity values. In such circumstances could such assets be considered to be valued at a value that is not significantly greater than their arm's length exchange value without the need to conduct a full fair value calculation? This would potentially avoid incurring significant time and expense and would potentially reduce volatility of asset prices. It would however introduce a risk of assets being included for solvency at above their fair value at least in the short term.	Normally, all assets must be at an economic value for solvency purposes, even if this may not be the case under IFRS, whether the current IAS39 or the revised version in future. CEIOPS will ensure that a monitoring mechanism is set up to ensure Level 2 measures are updated wherever necessary with future changes in IFRS. Refer paragraph 3.11 added to the advice.
225.	ICAEW	3.94	Within financial assets most insurers will hold loans and receivables including items such as premium debts, reinsurance recoveries due and prepayments of expenses which are not specifically held at fair value. There will typically be many small items comprising such amounts. It will be difficult to fully demonstrate that all amounts are shown at their fair value, even though allowance should have been made within the financial statements for any amounts considered irrecoverable. To avoid disproportionate effort or potential disallowances for such items could their valuation according to IAS39 be permitted to be a proxy for fair value. There should possibly be a safeguard requirement for additional requirements to demonstrate fair value where the asset is not receivable within 12 months.	See resolution on comment 224. Noted. But this is addressed through the proportionality principle.
226.	ICAEW	3.94	It would be helpful if the guidance could explain whether and how hedging can be taken into account within valuing financial assets. If so	See resolution on comment 216.

			is this to be consistent with IAS39 and if there are any additional constraints on their use and valuation further guidance would be helpful.	

227.	Lloyds	3.94	We agree that all financial assets as defined per IAS39 should be measured at fair value.	Noted.
228.	RSA	3.94	We agree with the CEIOPS' advice	Noted.
229.	FAIDER	3.94	We consider that fair value for assets held to cover long term liabilities as in the case of life insurance in not consistent with instant value or market value. Theses assets are not held for trading purposes like in the market portfolio of a bank but for long term purposes to cover the liabilities of the insurer. The volatility of markets is so high in certain circumstances like the one prevailing since a year or more that nobody can consider that the closing price reflects with enough precision the value at which an asset could be exchanged between wiling parties in an arm's length transaction. Therefore one should find a way to adjust such prices and not recognized the virtual profits or losses of these positions. To mark at instant value will have several bad effect : increase procyclicality, divert insurers to invest in stocks and other traded assets.	Not agreed. This issue is more related to ALM or even accounting considerations. In a solvency context, having different measures for assets depending on the management's intention to keep them till maturity goes against Solvency II valuation principle.
230.	CEA	3.94	We agree with the use of IAS39 fair value approach.	Noted.
231.	XL	3.94	We agree that financial assets as defined in IAS 39 shall be measured at fair value.	Noted.
232.			Confidential comment deleted.	

233.	CFOF	3.94	<u>Financial assets</u> We agree with measurement of financial assets at fair value as defined in IAS 39 but point out the difficult application of some of the provisions of the application guidance (for example, the burden of proof and the presumptions related to current prices as the best evidence of fair value when measuring financial assets not currently quoted in an active market).	Noted.
234.	FEE	3.95	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.	Noted.
235.	UNESPA	3.98	<u>Non contingent assets</u> UNESPA appreciates the consideration on paragraph 3.98 where CEIOPS states that *"when a realisation of income in virtually certain, the related asset is not a contingent asset and its recognition is appropriate"* Following IAS37, Contingent assets usually arise from unplanned or other unexpected events that give rise to the possibility of an inflow of economic benefits to the entity. Contingent assets are not recognised in financial statements since this may result in the recognition of income that may never be realised.	Noted. The final advice has been streamlined to better reflect IAS37 principles for recognition and measurement of provisions and non-recognition of contingent A&L.

			However IAS 37 paragraph 33 states that as a result of past events and when the realisation of income is virtually certain, then the related asset is not a contingent asset and its recognition is appropriate. This is the case of management fees for Pension Funds in the Spanish Market that have generated an income in the past and will be virtually certain in the future, so we should be recognized it like an Intangible Assets. Thus, these management fees for Pension Funds have economic value and shall be included in the available capital.	
236.	FFSA	3.102 & 3.104	The CP indicates that for contingent liabilities, "*in case of any probability of an outflow of future economic benefits, the undertaking will (…) recognise a liability in accordance.*" We do not consider that the expression "*in case of any probability of an outflow*" is in accordance with IAS 37 23, which states that "*an outflow of resources or other event is regarded as probable if the event is more likely than not to occur, i.e. the probability that the event will occur is greater than the probability that it will not*". As such, we recommend that the recognition of a liability for solvency purposes be strictly aligned to IAS 37 23 and 24.	See resolution on comment 235.
237.	Munich Re	3.103 + 3.104	IAS 37 revised will be published in Q4, and there will be no contingent assets and liabilities anymore. It should therefore be taken care that the advice is already based on the new IAS 37 definitions.	Noted. At this stage, it can only be concluded that CEIOPS will review the status of contingencies

				when more clarity will be available on revision of IAS37. See also resolution on comment 2.
238.	Pearl	3.103 and 3.104	We agree that the requirements of IAS 37 are a reasonable basis for the Solvency II measurement of contingent assets and liabilities. However, it is unclear from paragraph 3.104 what CEIOPS is proposing. We agree that where an outflow of economic benefits is probable (ie more likely than not) then an insurer should recognise an appropriate liability and this would be in accordance with current accounting requirements. However, the implication of the paragraph appears to be that an insurer should recognise a liability where there is any possibility of a payment arising – this is not in line with the current requirements of IAS 37. If, as seems to be implied by paragraph 3.104, CEIOPS's intention is to require a provision to be made in line with the probability of a payment being made then it should also be recognised that any provision made in these circumstances should be proportionate (ie if there is a 10% chance of a payment being needed then the provision should be set at 10% of the likely amount to be paid)– this treatment would be in line with the IASB's current proposals to revise IAS37.	See resolution on comment 235.
239.	ABI	3.103-3.104	We agree that the requirements of IAS 37 are a reasonable basis for the Solvency II measurement of contingent assets and liabilities.	See resolution on comment 235.

			However, it is unclear from paragraph 3.104 what CEIOPS is proposing. We agree that where an outflow of economic benefits is probable (ie more likely than not) then an insurer should recognise an appropriate liability and this would be in accordance with current accounting requirements. However, the implication of the paragraph appears to be that an insurer should recognise a liability where there is any possibility of a payment arising – this is not in line with the current requirements of IAS 37. If, as seems to be implied by paragraph 3.104, CEIOPS's intention is to require a provision to be made in line with the possibility of a payment being made then it should also be recognised that any provision made in these circumstances should be proportionate (ie if there is a 10% chance of a payment being needed then the provision should be set at 10% of the likely amount to be paid)– this treatment would be in line with the IASB's current proposals to revise IAS37.	
240.	ICAEW	3.103	Within IAS37 it is permitted not to make a provision in exceptional circumstances where no reliable estimate can be made. If such possible amounts were significant this could lead to a need to reflect such uncertainties in the audit opinion. It seems to us that in such circumstances solvency requirements should more forcefully require an estimate to be made and full disclosure of the relevant uncertainties and possible outcomes required to be disclosed.	See resolution on comment 235. Noted. Having additional disclosure is indeed relevant, but has no impact in terms of valuation.
241.	Lloyds	3.103/3.104	We agree that the value of contingent assets and liabilities should follow the principles of IAS37.	Noted.
242.	L&G	3.103	Currently contingent loans are an effective financing option for	See resolution on comment 235.

		3.104	solvency purposes eg. LGPL. However, this is unlikely to be the case if accounting principles are followed for solvency valuation. At end 08, LGPL's own solvency position would have been negative, without the positive impact from contingent loan financing from Society. There is a also some conflict between 3.104 and IAS37 which should be addressed.	
243.	RSA	3.103 to 3.104	We concur with CEIOPS' advice that the valuation basis in IAS37 is adopted, however it is unclear that this principle is followed in 3.102 which appears to envisage that an expected value is included for contingent liabilities.	See resolution on comment 235.
244.	KPMG	3.103	We would prefer to follow IAS 37 strictly in terms of recognition and measurement, with the possibility for permitting (re)insurance undertakings to use an economic basis to measuring these assets and liabilities if that is how their internal models work.	Agreed. It is likely that, in the absence of market evidence, firms should resort to valuation techniques based on internal models for such items (Refer general principles).
245.			Confidential comment deleted.	
246.	CFOF	3.103 – 3.104	<u>Contingent Assets and Liabilities</u>	Noted. This might be the case,

			The current version of IAS 37 is not considered to be consistent with economic value under Solvency II or the IASB's current thinking on Fair Value. A revised version of IAS 37 will be published in Q4 2009. Revision to IAS 37 are still open, however, the current proposals suggest that contingent assets and liabilities are no longer defined terms for financial reporting purposes. The CFO Forum recommends that the Level 2 implementing guidance should be revisited to reflect the new IAS 37 definitions and measurement proposals when the revised standard is published.	but IAS37 is seen as an acceptable proxy under Solvency 2.
247.	ICAEW	3.104	It is not clear what this paragraph is seeking to achieve.	See resolution on comment 235.
248.	GC	3.104	We suggest that it may be necessary to define 'probability' so as to distinguish this from 'possibility'.	See resolution on comment 235.
249.	CEA	3.104	We believe further consideration is needed regarding the determination of the probability of future economic benefits. A more precise wording could be more appropriate such as "in case of any probability of a relevant outflow". See also "general comments" above (revision of IAS 37).	See resolution on comment 235. See resolution on comment 237
250.	XL	3.104	We do not agree that an entity should recognise a liability where there is any possibility of payment arising. This appears to contradict paragraph 3.103 as IAS 37 would not recognise such a liability.	See resolution on comment 235.
251.	PwC	3.104	Para 3.104 states in relation to contingent liabilities "in case of any probability of an outflow of future economic benefits, the undertaking	See resolution on comment 235.

			will reassess that responsibility and recognise a liability in accordance". IAS37 states that for a provision to be required that it is probable that there will be an outflow of future economic benefits. Para 3.104 could be interpreted to mean that a liability is recognised where there is any probability (i.e in theory 1%). If this is not the intended meaning this should be clarified through amended wording. We note that IAS37 is in the process of being revised and CEIOPS may wish to consider the outcome of this in advance of finalising its advice.	See resolution on comment 237.
252.	Munich Re	3.105-3.116	Munich Re shares the view of the European Commission and the CEA that, in accordance with the economic approach in Solvency II, all expected future cash flows, including tax cash flows, should be considered in the solvency balance sheet and in the SCR. As the calculation of deferred taxes under IAS 12 already follows a market-value-oriented approach, deferred taxes posted under IFRS (both as assets and as liabilities) provide an appropriate approximation for anticipated future tax cash flows and should be used in the Solvency II balance sheet without adjustments.	Agreed. Refer new paragraphs 3.147-3.151.
253.	PwC	3.105 (section 3.2.8)	With regards to Deferred tax we note that the proposals do not allow discounting. CEIOPS will need to justify this in the context of an economic value model. With regards to unused tax losses and unused tax credits we would support the tentative conclusion that any potential asset be valued at nil. CEIOPS final judgement should be justified in the context of the underlying Level 1 principles. In this context it is likely that some value would be realised for any potential tax asset in a sale to a third party however this asset is generally not separable i.e. would require	CEIOPS agrees that IAS 12 is not necessarily in line with an economic value. However CEIOPS considers IAS12 to be a good proxy for economic valuation. Noted. Refer new wording of the advice.

