



Central Bank of Ireland
Dame Street
Dublin 2

29 July 2016

PJJ/KXD

Dear Sir/Madam

Consultation Paper CP 104, External Audit of Solvency II Regulatory Returns/Public Disclosures

PricewaterhouseCoopers welcomes the opportunity to respond to the above consultation paper (the "Consultation Paper"). We believe that it is important and appropriate that the Central Bank of Ireland ("CBI") has commenced the process of clarifying how it intends to apply Regulation 37 of the Statutory Instrument 485 of 2015, European Union (Insurance and Reinsurance) Regulations 2015 (the "Solvency II Regulations"), with regard to the audit of particular parts of the annual Solvency and Financial Condition Report ("SFCR") of insurers and reinsurers authorised in Ireland.

Appendix 1 set out our written comments on the CBI's proposals as set out in the Consultation Paper. In particular, we draw your attention to our comments on the following areas.

- We note that paragraph 6.10 of the Consultation Paper requires auditors, as part of their audit, to "determine whether they should use the work of an auditor's expert, for example an actuarial expert". We believe that there should be further guidance on this matter, particularly where this has been outsourced to actuarial consultants and/or the Reviewing Actuary.
- We believe that the required form of the external auditor's report and the external auditor's responsibilities in respect of the unaudited parts of the SFCR should be aligned with the requirements of International Standards on Auditing ("ISAs"). In particular, we consider that the proposed requirement for the auditor to consider consistency of the unaudited parts of the SFCR with "any other information to which the auditor has had access" is impractical and that this requirement should be amended.

Please contact Paraic Joyce (padraic.joyce@ie.pwc.com), if you would like to discuss the contents of this letter.

Yours faithfully,

PricewaterhouseCoopers

*PricewaterhouseCoopers, One Spencer Dock, North Wall Quay, Dublin 1, Ireland, I.D.E. Box No. 137
T: +353 (0) 1 792 6000, F: +353 (0) 1 792 6200, www.pwc.ie*

Feargal O'Rourke (Managing Partner - PricewaterhouseCoopers Ireland)

Olwyn Alexander Paul Barrie Brian Bergin Damian Byrne Pat Candon John Casey Mary Cleary Siobhán Collier Andrew Craig Thérèse Cregg Richard Day Fiona de Búrca John Dillon Ronan Doyle John Dunne FCCA Kevin Egan Martin Freyne Alisa Hayden FCCA Paul Hennessy Gareth Hynes Ken Johnson Patricia Johnston Paraic Joyce Andrea Kelly Joanne P. Kelly John Loughlin Vincent MacMahon Enda McDonagh John McDonnell Deirdre McGrath Ivan McLoughlin Declan Murphy Brian Neillan Damian Neylin Andy O'Callaghan Jonathan O'Connell Denis O'Connor Marie O'Connor FCCA Paul O'Connor Irene O'Keeffe Ger O'Mahoney Dave O'Malley Padraig Osborne Ken Owens Anthony Reidy Mary Ruane Emma Scott Mike Sullivan Billy Sweetman Paul Tuite

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APPENDIX 1

Reasonable assurance opinion

The Consultation Paper refers to a requirement for a reasonable assurance opinion on the relevant elements of the SFCR in paragraph 6.16. It is not clear from the Consultation Paper as to exact nature of the reasonable assurance opinion required. From section 6, we note that the opinion required will relate to “the elements of the report on the solvency and financial condition of the undertaking as referred to in Regulation 52 relevant to the balance sheet, own funds and capital requirements”. This could lead to auditors being required to provide a reasonable assurance opinion that the specified quantitative reporting templates (“QRTs”) of the SFCR have been properly prepared, in all material respects, in accordance with the Solvency II Regulations. We believe that the final published requirements should provide further clarity in this regard.

