20.11.2006/ with reference to
Solvency II and IASB Phase II of insurance contracts project

Dear Sir David,

Following my letter of last July, in which I offered to keep you updated about the developments in our work, I am now in a position to provide you with more information about the development of our different work streams related to Solvency II which we think have an important link with your work on Phase II of the insurance contracts project.

As you may know, CEIOPS supports the effort to achieve a single set of accounts that could be used for both general purpose financial reporting and regulatory reporting, with as few adjustments as possible. In our opinion this consistency will contribute to reducing costs and workload for insurers and will facilitate the supervisory process.

Even though IAS/IFRS are not aimed at supervisory purposes, CEIOPS believes that the policy and methodologies used for drawing up public financial statements should, as far as possible, be compatible with prudential purposes as well, in order to reconcile easily public financial statements with the reporting system used in applying the supervisory regime. This objective will be facilitated through an open and constructive dialogue between CEIOPS and the IASB.

In line with this objective, CEIOPS would like to formally support the ideas and comments expressed by the International Association of Insurance Supervisors (IAIS) on the two papers sent to you known as ‘First’ and ‘Second Liabilities Papers’, although we believe that some aspects need clarification.
Concerning the principles that would support the valuation of insurance liabilities under Phase II, we are aware that some stakeholders are proposing the inclusion of a profit margin on top of the best estimate and the risk margin. We have concerns with this approach and recommend the Board to further investigate its conceptual merits and to see whether and how this approach can objectively reflect the economic reality of insurance business.

We also take this opportunity to reinforce the position expressed by the IAIS in the Second Liabilities Paper that for the valuation of insurance liabilities an exit model is preferable, but profit on inception should be recognised only where an appropriate and sufficiently reliable risk margin has been provided for in the value of liabilities.

Concerning the disclosure requirements, CEIOPS believes that there should be as much consistency as possible between accounting standards and Pillar III public disclosure requirements (under Solvency II) to avoid duplication. In fact, the issued IAS/IFRS are being taken as a common reference in building CEIOPS' advice for the Solvency II Pillar III public disclosure requirements. These requirements will include additional insurance specific disclosures, which are not part of the IAS/IFRS framework (see Consultation Paper on supervisory reporting and public disclosure under the Solvency II environment attached).

Furthermore, CEIOPS advises that disclosures made by insurance undertakings under financial reporting, listing or other legal or regulatory requirements may be relied upon to fulfil the equivalent Pillar III public disclosure requirements.

We hope that this information and comments will be relevant for your work concerning Phase II of the insurance contracts project, and we reiterate CEIOPS' availability to provide further input in order to facilitate the discussion and contribute towards consistency between prudential and general purpose financial reporting.

Best regards,

[Signature]

Henrik Bjerre-Nielsen
(Chairman)