			the sale of the entire associated business. CEIOPS may wish to consider these matters in reaching a final view.	
254.	ROAM	3.105 (section 3.2.8)	*The problem:* Should one include deferred taxes in calculating the liabilities/commitments of insurance companies when externalizing differences in provisions relative to its liabilities/commitments? *Reply:* No, because the differences do not give rise to new corporate taxes. (Obviously, taxes linked to ongoing activities such as VAT, real estate tax... or others which can be considered as (management/administrative) costs need to be taken into account.) Justifications : *Argument in line with the logic of SOLVENCY II* The Solvency II project has been, correctly so, qualified as 'fiscally agnostic'. Indeed, it concerns a prudential approach and the covers of the calculated margins are aimed to compensate the risks recognized as incurred (notion of loss absorbing). Consequently, their occurrence does not allow an externalization of profits subject to corporate tax. *Argument based on the theoretical models underlying the calculations* The Best Estimate approach uses a method for calculating insurance liabilities analogue to the approach Mark to Market for the evaluation of assets. Hence, the Best Estimate approach relies on the same concepts and the same prerequisites than those which allow justifying the convention to use market prices for the valuation of assets.	Not agreed. Refer new wording of paragraphs 3.137-3.138. CEIOPS believes that the approach recommended in the advice is consistent with the total balance sheet approach principle under Solvency II.

			Consequently, this calculation results in the same disadvantages for the commitments of long term insurers, as does the use of market value vis-à-vis the real value of "long term" assets. More explicitly, the relevance of the Best Estimate concept is not the same for all risks. Also, if the observed differences can be qualified as margin or surplus on the level of the company's business plan or the prudential evaluation, their quality is objectively limited and they cannot be qualified as indisputable revenues potentially subject to fiscal charges. Indeed fiscal law rests on the principal to tax income, which has already occurred and not on the hope of revenues in the future. *Prudential argument based on the role of standards in the financial crisis* A taxation of the reported surplus calculated in the framework of SOLVENCY II presupposes a priori that the calculated surplus was recognized as profit and taxed accordingly before being incorporated as own funds. This would prejudge the pursuit of the evolution of the accounting standards for insurers towards an exclusive localization of safety guarantees in own funds after passing through the insurer's profit and loss account. However, the evaluations of the seriousness of the banking crisis shared by most stakeholders attributes as one of the root causes of the crisis the application of this standard to the banking activities (as it reinforces the procyclicality and it favors the distribution of own funds). They base their inverse recommendations for the creation of complementary provisions (and not to supplementary reserves cf. the de Larosière report) which henceforth would not be subject to	

			corporate tax.	
255.	UNESPA	3107 & 3.108	See comments to 3.117	See resolution on comment 254
256.	Aviva	3.108	We believe that para 3.108 is potentially overly restrictive as a number of DT items (particularly assets) will not relate to a specific balance sheet item for example carried forward tax losses will reduce the future tax liability but do not relate to an asset or liability reflected in the balance sheet.	See resolution on comment 254
257.	L&G	3.108 3.109 3.115 3.117 3.118 3.121 3.122	Views requested on the appropriateness of recognising a deferred tax asset for solvency purposes. This would be material for LGPL's solvency in its current form and would also impact the guidance received from FSA re IGD calculation. Note deferred tax calculation based on Solvency II balance sheet. The principles behind calculation of tax remain outstanding at the present time, pending finalisation of Solvency II rules.	Noted.
258.	DIMA	3.108 3.109 3.118	"Deferred tax assets and liabilities shall only be taken into account for solvency purposes when linked to a specific identifiable asset or liability on the Solvency II balance sheet". CEIOPS' tentative conclusion is that unused tax losses should be valued at nil, given the absence of a link with a specific identifiable asset or liability on the Solvency II balance sheet. In general, the majority of losses available for carry forward as deferred tax assets will arise on identifiable underlying assets and liabilities in the Solvency balance sheet, for example embedded	Noted. Refer new paragraph 150.

			derivative on funds withheld balances. Losses may also arise on certain unprofitable lines of business or due to high claims in a period. It is reasonable to assume that a company may (in the normal course of business) generate sufficient future profits to utilise such losses in future periods. To allow the asset to be recognised on the IFRS balance sheet, the company must have shown support for the future recoverability of same. Why then would such an asset not be allowable for solvency purposes? Should such losses be disallowed for solvency purposes, an anomaly will arise between tax asset for solvency purposes and that for IFRS reporting purposes, as the IFRS asset will be based on "the extent to which it is probable that future taxable profit will be available against which the unused tax losses and credits can be utilised".	
259.	Munich Re	3.109	Deferred tax assets for loss carry-forwards should certainly be considered recoverable in a solvency balance sheet if the total of deferred tax liabilities exceeds the deferred tax assets for the respective tax subject. In this case a loss carry-forward would be used in an assumed liquidation, and would thus be recoverable.	Partially agreed. Refer new paragraph 3.150
260.	FFSA	3.109	We disagree with CEIOPS's position which attributes by default an economic nil value to unused tax losses and tax credits. This exception to IAS12 provisions has not been sufficiently justified by CEIOPS with a set of solid and clear arguments, while IAS 12 attributes explicitly an economic value to those assets under certain conditions. CEIOPS doesn't explain why those particular deferred tax assets would be intrinsically different to a general deferred tax asset (a general	Partially agreed. Refer new paragraph 3.150 and to the advice on deferred taxes.

			calculation of deferred taxes may end up to a deferred tax asset in a Solvency 2 balance sheet) and then would require a specific treatment. The mere fact that unused tax losses or tax credits are not linked to specific assets or liabilities of the Solvency 2 balance sheet (see the 3.117) should not prevent one from considering them as assets with a positive economic value. Indeed, the fact that there is no specific asset within the balance sheet is contradictory with the principle of the temporary difference. When a company has unused tax loss, it does have an asset on a taxable basis. This can be the case for any temporary difference, where the asset does not exist for accounting or solvency purposes, but does exist for tax purposes. This economic value is the result of the recognition - under the IAS 12 provisions - that these deferred tax assets can be recovered thanks to existing deferred tax liabilities - such as calculated in the Solvency 2 balance sheet - or, in their absence, thanks to future positive tax bases calculated on a prudent "on-going concern" basis. At solo level, deferred tax assets may offset deferred tax liabilities to some extent. At group level, the same effect will apply. Also, it is stated that some discussions have taken place on the possibility to recognise deferred tax relating to tax credit or unused tax loss based on future taxable profit. This could be enlarged to the possibility for an undertaking to set up a tax planning strategy (such as possibility to sale assets, net investments, re-orient cash-flows). We definitely consider that Solvency rules should be align to IAS 12 on	

			these matters.	
261.			Confidential comment deleted.	
262.	FEE	3.109	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.	See resolution on comment 259.
263.	UNESPA	3.109	See comments to 3.118	Refer new par. 3.143: only under the conditions specified in IAS 12 deferred tax asset on unused tax losses and tax credits can be recognized.
264.	FFSA	3.110	IAS12 appears to be a good proxy for valuating deferred taxes in a Solvency 2 balance sheet. We carried out some examples of modelling that led us to think that IAS 12 is consistent in a Solvency 2 context, in comparison with some cash flows approaches. However, companies should still have the possibility to calculate deferred taxes using a cash flows approach. Furthermore, we draw your attention to the fact that the reference to IAS 12 should evolve, as regards the new exposure draft set up in order to align IFRS with USGAAP on the tax area.	Noted. Refer the new wording of the advice

265.	UNESPA	3.110	See comments to 3.119	See resolution on comment 294.
266.	UNESPA	3.111	*See comments to 3.120*	See resolution on comment 296.
267.	FFSA	3.112 & 3.113	The CP is dealing with the valuation of assets and other liabilities, excluding the technical reserves. However, the deferred taxation section is mentioning assets and liabilities, without indicating this exclusion. As such, we understand that all liabilities (incl. technical liabilities) are dealt with in this section. We would like to obtain confirmation on this understanding, notably on the following sentence: the CP states that "*deferred taxation shall result from the differences between the carrying amount of an asset or liability in the Solvency II balance sheet and its tax base*". However, it does not specify whether technical provisions shall be included or not. Indeed, technical provisions might also generate temporary differences between the tax and the solvency basis.	Noted. Refer paragraph 3.149, which makes reference to all assets and liabilities, without exclusion.
268.	UNESPA	3.112 & 3.113	See comments to 3.121	See resolution on comment 254
269.	Pearl	3.117 – 3.121	We agree with the principles proposed for the treatment of deferred tax under Solvency II. In respect of the comments in paragraph 3.118 on unused tax losses or credits we believe that these should be recognised where it is probable that these can be utilised. We note CEIOPS arguments for not requiring deferred tax amounts to be discounted and recognise that this is in line with accounting requirements. However, we believe that CEIOPS should consider	Noted. Refer paragraphs 3.143 and 3.145.

			further both the materiality and the feasibility of requiring discounting as failure to discount these amounts is a significant departure from the economic approach.	
270.	FFSA	3.117	We do not agree with the idea that deferred tax assets or liabilities shall be linked with identifiable assets or liabilities on the Solvency II balance sheet. This is contrary to the Solvability II economic principles (as well as contrary to IAS12 principles). In a Solvency II perspective, recognition of deferred taxe assets resp. liabilities should only be linked with their recoverability resp. *exigibility* (payability).	Not agreed. Refer new wording of paragraphs 3.137-3.138. CEIOPS believes that the approach recommended in the advice is consistent with the total balance sheet approach principle under Solvency II. Also refer new wording 3.143.
271.	ICAEW	3.117	We agree that it is prudent and reasonable to only recognise deferred tax assets and liabilities to the extent they are linked to specific identifiable assets or liabilities in the balance sheet. We do not think that identifying the amounts to adjust figures within the financial statements by to recognise this restriction would not be unduly burdensome.	See resolution on comment 254.
272.	Lloyds	3.117 to 3.121	IAS 12 is a fair starting basis for measuring deferred tax. We agree discounting is not appropriate due to the potential for divergence of values between entities. We do not believe it to be appropriate to set up a deferred tax asset for utilisation against the carry forward of unused tax losses, except where these are measured against a specific asset held on the Solvency II balance sheet, for example if an assets is valued at a lower amount in the Solvency II balance sheet due to the proportion of that asset held compared with the general market liquidity for the asset. We would	Noted. Refer new paragraph 3.143.

			expect the reduction in the asset to be offset by a tax asset as long as the realisation of the asset would result in a useable tax deduction.	
273.	UNESPA	3.117	The mere fact that deferred tax are not linked to specific assets or liabilities of the Solvency 2 balance sheet should not prevent one from considering them as assets or liabilities with a full economic value. In our opinion the recognition of Deferred Taxes should be based on the recoverability principle rather than a "linking" approach.	Not agreed. See resolution on comment 254
274.	RSA	3.117 to 3.122	We believe that is appropriate to net off deferred tax liabilities with the deferred tax assets relating to unused tax losses and unused tax credits and that only the residual unused tax losses and unused tax credits should be disregarded for valuation. It is unclear from the paper whether this is permissible. Consideration should also be given to the tax base that is used in calculating deferred tax liabilities and whether the tax base is consistent with other valuations. For example, it appears to be inappropriate to value the tax base of an owner occupied property based upon the profits that will be generated by the use of the property in future years (as currently is required under IAS12) rather than a tax base based upon disposal of the property. We concur that deferred tax assets and liabilities should not be discounted.	Noted. Refer new wording of paragraph 3.143. Noted.