Addressee of the auditors’ report

We note that the Consultation Paper does not provide any details as to the intended addressee of the auditors’ report other than in section 6 stating that the opinion shall be “in a report made to the Central Bank”. We believe that the appropriate addressee of the auditors’ report is the relevant insurance or reinsurance undertaking which has engaged the auditor to perform the audit of the Solvency II Returns. The undertaking should be in turn required to provide the report to the CBI. This would be consistent with the approach of the PRA in the UK which acknowledged in its recently published consultation CP 23/16 (Solvency II: External Audit of the Public Disclosure Requirement) that it should not be the addressee for the auditors’ report.

Review of other information in the SFCR

The Consultation Paper also addresses in paragraph 6.14 the responsibilities of the auditor in relation to other (i.e. not subject to audit) information disclosed in the SFCR. We believe the duties of the external auditor in this regard should be aligned with those required for an audit carried out under ISAs. The rule, as currently drafted, would be impractical as it would involve disproportionate costs by not including a concept of materiality and requiring the auditor to consider all information to which it has access (not limited to that obtained in the course of the reasonable assurance engagement).

Therefore, consistent with paragraph 14.2 of ISA 720 (Revised), The Auditor’s Responsibilities in Relation to Other Information, we believe that the reference in paragraph 6.14 to “is consistent” should be amended to read “is materially consistent” and we believe the reference to “any other information to which the auditor has had access” should be amended to read “the auditor’s knowledge obtained in the performance of the reasonable assurance engagement and in the course of the audit of the financial statements”.

Transitional measures/supervisory determinations

In some areas the Solvency II Regulations specify that matters are subject to supervisory determination or that the CBI may have approved the use of transitional measures. An example of the former is the extent to which own funds of group members cannot effectively be made available to cover the group SCR. We do not believe it is within the scope of the role of the auditor to reassess or to prejudge determinations which the legislative framework has explicitly reserved for supervisory authorities or the use of transitional measures. We believe it should be clarified that the auditor can rely without verification on any such determinations that the CBI has made and, in areas where a determination has not been made, that the auditor is not required to consider whether a determination either could or should have been made. We also believe that the auditor should not be required to express an opinion on the appropriateness of a transitional measure which has been subject to approval by the CBI.

Independence of actuary

We note that paragraph 6.10 of the Consultation Paper requires auditors, as part of the audit, to “determine whether they should use the work of an auditor’s expert, for example an actuarial expert”. We consider that use of such work is appropriate.

Auditing standards require the auditor to consider the competence, capability and objectivity of a management’s expert if they plan to use the work of that expert. This assessment will impact the level of additional work required by the auditor’s own expert. Clearly, there is a cost implication here for the audit. The current domestic actuarial regime and the proposals under CP 103, “Consultation on Guidance for Re(Insurance) Undertakings on the Head of Actuarial Function Role” envisage two main actuarial functions, the HoAF (a PCF role) and Reviewing Actuary (peer review is not required every year and not at all in some cases). Subject to some restrictions, it is possible for the HoAF role to be outsourced to actuarial consultants, whilst the Reviewing Actuary role must be outsourced. Outsourcing of the HoAF role arises particularly for captives and cross border life operations in Ireland.

We believe that there should be further guidance as to the extent to which the auditor could use the work of the HoAF and/or Reviewing Actuary, particularly where this has been outsourced to actuarial consultants.

Long-term guarantees

We note that paragraph 6.16 of the Consultation Paper makes reference to the inclusion of the QRT relating to long-term guarantees within the scope of external audit. The relevant QRT relating to long-term guarantees is not included in Appendix of the Consultation Paper. We believe that it should be clarified as to whether the QRT relating to long term guarantees is within the scope of the external audit.

Inclusion of statement of responsibilities in the SFCR

To ensure that there is clarity over the responsibilities of the directors of insurance and reinsurance companies and the external auditor relating to the SFCR, we believe that there should be a requirement that the SFCR include a statement of director’s responsibilities which addresses their responsibilities for the preparation of the SFCR in accordance with the relevant regulations.