

**Comments Template on  
CP9 – GR - Reporting**

**Deadline  
20 January 2012  
12:00 CET**

Name of Company:	FRC UK	
Disclosure of comments:	Please indicate if your comments should be treated as confidential:	Public
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<b>Reference</b>	<b>Comment</b>	
General Comment	<p>The FRC is the UK's independent regulator responsible for promoting high quality corporate governance and reporting. We are independent of both Government and those we regulate. We focus on high quality regulation that supports investment in the UK to generate economic growth and employment.</p> <p>We set standards for actuarial work for IORPs and insurers through the Board for Actuarial Standards including a standard for how actuarial work should be reported. We set standards for financial statements through the Accounting Standards Board and the work of auditors through the Auditing Practices Board. We are also responsible for the UK's Corporate Governance Code</p>	

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which sets out standards of good practice in relation to Board leadership and effectiveness, including risk management, remuneration, accountability and relations with shareholders. We also ensure that the provision of financial information by public and large private companies complies with relevant accounting requirements.

The FRC executive includes actuaries with pensions and insurance expertise and other professionals such as accountants and lawyers.

We support the EU's Smart Regulation agenda. We consider that regulation should be principles-based where appropriate, targeted, implemented at the right level, and proportionate. We also consider that an impact assessment should be an essential part of the formulation of any new or change to existing regulations.

We support EIOPA's proposal that there should only be Level 3 Guidelines when necessary. We suggest that EIOPA should provide a rationale for each of the suggested Guidelines to ensure that they are appropriately targeted.

The first standard we developed for actuarial work concerned reporting to users. The purpose of the standard was to ensure that users received sufficient information, presented in a clear and comprehensible manner, is included to enable users to:

- judge the relevance of the contents of the report; and
- understand the implications of those contents.

Key requirements of reports that we consider relevant in particular to the Solvency and Financial Condition Report are:

- Where there is uncertainty concerning data, the undertaking should describe that uncertainty and explain the approach taken to the uncertainty in calculating the value of assets and liabilities and the capital requirements.

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- Explain the measures and methods used, state the material assumptions and describe a rationale for their selection.
- Indicate the nature and extent of any material uncertainties in the information contained in the SFCR.
- For each material risk or uncertainty faced by the undertaking explain the approach taken to the risk.
- Provide a comparison with the information from the preceding SFCR with an explanation of any differences.
- Provide a reconciliation between the balance sheet published in the SFCR with the balance sheet in the annual financial statements.
- More generally we consider that the style, structure and content of the SFCR should be suited to the skills, understanding and levels of relevant technical knowledge of its users.

We consider it is important that the SFCR should not include information that is not material if it obscures material information. The FRC published a guide to cutting clutter in annual reports in the spring of 2011. Clutter in annual reports is a problem, obscuring relevant information and making it harder for users to find the salient points about the performance of the business and its prospects for long-term success. The guide provides preparers of annual reports with practical aids for reducing clutter, giving ideas for how disclosures might look without the clutter, and factors to consider when planning the annual report process. Taking this work forward, at the end of 2011, the FRC established a Financial Reporting Lab which brings together companies and investors to identify practical solutions to today's reporting problems, such as the length and complexity of reports and accounts. We suggest that EIOPA might like to consider a similar structure to develop effective narrative reporting.

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	We would welcome the opportunity to work with EIOPA in developing its proposals for Guidelines in support of the Directive and its Implementing Measures and how to ensure narrative reporting is effective.	
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3.10.	<p>We agree that it is important to users of the SFCR that they should be made aware of material intra-group transactions.</p> <p>We suggest that rather than introduce a new term « relevant operations and transactions », the guideline refer to « material operations and transactions » as materiality is a concept that is already defined within the proposed Level 2 implementing measures concerning the SFCR. Material Information is information which if omitted could influence the users’ decisions or judgements.</p> <p>We consider that reports should not include information that is not material if it obscures material information.</p>	
3.11.	The Level 2 implementing measures concerning the SFCR require a description of how each of these functions is implemented but only a description of how the risk management system including the risk management function is integrated into the organisational structure and	

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	<p>decision-making.</p> <p>Similarly the Level 2 implementing measures only require a description of how the Internal Audit function maintains its independence.</p> <p>It therefore appears that this guideline is extending the requirements of the Level 2 implementing measures. Is this intended?</p> <p>We agree that it is useful that the description of how each of these functions is implemented should explain how the functions have the necessary authority, resources and, where relevant, the independence to carry out their role effectively including their reporting and advising responsibilities .</p> <p>We are concerned that there is the potential that the roles of the actuarial function and risk function can overlap in an unhelpful way. We suggest that this guideline is extended to include a description of how these functions work together.</p>	
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3.23.	<p>As well as including information on simplifications used, we consider that users would find it useful to be made aware of any changes in the bases and methods used to determine technical provisions compared to the previous reporting period as well as the material changes to relevant assumptions which are required by Level 2 implementing measures.</p> <p>Guideline 8 requires that a description of any changes made to the recognition and valuation basis of assets is provided.</p> <p>We suggest that this guideline is extended to include such a requirement. This would then make the explanatory text in paragraph 4.40 fit better with the guideline.</p>	
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3.30.	<p>The important point here is that any alternative figures do not obscure the solvency ratio. This is consistent with our requirement in our standard for reporting of actuarial work that « A report shall not include information that is not material if it obscures material information. » We agree that the solvency ratio is material information.</p> <p>It is not clear how restrictive the requirement for compatibility is, but the whole point of alternative solvency measures is presumably to present different views of solvency requirements which reflect the specific circumstances of the entity. These estimates may not therefore be compatible with the solvency ratio, but we consider there should be a requirement to reconcile</p>	

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	<p>the two figures. Rather than risk confusion about the meaning of compatibility it may be clearer to remove the final five words from this guideline.</p> <p>Alternatively a better approach may simply be to require justification for the use of different measures of solvency including disclosure of any reliances and limitations that might apply to the different solvency measure.</p>	
3.31.		
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3.33.	The risk adjusted nature of this requirement addresses proportionality from the preparer's perspective. An alternative would be to require some evidence that any simplifications made better meet the needs of users of the information.	
3.34.	The existence of a bullet point for aggregation and diversification effects distinct from high level differences in the methodologies is confusing. It may be clearer to focus on the differences in the structures of the Standard Formula and the Internal Model in the guideline and point out in the supporting text that comments on the different structures of the standard and internal model should explicitly address how they differ in aggregation methodologies and diversification effects as well as other material differences in methodologies.	
3.35.		
3.36.	The requirement to provide a description of the process in place for checking data quality is unlikely to facilitate users' understanding of the impact of poor quality data on the information, or of what steps have been taken to compensate for this. This is perhaps what the guideline should be seeking to provide. As an example, our standard on data for actuarial work requires documentation of the treatment of, or action taken for, incomplete or inaccurate data.	
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3.39.	We are uncertain what would be defined as a « significant related party transaction ». We suggest that either « material » or « all » related party transactions are disclosed to the supervisor.	
3.40.	We are uncertain about what might be a relevant operation or transaction. We suggest that	

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	either « material « or « all » intra-group operations and transactions are disclosed to the supervisor.	
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4.40.	This text does not appear to relate particularly clearly to the guideline as it stands. (See also our comment at 3.23 above).	
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4.67.	We suggest that the explanatory text should require that the explanation of the different structures of the standard and internal model should explicitly address how they differ in aggregation methodologies and diversification effects.	
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