275.	GDV	3.117 -3.122	These comments are preliminary - We should note that the following comments should be considered as preliminary. The treatment of DT (deferred tax assets & liabilities) are the most complicated issue within Solvency II because Solvency II aims at harmonization of European wide supervision without having the power to harmonize the 25 different tax regimes within the EU member states. This issue needs further analysis in particular when the loss absorbing capabilities of deferred tax are also addressed. CEIOPS already mentioned some problems concerning DT e.g. in para. 3.115. The problems are multiplied if the risk absorption for the SCR should be calculated in a standard approach of the "projections of DT on temporary differences of assets or liabilities between tax base and Solvency II balance sheet base" (as mentioned in para. 3.112). Therefore the issues concerning the valuation of DT and the SCR-calculation should be discussed in conjunction. Due to the still inconsistent understanding of deferred taxes within the member states and the fact that a large number of undertakings do not file financial statements according to IFRS it is already questionable whether IAS 12 should be regarded as a suitable proxy. Given this background we would like CEIOPS to consider – if provided by national regulations on a comparable basis - restricting the recognition of deferred taxes according to local GAAP based on temporary differences between local GAAP and the local tax balance sheet. This should include the recognition of deferred tax assets arising from tax loss	Noted. Refer the new wording of the advice. CEIOPS agrees that this will have to be investigated and will appreciate any further contributions from the industry. In order to achieve a high level of comparability it is necessary to adopt a single, robust and well-known methodology (as the one in IAS 12 is deemed to be) for recognition of deferred taxes. CEIOPS agrees that IAS 12 is not necessarily in line with an economic value. However CEIOPS considers IAS12 to be a good proxy for economic valuation.

			carry forwards and unused tax credits if permitted and provided their utilization is more likely than not. However, if IAS 12 is acknowledged as a suitable proxy its regulations should be realized without restrictions and limitations. Based on this assumption we would like to comment as follows:	
276.	GDV	3.117	Deferred tax assets/liabilities do not need to be linked to identifiable assets/liabilities - We do not agree with the idea that deferred tax assets or liabilities shall be linked with identifiable assets or liabilities on the Solvency II balance sheet. This is contrary to the Solvability II economic principles (as well as contrary to IAS12 principles). Under a Solvency II perspective, the only consideration for recognition of deferred tax assets and liabilities should be their recoverability or payability (respectively).	See resolution on comment 254
277.	CEA	3.117 -3.122 General Comment	These comments are preliminary - We should note that the following comments should be considered as preliminary. The treatment of deferred tax is a complex issue that needs further analysis and the CEA will give its final position based on this analysis and in particular when the loss absorbing capabilities of deferred tax are also addressed.	Noted. CEIOPS agrees that this will have to be investigated and will appreciate any further contributions from the industry.
278.	CEA	3.117	Deferred tax assets/liabilities do not need to be linked to identifiable assets/liabilities - We do not agree with the idea that deferred tax assets or liabilities shall be linked with identifiable assets or liabilities on the Solvency II balance sheet. This is contrary to the Solvability II economic principles (as well as contrary to IAS12 principles). Under a	See resolution on comment 254.

			Solvency II perspective, the only consideration for recognition of deferred tax assets and liabilities should be their recoverability or payability (respectively).	
279.			Confidential comment deleted.	
280.	CFOF	General Comments 3.117- 3.122	Deferred Tax Assets and Liabilities The IASB issued in March 2009 an exposure draft on Income Tax that would lead in some cases to changes in the recognition/measurement of current and deferred taxes for which the economic value could be questioned (i.e. recognition of a deferred tax liability for all temporary difference associated with investments in domestic subsidiaries even if a payment of dividend or a sale of the investment is not probable). The deferred tax assets and liabilities calculated in accordance with IAS 12 for financial reporting purposes will not necessarily be a proxy for the deferred tax assets and liabilities in the Solvency II balance sheet as the value of the assets and liabilities underlying the deferred tax calculation may have changed in value from an IFRS basis to and economic value for Solvency II. Deferred tax assets and liabilities for Solvency II purposes should be calculated based on the principles in IAS 12. Where the financial reported deferred tax value would not materially different if calculated on a Solvency II basis the financial reported number should be regarded as a reasonable proxy.	Noted. See resolution on comment 2. Noted. Refer new wording of the advice.
281.	CFOF	3.117	Valuation of deferred tax assets and liabilities should be linked to identifiable and expected future assets and liabilities - we do not agree	See resolution on comments 254.

			with the idea that deferred tax assets or liabilities shall be linked with identifiable assets or liabilities on the Solvency II balance sheet. This is contrary to the Solvency II economic principles (as well as contrary to IAS12 principles). Under a Solvency II perspective, the only consideration for recognition and measurement of deferred tax assets and liabilities should be their recoverability or their probability of payment (respectively). Level 2 implementing measures should be consistent with the proposed definition of deferred tax in the IASB's exposure draft, namely that deferred tax is income tax payable or recoverable in future reporting periods in respect of the taxable profits or losses arising from past transactions or events. It is more appropriate to consider deferred tax assets on tax losses as a tax receivable rather than a deferred tax. The economic valuation of these assets should reflect the probability of receipt consistent with the requirements of Solvency II.	See also resolution on comment 2. Partially agreed. Refer new wording of paragraph 3.143.
282.	ABI	3.117-3.121	We have a number of comments in respect of the principles proposed for the treatment of deferred tax under Solvency II, and consider that it is very important that tax within Solvency II is fully considered as part of the QIS5 process. The deferred tax assets and liabilities calculated in accordance with IAS 12 for financial reporting purposes will not necessarily be a proxy for the deferred tax assets and liabilities in the Solvency II balance sheet as the value of the assets and liabilities underlying the deferred tax	CEIOPS agrees that IAS 12 is not necessarily in line with an economic value. However CEIOPS considers IAS12 to be a good proxy for economic valuation. Noted. Refer new wording of the advice.

			calculation may have changed in value from an IFRS basis to an economic value under Solvency II. Furthermore, it is not clear that the true economic value of deferred tax laibilities is given by an approach which disregards the the probability of whether the liabilities will crystallise in due course. In respect of the comments in paragraph 3.118 on unused tax losses or credits we believe that these should be recognised where it is probable that these can be utilised. The recognition of unused tax losses should be based on the recoverability principle. If an insurer is able to demonstrate that it is able to use the unused tax loss, it should be allowed to recognise the value of that loss. The fact that unused tax losses or tax credits are not linked to specific assets or liabilities of the Solvency II balance sheet should not prevent one from considering them as assets with a positive economic value. We do not agree with the idea in Paragraph 3.117 that deferred tax assets or liabilities shall be linked with identifiable assets or liabilities on the Solvency II balance sheet. Indeed, the fact that there is no specific asset within the balance sheet is contradictory with the principle of temporary difference. We note CEIOPS arguments for not requiring deferred tax amounts to be discounted and recognise that this is in line with accounting requirements. However, we believe that CEIOPS should require deferred tax amounts to be discounted to ensure that they are consistent with the overall economic valuation approach in Solvency II. Paragraph 3.122 should be rewritten to require deferred tax assets and liabilities are discounted to reflect the time value of money.	Partially agreed. Refer new paragraph 3.150 Agreed.

283.	Aviva	3.118	We support the view that the IAS12 approach is appropriate i.e. the DT asset should be recognised if it is probable that future profits will arise against which the asset will reverse. IAS12 also allows DT assets to be recognised against DT liabilities and this approach should also be applicable for solvency purposes.	Noted.
284.	Pacific Life Re	3.118	Paragraph 3.118 of the Draft Advice invites views on the approaches set out for unused tax losses and unused tax credits. We would support the view that a deferred tax asset should be recognised to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. We can see no reason to disallow the use of unused tax losses as a deferred tax asset in a realistic balance sheet provided it can be supported by future taxable profits. We can also envisage a further situation which does not appear to be addressed by the Draft Advice. In some circumstances, firms may take account of unused tax losses to reduce reserves for future taxes that would otherwise be required to be held in the realistic balance sheet by an appropriate amount. In this way the unused losses would not appear as a realistic asset but rather as a reduction to realistic reserves. We consider this to be an acceptable approach, even if the current restriction on deferred tax assets is retained.	Partially agreed. Refer new wording of paragraph 3.143.
285.	ICAEW	3.118	It would be consistent with IAS12 to allow the recognition of unused tax credits and tax losses to the extent that future profits are probable. However if future financial difficulties emerged which solvency is intended to protect against the future profits may not arise. It may also be more difficult to support the argument that such amounts of	See resolution on comment 263

			deferred tax are at their fair value.	
286.	UNESPA	3.118	<u>Level 1 text considers that assets and liabilities should have economic value, including all types of deferred taxes</u> An assessment by default should take into account all future in-flows and out-flows (tax included). However regarding with the proportionality principle, UNESPA welcomes the solution proposed by CEIOPS in this paper since using IAS 12 is allowed as an option to value Deferred Taxes. IFRS provide principles and guidance for the calculation of the value for almost all assets and liabilities that are significant to insurance undertakings. In this case, for Deferred Tax the way more practical and simply to asses these items could be the IAS 12[1] and could be such coherent as prudent in a Solvency II context as some cash-flow methods. We disagree with CEIOPS' position which attributes by default an economic nil value to unused tax losses and tax credits. This exception to IAS12 provisions has not been sufficiently justified in the Consultation Papers with a set of solid and clear arguments, while IAS 12 attributes explicitly an economic value to those assets under certain conditions. CEIOPS doesn't explain why those particular deferred tax assets would	Noted. CEIOPS considers IAS 12 as a good proxy to value deferred taxes. Partially agreed. Refer new wording of paragraph 3.143.

[1] Comments based on IAS 12 as endorsed by EU. This Standard is currently under a review process in IASB. There are no significant differences with current exposure draft about this topic.

			be intrinsically different to a general deferred tax asset (a general calculation of deferred taxes may end up to a deferred tax asset in a Solvency 2 balance sheet) and then would require a specific treatment. (You can find a more detailed reasoning about these items in comment to paragraph 3.121)	
287.	GDV	3.118	We do not agree with a valuation of nil for unused tax credits/losses - In principle the unused tax loss and credit can be directed back to a specific valuation movement of a specific asset or liability. Furthermore in our opinion the recognition of the unused tax losses and credits should be based on the recoverability principle (as per our comment to Para 3.117). If an insurer is able to demonstrate that is it is able to use the unused tax loss or credit either by means of a carry back or a carry forward, it should be allowed to recognize the unused tax loss. Furthermore, we believe further research is required as: • the suggested approach could create some differences between available capital under Solvency II and equity under IFRS; • it could have unwanted effects on available capital. • Tax losses are often valued in transactions of insurance companies because they increase the net cash flows from the investment so although they are not assets that can be sold separately from the company (or business of the company), they	Partially agreed. Refer new wording of paragraph 3.143. CEIOPS agrees that these issues will have to be investigated and will appreciate any further contributions from the industry

			do have an economic value if the whole company (or business) is sold. CEIOPS's departure from IAS12 has not been sufficiently justified with a set of solid and clear arguments, while IAS 12 attributes explicitly an economic value to those assets under certain conditions. CEIOPS doesn't explain why those particular deferred tax assets would be intrinsically different to a general deferred tax asset (a general calculation of deferred taxes may end up to a deferred tax asset in a Solvency 2 balance sheet) and then would require a specific treatment.	
288.	CEA	3.118	We do not agree with a valuation of nil for unused tax credits/losses - In principle the unused tax loss and credit can be directed back to a specific valuation movement of a specific asset or liability. Furthermore in our opinion the recognition of the unused tax losses and credits should be based on the recoverability principle (as per our comment to Para 3.117). If an insurer is able to demonstrate that is it is able to use the unused tax loss or credit either by means of a carry back or a carry forward, it should be allowed to recognise the unused tax loss. Furthermore, we believe further research is required as: • the suggested approach could create some differences between available capital under Solvency II and equity under IFRS; • it could have unwanted effects on available capital. • Tax losses are often valued in transactions of insurance companies because they increase the net cash flows from the	See resolution on comment 287.

			investment so although they are not assets that can be sold separately from the company (or business of the company), they do have an economic value if the whole company (or business) is sold. CEIOPS's departure from IAS12 has not been sufficiently justified with a set of solid and clear arguments, while IAS 12 attributes explicitly an economic value to those assets under certain conditions. CEIOPS doesn't explain why those particular deferred tax assets would be intrinsically different to a general deferred tax asset (a general calculation of deferred taxes may end up to a deferred tax asset in a Solvency 2 balance sheet) and then would require a specific treatment. The mere fact that unused tax losses or tax credits are not linked to specific assets or liabilities of the Solvency II balance sheet (see the 3.117) should not prevent one from considering them as assets with a positive economic value. Indeed, the fact that there is no specific asset within the balance sheet is contradictory with the principle of the temporary difference. When a company has unused tax losses, it does have an asset on a taxable basis. This can be the case for any temporary difference, where the asset does not exist for accounting or solvency purposes, but does exist for tax purposes. This economic value is the result of the recognition - under the IAS 12 provisions - that these deferred tax assets can be recovered thanks to existing deferred tax liabilities - such as calculated in the Solvency 2 balance sheet - or, in their absence, thanks to future positive tax bases	

			calculated on a prudent "on-going concern" basis. Deferred tax assets may offset deferred tax liabilities to some extent. Also, it is stated that some discussions have taken place on the possibility to recognise deferred tax relating to tax credit or unused tax loss based on future taxable profit. This could be enlarged to the possibility for an undertaking to set up a tax planning strategy (such as possibility to sell assets, net investments, re-orient cash-flows). We consider that Solvency rules should be aligned with IAS 12 on these matters.	
289.	CROF	3.118.	*"However, some discussions have taken place on the appropriateness of adopting IAS 12 treatment where a deferred tax asset can be recognised for the carry forward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised."* We do not agree with a valuation of nil. In principle the unused tax loss can be directed back to a specific valuation movement of a specific asset or liability. Furthermore in our opinion the recognition of the unused tax losses should be based on the recoverability principle. If an insurer is able to demonstrate that is it is able to use the unused tax loss either by means of a carry back or a carry forward, it should be allowed to recognise the unused tax loss In principle the Solvency II directive still has the perspective of determining the solvency capital requirement and economic balance sheet based on a going concern	See resolution on comment 287.

			concept. Therefore for the valuation the concept of recoverability should be used.	
290.	Deloitte	3.118	We suggest that unused tax losses and unused tax credits should be recognised as deferred tax assets under Solvency II where they meet the recognition criteria in IAS12	See resolution on comment 287.
291.	KPMG	3.118	It is likely that the suggested approach will create significant differences between available capital under Solvency II and equity under IFRS. We recognise that there are some good technical reasons for not permitting deferred tax to be recognised on unused tax losses or tax credits (because they are only recoverable/payable out of future taxable profits) but we recommend that further research is undertaken into the effects of this approach on available capital. Tax losses are often valued in transactions of (re)insurance undertakings because they increase the net cash flows from the investment so although they are not assets that can be sold separately from the (re)insurance undertaking (or business of the undertaking), they do have an economic value if the whole (re)insurance undertaking (or business) is sold. It would also be helpful if some guidance were provided on how tax losses should be incorporated into required capital calculations. Loss events that are modelled in the required capital calculations will create tax losses that have an economic value because they reduce tax liabilities on subsequent profits.	See resolution on comment 287.
292.	XL	3.118	Recognition of a deferred tax asset relating to unused tax losses and	See resolution on comment 287.

			unused tax credits should be in accordance with the relevant GAAP used for the legal entity's financial statements or in accordance with an appropriate currently recognised GAAP (such as US, UK or Irish GAAP, as well as IFRS)	
293.	CFOF	3.118	Unused tax losses and tax credits should be evaluated on an economic basis - we do not agree with a valuation of nil. In principle the unused tax loss can be directed back to a valuation movement in a specific asset or liability. The deferred tax asset will therefore have an impact on the overall economic value and should be reflected in the balance sheet. Furthermore in our opinion the recognition of the unused tax losses should be based on the recoverability principle (as per our comment to Para 3.117). If an insurer is able to demonstrate that is it is able to use the unused tax loss either by means of a carry back or a carry forward, it should be allowed to recognise the value of the unused tax loss. Furthermore: • the suggested approach could create some differences between available capital under Solvency II and equity under IFRS; • it could have unwanted effects on available capital. • tax losses are often valued in transactions of insurance companies because they increase the net cash flows from the investment so although they are not assets that can be sold separately from the company (or business of the company), they do have an economic value if the whole company (or business) is sold. CEIOPS' departure from IAS12 has not been sufficiently justified with a	See resolution on comment 287. See also resolution on comment 254. See also resolution on comment 277.

			set of solid and clear arguments. While IAS 12 attributes explicitly an economic value to those assets under certain conditions. CEIOPS doesn't explain why those particular deferred tax assets that are recoverable would be intrinsically different to a general deferred tax asset (a general calculation of deferred taxes may result a deferred tax asset in a Solvency 2 balance sheet) and then would require a specific treatment. The fact that unused tax losses or tax credits are not linked to specific assets or liabilities of the Solvency 2 balance sheet (see para 3.117) should not prevent one from considering them as assets with a positive economic value. Indeed, the fact that there is no specific asset within the balance sheet is contradictory with the principle of the temporary difference. When a company has an unused tax loss, it has an asset on a taxable basis. This can be the case for any temporary difference, where the asset does not exist for accounting or solvency purposes, but does exist for tax purposes. Hence if revenue has already been taxed and that tax may be recoverable in future periods the economic value of this asset should be reflected in the Solvency II balance sheet. This economic value is the result of the recognition (under the IAS 12 provisions) that these deferred tax assets can be recovered thanks to existing deferred tax liabilities, such as calculated in the Solvency 2 balance sheet or, in their absence, thanks to future positive tax bases calculated on a prudent "on-going concern" basis. Recognition principles for deferred tax assets are already very restrictive, in particular where there is a history of losses. When losses are unusual, however, and can be estimated reliably, there is no valid reason to consider that the deferred tax asset has no economic value.	

			Deferred tax assets may offset deferred tax liabilities to some extent. A company that is carrying deferred tax liabilities in its Solvency II balance sheet whereas the tax credits or the unused losses are not recognised will not present a fair tax position regarding assets and liabilities. This is because at least some of the deferred tax liabilities will be offset against the tax credits or unused tax losses and will never be charged as current tax liabilities. It would also be helpful if some guidance was provided on how tax losses should be incorporated into required capital calculations. Loss events that are modelled in the required capital calculations will create tax losses that have an economic value because they reduce tax liabilities on subsequent profits. The loss absorbing properties of deferred tax assets should be appropriately reflected in the calculation of the MCR and SCR.	
294.	UNESPA	3.119	As we state above, every asset and liability shall be valued economically. As stated above, UNESPA appreciates this pragmatic solution. In this case, for Deferred Taxes the way more practical and simply to asses these items could be the IAS 12 that attributes explicitly an economic value to those deferred taxes (assets or liabilities) under certain conditions.	Agreed. Refer new wording of the advice.
295.	CFOF	3.119 – 3.121	We agree IAS 12 is an acceptable proxy - regardless of the local tax	Noted.

			base used and the final composition of the economic balance sheet, any adjustment from the local tax base to arrive at the economic balance sheet should result in a corresponding tax loss/credit on the Solvency II balance sheet. However, we should point out that this was not tested under QIS4. To avoid any misinterpretation, we would request that the text in paragraph 3.121 is adjusted as follows: "*The relevant deferred taxes for solvency purposes shall be determined by the differences between the economic valuation of an asset or liability,* including technical provisions, *on the Solvency II balance sheet and its tax base*". Entities regulated under Solvency II may be influenced not by a single tax regime but also by tax regimes applicable to international subsidiaries and branches, as local tax subjects, regardless of whether the regulated entity is tax exempted or not (tax credit).	Refer paragraph 3.149, which makes reference to all assets and liabilities, without exclusion.
296.	UNESPA	3.120	UNESPA welcomes this paragraph since is in line with a fully recognition of *Taxable Temporary Differences* (DTL) and *Deductible Temporary Differences* (a proportion of the DTA), but however a different treatment for Unused Tax Credits and Unused Tax Losses (the rest of DTA) should be considered. If CEIOPS does not allow the recognition of these kind of items, it will be generated an asymmetric treatment depending on such Deferred Tax were an assets or a liability. The CP allows for a full recognition of liabilities but for a very limited recognition of assets. Therefore the	Partially agreed. Refer new paragraph 3.143

			tentative approach proposed incorporates prudence in the valuation that is not supported by Level 1 text. Such Level 2 approach, from an economic viewpoint, would not be consistent.	
297.	UNESPA	3.121	We do not agree with the statement "*Consequently the relevant deferred taxes for solvency purposes shall be determined by the differences between the economic valuation of an asset or liability on the Solvency II balance sheet and its tax base"* since it seems that this paragraph is excluding unjustifiably the recognition of Unused Tax Credits and Unused Tax Losses that are considered by IASB provisions in IAS 12. Considerations for valuation of Deferred Taxes under *IAS 12- Income Taxes* In the current *Consultation paper 35 on Valuation of Assets and "Other Liabilities"* CEIOPS states that IAS12 appears to be a good proxy for valuating deferred taxes in a balance sheet for solvency purpose(paragraph 3.110). The following terms are used in the Standard: • *Current tax*- is the amount of income taxes payable (recoverable) in respect of the taxable temporary differences. • *Deferred tax liabilities*- are the amounts of income taxes payable in the future periods in respect of taxable temporary differences.	Partially agreed. Refer new paragraph 3.143. CEIOPS considers IAS12 to be a good proxy for economic valuation.

			• *Deferred tax assets*- are the amounts of income taxes recoverable in future periods in respect of: a) deductible temporary differences; b) the carryforward of unused tax losses; and c) the carryforward of unused tax credits • *Temporary differences*- are differences between the carrying amount of an asset or liability in the statement of financial position and its tax base. Temporary differences may be either *a) taxable temporary differences* or *b) deductible temporary differences.* IASB (UE endorsed accounting standards) considers that all types of Deferred Tax can be recognised complying some requirements. We state below the several steps to recognise these items: <u>Step 1-Recognition of Deferred Tax Liabilities (DTL)</u> A DTL shall be recognised for all *Taxable Temporary Difference* -except in certain circumstances established in the Standard- <u>Step 2- Recognition of Deferred Tax Assets (DTA)</u>	

			2.1 <u>Recognition of *Deductible Temporary Differences*</u>- A DTA shall be recognised for all *Deductible Temporary Differences* to the extent the it is probable that taxable profit will be available against which the DTT can be utilised -except in certain circumstances established in the Standard- 2.2 <u>Recognition of *Unused Tax Losses and Unused Tax Credits*</u>- A DTA shall be recognised for the carryforward of unused tax losses and unused tax credits to the extent that it is probable that future taxable profit will be available against which the unused tax losses and unused tax credits can be utilised. Therefore, besides the taxable and deductible differences already recognized in the Consultation Paper, the economic value of <u>unused tax credits and unused tax losses</u> should be considered as result of the recognition that these deferred tax assets can be recovered thanks to existing deferred tax liabilities or, in their absence, thanks to future positive tax bases calculated on a realistic "on-going concern" basis. For a “winding-up” situation, a case by case analysis should be considered in order to asses the economic value of these tax credit and losses, since although is not guaranteed that a future taxable profits will arise again in the entity, their amount in a hypothetical transaction between knowledgeable willing parties, would have an economical value since the other part (the buyer) would be able to use it against	Noted.

			their existing deferred tax liabilities of future taxable profit. In other words, a significant part of these assets (DTAs) could be used to cover acquired commitments also in a winding up process.	
298.	Pacific Life Re	3.122	Paragraph 3.122 prohibits the discounting of deferred tax assets (and liabilities) that are included in the realistic balance sheet. This creates a potential mismatch if, for example, the deferred tax asset, which is not discounted is used to offset future taxable profits which are. It is not clear to us why discounting should be disallowed for one particular element of the balance sheet in this way. As a matter of principle, we consider it preferable to avoid setting too many rules relating to the determination of realistic assets and liabilities, relying rather on firms to make these decisions based on the circumstances of their businesses.	Noted. CEIOPS agrees that IAS 12 is not necessarily in line with an economic value. However CEIOPS considers IAS12 to be a good proxy for economic valuation.
299.	ICAEW	3.122	We agree that it is reasonable to follow IAS12 and not discount deferred tax assets and liabilities as a result of the potential uncertainties involved.	Noted

300.	CEA	3.122	Flexibility should be considered in the area of discounting - Under the overall economic approach underlying Solvency II, all cash in/out flows expected in the future are discounted in order to calculate their expected present value. However, if the cash flows on which the future tax is applied are already implicitly discounted then we would not expect this to be done a second time. Therefore, we would support the CEIOPS proposal (to not allow for discounting) in the case that the cash flows already implicitly include an allowance for discounting as it is important that discounting is not double-counted. However, if it is the case that an amount to which tax is applied is not already discounted, then we would expect it to be discounted. Therefore this principle should be applied in a flexible manner and be appropriate to the amounts being considered.	Noted. CEIOPS agrees that IAS 12 is not necessarily in line with an economic value. However CEIOPS considers IAS12 to be a good proxy for economic valuation.
301.	CFOF	3.122	Deferred tax assets should reflect the time value of money - the CFO Forum believes that deferred tax assets should reflect the time value of money. If the IAS 12 basis for calculating deferred tax is applied to a company's economic balance sheet, the value of the assets and liabilities implicitly reflect the time value of money and no further discounting of the deferred tax asset is required. If, however, the deferred tax asset is based on the amount that will require payment to the tax authorities at a future date, that amount should be discounted to the balance sheet date.	Noted. CEIOPS agrees that IAS 12 is not necessarily in line with an economic value. However CEIOPS considers IAS12 to be a good proxy for economic valuation.

302.	PwC	3.123	We would support Approach 2 on the initial recognition of the liability. We support this on the grounds that it seems unlikely that the intention of the Level 1 text was that a loss should arise on the issue of debt where that has been issued through an 'arms length' transaction. CEOIPS should provide clarity however in relation to whether financial liabilities subsequent to initial recognition are measured at amortised cost or fair value (excluding the effect of changes in own credit standing).	Noted. CEIOPS recommends that undertakings apply an approach which combines the use of the risk free rate for some liabilities (not part of own funds) and consideration of own credit standing at inception for other liabilities (part of own funds). However a minority of members recommend that irrespective of whether financial liabilities are eligible as part of own funds or not, the value of financial liabilities should always consider own credit standing of the (re)insurance undertaking at inception and subsequently ignore any changes in own credit standing to be aligned with Article 74. In both the approaches, at subsequent valuation date, the liability will be valued at fair value while no adjustment for any subsequent changes in own credit standing will be taken into

				account. Refer new wording of the advice (3.171+3.175) and the related explanatory text.
303.	GC	3.123 (Section 3.2.9)	We believe that Approach 2 - Use a risk free rate plus own credit standing at inception for valuation is most suitable. Approach 1 seems inconsistent with a market consistent approach. It is very important that the insurance industry is not disadvantaged when it comes to possibility of debt funding. Regarding "Approach 1": • We are strongly opposed to Approach 1 for reasons given below - • As described in 3.134 this approach is not market consistent and isn't consistent with Article 74 1 "liabilities shall be valued at the amount for which they could be transferred, or settled, between knowledgeable willing parties in an arm's length transaction". • We do not agree with the rationale in 3.132. The amount for which a reference entity will accept a transfer of liability will be based on the amount it could obtain for entering into the obligation otherwise. During periods when all insurance obligations funding is considerable above risk free rate then the market rate for the transfer of a liability will reflect this and not be based on the risk free rate. • We agree with the arguments in 3.137 and furthermore would suggest that this would incentivize all debt funding to be short	See resolution on comment 302.

			dated, pushing insurance companies into the dangerous business model followed by some banks going into the credit crisis. • We also believe that such a measure would be extremely pro – cyclical making the value of liabilities increase when assets fall. Balance sheets would not need to be strengthened during times of market exuberance but be put under more stress during times of market crises. • Instruments that are eligible for own funds would destroy equity in their issuance (even if they create lower quality regulatory capital) because of their premium over risk free and long duration. Regarding "Approach 2": • This approach avoids some of the very dangerous effects of Approach 1on pro cyclicality and creating perverse debt raising outcomes, and is therefore much more preferable to Approach 1. • However, we agree with the points in 3.131 that such a method would reduce comparability and conversely make insurance undertakings the market judged to be weaker seem to have more capital for the same obligation (as the liability would be valued lower with a higher discount rate for its lower credit standing). • Entities could still get a dubious uplift to Solvency as their credit standing deteriorates by selling and repurchasing liabilities. • This approach also isn't consistent with Article 74 1 since the value does not represent what it would transfer for to a	

			knowledgeable willing party, the original credit standing no longer being relevant. We would also suggest that CEIOPS give serious consideration of the following alternative approaches: - Alternative A – Reference Index: The discount rate used is based on a benchmark reference index for corporate debt of a suitable credit quality (e.g. EURO denominated corporates rated AA or higher). This clearly addresses the two problems of "approach 2", namely: (i) that different entities can in theory place different values on the same set of obligations, because the discount is in approach 2 based on their own credit rating, and (ii) that the value of the liabilities does not vary in line with market movements under approach 2 because the spread is fixed at inception. - Alternative B - Accounting "book value": The traditional accounting approach is to use the nominal amount. For fixed rate debt this can create a distorted balance sheet when all other assets and instruments reflect the mark to market movement from interest rates. However where instruments are eligible for own funds the notional amount reflects the amount of the loss that can be absorbed; and arguably the movement in the present value arising from interest rate movements is less relevant.	On alternative A: while we agree that a reference index could apparently solve some of the shortcomings of approach 2, we also acknowledge that - this is not a suitable approach for liabilities part of the own funds as the credit rating at inception will not be the one of the issuer at inception - that there are some practical difficulties in the definitions of a suitable reference entity that would outweigh its potential benefits. On alternative B: CEIOPS sees this approach as a further departure from the market consistent economic valuation and therefore not a feasible solution.

304.	ILAG	3.123-140	The risk free rate should be used for other liabilities as this would be consistent with technical provisions.	Noted. CEIOPS sees some merits in having a consistent treatment between insurance liabilities and other financial liabilities. Nevertheless, financial liabilities are different in nature and characteristics from other financial liabilities. See also resolution on comment 302.
305.	CFOF	General	Other financial liabilities and amounts payable	Noted.

		Comments 3.124 – 3.140	Valuation of liabilities – Concerning liabilities which have been issued for financing purposes the discussion about what constitutes an economic value appropriate for a solvency balance sheet will run differently from a discussion about the economic value of assets, because the aim is to look at each entity's solvency position. Own credit standing - In transactions between third parties, a liability from a company with a very bad credit standing would have low value. This is what would be referred to as the market price. For an insolvent company the price of debt might approach nil. The insolvent company is, however, still liable to pay the nominal value of its debt. For the entity issuing the debt, the nominal value of the liability does not decrease in the way market prices would. When a company is known to be in financial difficulties, however, it is easier for it to enter into arrangements with creditors that allow the liabilities to be discharged for an amount less than the nominal value of the debt. For the purpose of solvency regulation, a supervisor should be interested in the amount a company actually owes to its debtors. The failure to pay debts as they fall due will ultimately result in intervention under local insolvency laws. Thus the payable amount should be the primary consideration for supervisory purposes. Whilst the CFO Forum supports the view that an entities liabilities should not reflect own credit standing for Solvency purposes, some companies issue debt instruments that are actively and can be valued based on an observable market price. This price, however, would reflect the own credit standing of the entity. The CFO Forum would not require entities to apply explicit adjustments to observable market	

			prices to remove the effect of own credit standing from such values in the Solvency II balance sheet. Discounting for the time value of money - since companies need to be able to pay their debts when they fall due, the valuation of those debts should reflect the time value of money until the company is required to repay the debt. Where there is no one fixed date the expected timing should be used. The CFO Forum considers the different valuation schemes to be appropriate as follows: <u>Preferred approach: Market value at inception, fluctuation of market rates excluding own credit risk at subsequent valuation</u> Initial measurement should be based on market value, which will reflect own credit standing of the debt at issue. Subsequent valuations should reflect changes in market values at subsequent valuation dates, subject to materiality. The CFO Forum considers that the economic value of liabilities should reflect the economic values of those obligations to the company which may differ from the economic value to a market participant. This approach permits the use of replicating portfolios. We highlight that the value of a replicating portfolio (unless otherwise adjusted) reflects the credit standing of the financial instruments used to determine the replicating portfolio and not the own credit standing of the liability being evaluated. <u>Second best approach: Market value at inception, amortised cost at</u>	On the preferred approach: Partially agreed. Refer new wording of the advice (3.171-3.176) and explanatory text. See resolution on comment 282. On the second best approach: Regarding the second best

			subsequent valuation This approach is desirable when there are no observable market values at subsequent revaluation dates or where the adjustment required to reflect fluctuations in market rates is not material. An additional adjustment is made under IFRS, as transaction costs are regarded as financing costs and are distributed over the duration of the liability. To make it easier for the IFRS applicants, this relatively small adjustment which is included in amortised cost should also be accepted as part of an economic value under Solvency II. The rationale for this is that the received financing cash flow is being reduced by the cost incurred at inception and these costs are similar to interest payments being distributed over the term of the liability. Not recommended: Approach 1 (use a risk free rate for valuation) or alternatively market values including fluctuating own credit standing The CFO Forum considers that both valuations using a risk free rate only and valuations using rates including own credit standing at subsequent valuations are not suitable for a Solvency II balance sheet. Other comments Amortised cost - the statement in paragraph 2.126 is not correct. The amortised cost method means that liabilities will be recognised at market value less transaction cost at inception. In the following amortised costs lead to the liability approaching its nominal amount at the due date. Own credit standing – level 2 implementing measures should be clear	approach, CEIOPS sees this approach as a further departure from the market consistent economic valuation and therefore not a feasible solution. Noted. The paragrapgh is related to the fair valuation of financial liabilities

			that market values at inception reflect the credit standing of the liability which may differ from the overall credit standing of the entity due to priority of the debt or the existence of other guarantees. Debt versus equity - we note that the distinction between debt instruments and equity instruments is not discussed in this paper. We will discuss our position on this topic in response to the relevant consultation paper.	
306.	Munich Re	3.126	This is not correct. The amortized cost method means that liabilities will be recognised at market value less transaction cost at inception. In the following amortized cost lead to the liability approaching its nominal amount at the due date.	Noted. The paragrapgh is related to the fair valuation of financial liabilities
307.	L&G	3.126 3.127 3.130-3.132 3.133-3.137 3.138-3.139	Current approach broadly reflects IFRS valuation at amortised cost. Valuing at risk free rate results in a higher valuation of the liability on inception than the amount of capital raised ie. raising debt would result in a reduction in equity capital at outset. Views are requested on the approaches proposed.	Noted. Refer the new wording of the advice (3.171-3.176)
308.	CEA	3.128	We agree.	Noted
309.	Munich Re	3.129 ff	Valuation of liabilities Concerning liabilities which have been issued for financing purposes the discussion about what constitutes an economic value appropriate for a solvency balance sheet will run differently from a discussion about the economic value of assets, because the aim is to look at an entity from a solvency position point of view.	See resolution on comment 305.

			Between third parties a liability from a company with very bad credit standing would have low value. This is what would be referred to as the market price. For a company in insolvency the value might approach nil. However in the case of insolvency a company is still liable for its debt at nominal amounts. For the entity issuing the debt, the liability does not decrease in the way market prices would! A supervisor will be interested in the amount a company actually owes to its debtors. If this amount cannot be paid back at the due date there is a solvency issue which has to be identified. Thus the payable amount is needed to be looked at. On the other hand a time value of money should be taken into consideration as well, to account for the future due date. The question is: Which is the correct discount rate. Munich Re advocates the correct discount rate to be the rate effectively paid by the undertaking. This rate does not change due to the undertakings own credit standing. Nor does it change due to changes in market rates. The underlying assumption to this is that financing liabilities have been incurred for financing purposes and not for trading purposes. For example: in the event of financial distress, a liability which carries unrealized gains cannot be settled because just now financing is needed. It therefore would be unrealistic to show unrealized gains on liabilities, when trying to evaluate a companies' financial position in financial distress. The relevance of such an approach gets even clearer when looking at instruments which qualify for a recognition as own funds. Solvency II makes use of tiers to describe the capital structure's quality.	

			In a situation where book value exceeds market value, a mark-to-market approach would lead to a shift between tiers of capital and thus would alter the structure of capital. A hybrid instrument of 1.000 Mio Euro once categorized as Tier 2 would at a 20% decrease of market price be turned into 200 Mio Euro of Tier 1 and 800 Mio Euro Tier 2 own funds. As already mentioned above especially in the situation of financial distress, will not have the financial capacities to buy back financing instruments. A shift to higher quality capital over tiers does therefore not reflect the economic picture. Especially in the case of instruments qualifying as own funds, a market valuation should not be made. Munich Re considers the different valuation schemes to be appropriate as follows: <u>Preferred approach: Market value at inception, amortized cost at consequent valuations:</u> At recognition market value should be taken as reference, following valuations should take into account the real interest rate incurred by the entity. This approach leads to the liability be valued at amortized cost. If the interest rate incurred is the interest rate annually paid, the following valuation will find, that not change from the market value at inception will occur. An additional adjustment is made under IFRS, as transaction costs are regarded as financing cost and are distributed over the duration of the liability. To make it easier for IFRS applicants, this relatively small adjustment which is included in amortized cost should be accepted as	

			part of an economic value under Solvency II also. (Rationale: It can be argued that the received financing cash flow is being reduced by the cost incurred at inception and these cost are similar to interest payments being distributed over the term of the liability). Second best approach: Market value at inception, fluctuation of market rates excluding own credit risk at consequent valuation: As a compromise to the above described valuation model, Munich Re would consider Approach II (Use a risk free rate plus own credit standing at inception for valuation) the second best solution. Not recommended: Approach 1 (use a risk free rate for valuation) or alternatively market values including fluctuating own credit standing Having said the above, Munich Re considers both valuations (using risk free rate only or using rates including own credit standing at subsequent valuations) not suitable for a Solvency II balance sheet.	
310.	FFSA	3.129 to 3.140	We recommend that Approach 2 be applied, i.e. using a risk free rate plus own credit standing at inception for valuation of financial liabilities. Afterwards, change in rates will just take into consideration the change in risk-free rate, in order to avoid the fluctuations in debts and equity due to the undertaking own credit rating. We consider this approach is the only one that avoids recognising an artificial loss and decrease in equity when a company issues its debt.	See resolution on comment 302.
311.	CEA	3.133	We believe that our position is not conflicting with an objective-based interpretation of the Level 1 text. First on the allowance for own credit	See resolution on comment 302.

		(footnote)	standing at inception: • At first look, Article 74 could be read in a very strict sense that the own credit standing should never be taken into account. However, we understand that the objective of this provision is to ensure that any change in rating of the insurer does not affect the valuation of liabilities and so does not result in the release of profits or losses into the Solvency II balance sheet. This is to avoid the irrational effect that a decrease of the own credit standing would lead to an increase of own funds. An initial recognition of the own credit standing would not go against this objective. • Furthermore, Recital 27 and Recital 28 allow for a different interpretation: - Recital 27: "The assessment of the financial position of insurance and reinsurance undertakings should rely on sound economic principles and make optimal use of the information provided by financial markets,[…]. In particular, solvency requirements should be based on an economic valuation of the whole balance-sheet." - Recital 28: "Valuation standards for supervisory purposes should be compatible with international accounting developments, to the extent possible, so as to limit the administrative burden on insurance or reinsurance	Refer new wording of the advice (3.171-3.175)

			undertakings." • In addition, a reflection of the own credit standing at inception would make use of observable market data and so would ensure consistency with IFRS. No reflection of changes in the risk-free interest rate for liabilities included in eligible own funds could possibly be considered to conflict with the principles of a market consistent valuation. However, it could be justified as follows: • It would be in line with the valuation of all other own funds items (it is obvious that equity should not be valued at stock prices). • It could be misleading to shift the tiering of own funds items to reflect changes in the risk-free rate e. g. an decrease of tier 2 quality subordinated debts would increase basic own funds (= tier 1). The presentation of the initial price is reliable because it reflects the loss-absorbency of the instrument (issuer view).	
312.	CTIP	3.136 Annex B	Senior debt Being reminded that the Solvency Capital Requirement is determined in order to ensure a ruin risk with a maximum probability of 0,5% over the forthcoming year we believe it is not consistent to valuate the senior debt in a perpetual way with a risk free rate. At the most the risk free rate could be used to valuate the part of the debt for the coming year.	See resolution on comment 302.

			Besides, we believe that the valuation of non-insurance liabilities using a risk free rate is not a market consistent approach. Undertakings should be able to use one credit standing for non-insurance liabilities in a combined approach.	
313.	Pearl	3.140	We support approach 2 as set out in paragraphs 3.133-3.137. We do not believe that it would be appropriate for liabilities to be valued on initial recognition using a risk free rate without own credit standing as this will give a non-market consistent valuation and result in firms having to recognise initial losses and higher liabilities – these would not represent real economic losses and so do not seem to be consistent with the Solvency II valuation basis. Likewise we do not believe that subsequent changes in own-credit standing should be taken into account in valuations, as these would allow firms to take reported profits as their credit standing declines and would appear to assume that the liabilities will not be met in full which seems an inappropriate treatment for a regulated entity.	See resolution on comment 302.
314.	ICAEW	3.140	We agree that Approach 2 avoids a number of abnormalities in valuations that would otherwise be likely to arise for issued debt. This would also potentially avoid a need for complicated adjustments to amounts as presented in financial statements.	See resolution on comment 302.
315.	RSA	3.140	We believe that approach 2, which reflects the economic approach at inception of a loan, should normally be adopted. This will reflect an undertaking's credit standing at the date the liability incepts which would then be reflected at future balance sheet dates.	See resolution on comment 302.

			However, we are not convinced that this should be the approach for those liabilities with "loss absorbing capacity" where we believe that a more simple approach should be allowed. A revaluation of such debt to take account of market rate changes (per approach 2) would merely cause a reallocation between the layers of capital (e.g. between tier 1 and tier 2 capital) and hence leave the total capital position unaffected. We believe that the only reason for placing a value on such would then be to ensure that any limits on the amount of each class of capital are not exceeded. Consistent with the principle that "own equity" is not revalued under IFRS, we believe that the amortised cost (or possibly the par value of debt) would provide a better measure of such instruments. The revaluation of the debt (under an unstressed balance sheet valuation) does not seem necessary as the additional liability arising under a stressed scenario (in the form of the value of future cash flows) may be avoided under the terms of such instruments.	CEIOPS would like to underline that the classification of eligible own funds into different tiers will only depends on the quality of the instruments and it won't be affected by the valuation of the instrument itself. The possibility to use the excess of own funds above the limits will follow other requirements and will not be affected by the valuation of the items included in the tier.
316.	CEA	3.140 General comment	We note that the distinction between debt instruments and equity instruments is not discussed in this paper. We will discuss our position on this topic in response to the relevant CP.	Noted.
317.	CEA	3.140	Own credit standing should be taken into account at inception, changes in credit standing after this time should not be reflected - We agree with CEIOPS' point set out in Para 3.133: that if own credit standing is not taken into account in the valuation of non-insurance liabilities at the time of initial recognition then the liability will be valued in the balance sheet at an amount that is higher than the one raised in the	See resolution on comment 302. CEIOPS appreciates that there are similarities with the recommended approach.

			transaction. Indeed we believe that it is important that the insurance industry is not disadvantaged when it comes to possibility of debt funding and so as a result we strongly agree with the proposal that own credit standing at inception should be taken into account. Furthermore, this meets most the objectives of a market consistent valuation. • Therefore we oppose the proposed "approach 1" which states that own credit standing should be ignored at inception. Consideration then needs to be given as to how to value these "other financial liabilities" following inception. CEIOPS' "approach 2" proposes that following inception these liabilities should be valued using the risk free rate adjusted for the own credit standing at inception. While we agree with this approach in principle there could be some concerns if it were to be used for the valuation of those "other financial liabilities" which are part of the insurer's eligible own funds. The reason for this is that any shifts in the risk free rate would automatically result in shifts in the amount of own funds eligible in each tier. However, the total value of eligible own funds is calculated as the difference between assets and liabilities and as such is a balancing item, therefore the amount of tier 1 equity capital would offset any shifts if the value of the other tiers changes. Any attempt to reflect changes in the risk-free rate in the valuation of those "other financial liabilities" held in eligible own funds would therefore result in volatility of the amount of each tier.	On the "filters": According to article 50 of the Directive, the Level 2 advice on "Supervisory Reporting and Public Disclosure Requirements" requires undertakings to provide "a qualitative and quantitative explanation of any material difference with the accounting valuation used by the undertaking".

			For eligible own funds items, supervisors will be interested in the amount a company actually owes to its debtors. Thus it may be more appropriate to consider the amount payable, while the time value of money should be taken into consideration to account for the fact that this amount will be paid at a future date. A pragmatic solution could be to run-off these items of own funds using a discount rate equal to the rate effectively paid by the undertaking. This rate does not change due to the undertaking's own credit standing, nor does it change due to changes in market rates. The underlying assumption is that financing liabilities have been incurred for financing purposes and not for trading purposes. Therefore, it may be appropriate that "other financial liabilities" are split into those that are eligible for own funds and others, with the following treatment for each of those: • "Other financial liabilities" classified under eligible own funds – As discussed above, an appropriate approach could be to value at the market value at inception and then use amortized cost at subsequent valuations. Our next best approach would be to value using CEIOPS' "approach 2". • All other "other financial liabilities" – We support CEIOPS proposed "approach 2" i.e. Market value at inception and then the fluctuation of market rates, excluding fluctuations in own credit risk, at subsequent valuations. Appropriate filters should be set in order to reconcile this value with the measurement of the	

			liabilities according to IFRS.	
318.	CROF	3.140.	*"In order to properly assess the valuation of this balance sheet item, CEIOPS would like to receive feedback from stakeholders on the different approaches presented."* We support Approach 2 – the application of a risk free rate and recognition of own credit standing at inception, with the Credit premium over the risk free rate at inception being maintained on subsequent measurement – meets at most the objectives of a market consistent valuation. A further alternative approach would be the use of a discount rate based on a high quality corporate bonds as applied in IAS 19 to pension schemes. It is important that the insurance industry is not disadvantaged when it comes to possibility of debt funding or pushed into solely using short term funding. Approach 1 is not market consistent and would have pro-cyclical impacts on companies. However there is one concern: certain financial liabilities are quoted on a stock exchange and on a continuous basis fair value measures are retrieved. It would be very onerous for the insurance industry if they would have to use a mark-to-model valuation rather than a mark-to-market valuation. We understand that article 74 of the Directive is prohibiting the inclusion of the own creditworthiness, but this requirement is not in line with the thinking regarding fair value.	See resolution on comment 302.
319.	Deloitte	. 3.140	We support option 3 because:	Agreed. See resolution on comment 302.

			• valuing financial liabilities classified within own funds on initial recognition in accordance with IFRS would not change the total own funds (except where the liabilities included within own funds are restricted) and minimises the valuation differences from IFRS. • valuing liabilities not classified within own funds at the RFR is faithful to the principles of the Directive. All three alternatives will entail some difference from the IFRS valuation. Although, recital 28 notes that one of the principles of the Directive is to minimise differences from IFRS where possible, we suggest that it is important that the chosen alternative is faithful to article 74 which explicitly requires that movements in own credit risk are not taken into account in the valuation of liabilities. We note that where financial liabilities are issued at a rate in excess of the RFR, their recalculation using the RFR when classified within own funds would reduce tier one capital, only to have this reduction reversed when the full value of own funds is calculated inclusive of the full IFRS value of those liabilities within own funds. The only exception to this reversal is when the (re)insurer is highly leveraged and the amount of liabilities recognised within total own funds is restricted.	
320.	KPMG	3.140	We consider that the principles described in the combined approach are reasonable in the context of an economic valuation on inception because the initial liability recognised will be equivalent to the net proceeds received. By excluding changes in own credit standing from subsequent measurement, the combined approach avoids recognizing credits to available capital from deteriorations in own credit risk which	Agreed. See resolution on comment 302.

			appears to meet the objectives of the Level 1 requirements.	
321.			Confidential comment deleted.	
322.	ABI	3.140	We strongly oppose approach 1. We do not believe that it would be appropriate for liabilities to be valued on initial recognition using a risk free rate without own credit standing as this will give a non-market consistent valuation and result in firms having to recognise initial losses and higher liabilities – these would not represent real economic losses and so do not seem to be consistent with the Solvency II valuation basis. Likewise we do not believe that subsequent changes in own-credit standing should be taken into account in valuations, as these would allow firms to take reported profits as their credit standing declines and would appear to assume that the liabilities will not be met in full which seems an inappropriate treatment for a regulated entity. Approach 2 is much preferable to approach 1. However, this continues to have drawbacks as it is still not a market consistent approach. A potential alternative approach which CEIOPS may wish to consider is to use a discount rate at which the strong undertakings in the market would generally fund at. This would ensure that the value in the market for which undertakings would be prepared to enter into the same set of obligations will be set by the strong entities within that market. A discount rate could be based on a basket of the funding costs of such companies, which could include in part the government. This approach has the advantage of:- • Consistency with Article 74 1 • Allowing strong companies to raise long dated debt	Noted. See resolution on comment 302.

			without a significant hit being passed through into equity capital • Producing a consistent measure across insurance undertakings • Balance sheets not impacted by the selling and re-issuing of these liabilities • Not pro-cyclical:- liabilities close to risk free valuation in strong markets, fall when whole market under pressure (but not when related just to the undertaking)	
323.	GC	3.141 (Section 3.2.11)	We agree with the comment in 3.145 that the IAS 19 computation model raises doubts with regard to if it could be made usable as a good proxy for an economic valuation. It is our belief that the computation of the committed liability exceeds what should be a fair economic value at the time of reporting. We would suggest that the calculation model used by life insurers to calculate managed retirement benefits on behalf of other employer would constitute a fair economic value to be used for solvency purposes also for commitments related own employees. We can not find any reason why the calculation ofretirement benefit commitments to own personnel should deviate from the same commitment to employees of other employers.	CEIOPS agrees that IAS 19 is not necessarily a suitable proxy for an economic valuation of all post employment benefits. Nevertheless, considering the foreseen revision of IAS 19 and based on a cost-benefit analysis, CEIOPS does not intend to develop separate valuation rules on post employment obligations for solvency purposes. CEIOPS however believes that undertakings shall not be prevented to use internal

				economic capital models for post-employment benefits calculation, provided that they are based on Solvency II principles applied to insurance liabilities, taking also into account the specificities of post employment benefits. Refer new wording of the advice (3.191-3.193)
324.	ILAG	3.141-155	Any movement from the IAS will cause insurers to be at a disadvantage to other firms in offering employee benefit schemes. It is also likely to speed the demise of defined benefit schemes. The IAS should be adopted initially and then CEIOPS keep the position under review. If the IASB is moving too slowly on the new standard or the new standard does not cope with CEIOPS concerns, then CEIOPS should start work on a standard to apply.	Agreed. See resolution on comment 323.
325.	PwC	3.141	We support CEOPIS recommendation that the use of the 'corridor' approach should not be allowable for regulatory purposes. With regards to the broader principles however we recommend the application of IAS19 until the revision that is currently taking place is finalized. Further consideration should be given to this issue once the	Agreed.

			IASB has issued a revised standard.	
326.	Munich Re	3.145 ff.	Post-employment benefit	
327.	Munich Re		The revision of IAS 19 includes a correction of the weaknesses in the assessment of post-employment benefits referred to in CP 35 (3.146ff). The transitional parallel accounting requested for these liabilities until the adoption of the revised IAS 19 is not necessary as the scheduled initial application of the revised IAS 19 coincides with the first application of Solvency II.	Noted. If there is change on the foreseen application of revised IAS 19, the current standard is applied with Solvency II regime in place. The elimination of the smoothing is needed in order to restrict undertakings to have different results depending on the chosen treatment for actuarial gains and losses.
328.	CFOF	3.145 - 3.155	<u>Post employment benefits</u> Current IAS 19 is not a suitable proxy for an economic valuation of all post employment benefits in many cases The CFO Forum recommends that post employment benefits should be valued on an economic basis using an appropriate mark to model methodology that reflect the obligations of the entity. IAS 19 valuations should be permitted as a proxy where the difference from an economic valuation would not be material. Revisions to IAS 19 – the level 2 implementing measures should not pre-empt the improvements from revisions to IAS 19, rather CEIOPS should consider the appropriateness of a revised IAS 19 as a basis for	Noted. See resolution on comment 323.

			economic valuations when it is published.	
329.	Aviva	3.146	Rather like insurance liabilities, we would expect to manage off our pension liabilities using assumptions appropriate to our scheme membership. We do not intend to go to the buy-out market, where participants seek to make a profit, so we are not interested in valuing scheme liabilities on an exit basis. Conversely, if we acquired or initiated group pension contracts, we would vary the assumptions to reflect the (buy-in) price paid and the characteristics of each particular portfolio. We agree that corporate bond rates may not be the most defendable ones to use but, with such a long-tail to our liabilities - over 80 years in our main UK scheme - and such a variety of outcomes, we are not sure an appropriate risk-free rate running off a swap curve exists for these durations.	Noted. See resolution on comment 323.
330.	GC	3.146	The valuation of IAS 19 is even farther away from an economic valuation than what is explained here. In discounting the general rule is to use high quality corporate bond rates. However, when there is no deep and liquid market, government bond rates are used. During the current financial crisis both options have had their problems. Yet in any case the discounting in IAS 19 results in valuations that are not comparable from entity to entity and do not result into an economic valuation.	Noted. See resolution on comment 323.
331.	Aviva	3.149	This paragraph concludes that entity-specific cash flows are better than using market-consistent assumptions. We agree with this.	Noted. See resolution on comment 323.
332.	Munich Re	3.151b section	Determining company-specific mortality tables is highly work-intensive	Noted

		three	and only makes sense for companies with portfolios of a sufficient size.	If there is change on the foreseen application of revised IAS 19, the current standard is applied with Solvency II regime in place. The elimination of the smoothing is needed in order to restrict undertakings to have different results depending on the chosen treatment for actuarial gains and losses.
333.	FFSA	3.151 & 3.155	We believe that moving to a new approach as proposed in 3.151 b) would be burdensome, with no significant gain or fair valuation to be expected compared to current IAS 19 methodology. As such, we recommend that the undertaking keep on using IAS 19 for solvency purposes, by adjusting the corridor impact only. All the smoothing effects of this IAS 19 option (resulting in deferral of actuarial gains and losses) would have to be adjusted and computed in the period when they occur.	Noted. See resolution on comment 323 and 332.
334.	GC	3.151	Even though there are problems with IAS 19 it needs to be taken into account that IAS 19 will be revised within a finite timescale. The short term revision mentioned in CP 33 will however probably not solve any of the problems mentioned. To our understanding the IASB is also planning a comprehensive review of IAS 19 starting in 2011.	Noted. See resolution on comment 323.

335.	L&G	3.151 3.155	Moving away from current principles. Long term liability which, when valued on a market consistent basis, has significant impact for solvency purposes – however 'true' solvency may not be significantly impacted where the payment of liabilities occur in future years.	Noted.
336.			Confidential comment deleted.	
337.	Munich Re	3.152	Eliminating the smoothing of actuarial gains and losses would require liabilities and expenses to be entirely recalculated. This would mean performing a complete supplementary calculation, which is not practicable.	Noted If there is change on the foreseen application of revised IAS 19, the current standard is applied with Solvency II regime in place. The elimination of the smoothing is needed in order to restrict undertakings to have different results depending on the chosen treatment for actuarial gains and losses.
338.	GC	3.152	This paragraph talks of IAS 19 for having a deferred recognition of actuarial gains and losses (corridor). It is true that in IAS 19 there is deferred recognition of actuarial gains and losses. However, as long as these gains and losses are within the corridor there is no need for the recognition of them. Only when actuarial gains and losses are larger than the corridor, the excess needs to be recognized and amortised.	Noted. See resolution on comment 323.
339.	Aviva	3.155	We would definitely favour option (a), the application of current IAS	Noted. See resolution on

			19, over option (b). It is also worth noting that we do use mortality tables appropriate for the characteristics of our scheme members. This is why we use different tables from country to country, and different tables from other UK companies. However, even this would introduce significant volatility into our solvency reporting hence our starting position is to include pensions obligations as on the current basis - i.e. related to the funding requirements.	comment 323.
340.	Pearl	3.155	We do not believe that it would be useful for CEIOPS to develop a separate treatment for post-retirement benefits. This is likely to be a difficult and complex task on which agreement is likely to be elusive. Neither would we support the use of IAS 19 amounts. As the paper recognises these liabilities are not calculated on a fully market consistent basis and can be extremely volatile. IAS 19 also calculates the expected deficit over the remaining life of the pension liabilities and it is not clear that this is relevant given the one-year basis of Solvency II. We believe that the current system adopted by the UK regulator (the Financial Services Authority), whereby the actual additional contributions over the next five years needed to clear the deficit are recognised as the liability for solvency purposes should be used for Solvency II (perhaps in modified form). This is a straightforward measure which clearly relates to the actual impact of the pensions deficit on the solvency of the company. We also believe that this methodology is consistent with the actual arrangements applicable to many insurers operating in a group structure where a services company carries the responsibility for funding the pension scheme and	Noted. See resolution on comment 323.

			in turn receives contributions from a number of insurance and non-insurance operating companies. It is normally the services company which bears the primary responsibility for eliminating any scheme deficit. An insurer can continue trading and contribute its share of the gradual elimination of any deficit at a rate agreed with the trustees.	
341.	ABI	3.155	We do not believe that it would be useful for CEIOPS to develop a separate treatment for post-retirement benefits. This is likely to be a difficult, complex task on which agreement is likely to be elusive. Neither would we support the use of IAS 19 amounts. As the paper recognises these liabilities are not calculated on a fully market consistent basis and can be extremely volatile. IAS 19 also calculates the expected deficit over the remaining life of the pension liabilities and it is not clear that this is relevant given the one-year basis of Solvency II. We consider that where companies use their economic models to measure their defined benefit pension liabilities in their Internal Model this valuation should be used. Indeed for life companies, this may be the ideal way to measure them. A simpler alternative that could provide an appropriate solution is the current system adopted by the UK regulator (the Financial Services Authority) for solvency purposes, whereby the actual additional contributions over the next five years needed to clear the deficit are recognised as the liability for solvency purposes. This is a straightforward measure which clearly relates to the actual impact of the pensions deficit on the solvency of the company. We also believe that this methodology is consistent with the actual arrangements	Noted. See resolution on comment 323.

			applicable to many insurers operating in a group structure where a services company carries the responsibility for funding the pension scheme and in turn receives contributions from a number of insurance and non-insurance operating companies. It is normally the services company which bears the primary responsibility for eliminating any scheme deficit. An insurer can continue trading and contribute its share of the gradual elimination of any deficit at a rate agreed with the trustees.	
342.	FEE	Paragraph 3.155	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.	Noted. See resolution on comment 323.
343.	ICAEW	3.155	As this is an area that is presently under review within IFRS it does not seem appropriate to develop any separate rules for solvency at the present time. There is likely to be significant expense and effort required for insurers to generate an alternative valuation to that required by IAS19. Unless there are particular concerns that supervisors feel must be addressed, amending the IAS19 requirements may represent considerable effort to address issues that may diminish as IAS19 evolves. Only if the variations to IAS19 are simple to address should they be introduced at this time, such as not permitting the corridor if that was considered unacceptable.	CEIOPS agrees on the response of not developing separate rules. As to the corridor, CEIOPS considers that if there is change on the foreseen application of revised IAS 19, the current standard is applied with Solvency II regime in place. The elimination of the smoothing is needed in order to restrict

				undertakings to have different results depending on the chosen treatment for actuarial gains and losses.
344.	RSA	3.155	We believe that the IAS 19 valuation basis should be adopted, notwithstanding imperfections in this valuation basis. We believe that if a better measurement basis could be achieved in a reasonable timescale then the IASB would not have delayed in making such changes to IAS 19. This reflected in the treatment in IFRS 3 (2008) where the valuation under IAS19 is used in place of the fair value generally required for valuing assets and liabilities acquired in a business combination.	Agreed. See resolution on comment 323.
345.	CEA	3.155	Companies should be able to use their internal models or IAS 19 as a pragmatic interim solution - We consider that companies should either use: • Their economic models to measure their defined benefit pension liabilities if they model them in their Internal Model. Indeed for life companies, this may be the best way to measure them; or • IAS 19 We believe that the use of IAS19 represents the most pragmatic interim solution. We note that IAS 19 is not currently compliant with	Agreed. See resolution on comment 323.

			fair value principles and therefore we believe that the treatment of pension benefits on the Solvency II balance sheet should be revised in accordance with the developments on the prudential rules for pension funds. As an aside we should note that the determination of company-specific mortality tables is likely to only make sense for companies with portfolios of a sufficient size.	
346.	CROF	3.155.	*"CEIOPS would like to receive feedback from stakeholders on the two possibilities for valuation of post employment benefits for solvency purposes, namely, apply IAS 19 until the revision that is currently taking place is finalized, considering that the costs of setting and complying with solvency valuation criteria for this topic before this revision ends may exceed the benefits of an economic valuation under Solvency II or develop a tentative treatment for these items as explained in paragraph 3.151 b)."* We consider that companies should be able to either: • use their economic models to measure these defined benefit pension liabilities if they model themselves in their internal model. Indeed for life companies, this may be the best way to measure them; or • we consider that IAS 19 may form a suitable basis of measurement (on a temporally basis) • If there is evidence that the IAS19 valuation is not a reasonable approximation of market value. For example, it is	Agreed. See resolution on comment 323.

			often the case that pension buy-outs are transacted at higher prices than the IAS 19 value. Such information should be built into the valuation for Solvency II purposes. We are the opinion that CEIOPS should wait on the new IAS 19 standards and should not develop its own measurement principles.	
347.	DIMA	3.155	Post Employment Benefits: Revised guidance is expected to be in effect within 3 years, a reasonable timeframe for introduction of concurrent IFRS and CEIOPS advice. Also proportionality considerations here.	Agreed. See resolution on comment 323.
348.	KPMG	3.155	We consider that (re)insurance undertakings should be able to use their economic models to measure these defined benefit pension liabilities if they model them in their internal model. Indeed for life undertakings, this may be the best way to measure them. Otherwise, we consider that IAS 19 may form a suitable basis. In some circumstance, (re)insurance undertakings may be aware that the IAS 19 valuation is significantly different from an expected transfer price. For example, it is often the case that pension buy-outs are transacted at higher prices than the IAS 19 value and (re)insurance undertakings may have received offers for transferring their pension liabilities. Such information should be built into the valuation for Solvency II purposes where such information is available.	Agreed. See resolution on comment 323.
349.	XL	3.155	We do not believe that it would be useful for CEIOPS to develop a separate treatment for post-retirement benefits. We would prefer a system similar to that used by the FSA currently whereby actual additional contributions over the next five years needed to clear any deficit are recognised as the liability for solvency purposes.	Agreed. See resolution on comment 323.

			Failing that, we would accept the application of IAS 19 until the revision that is currently taking place is finalised,	
350.			Confidential comment deleted.	
351.			Confidential comment deleted.	