



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Policy Statement | 24/16

Solvency II: external audit of the public disclosure requirement

September 2016

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This policy statement (PS) provides feedback on responses received to Consultation Paper (CP) 23/16 'Solvency II: external audit of the public disclosure requirement'. The appendices to this PS set out the final rules and a supervisory statement to implement the matters consulted on in CP23/16 and in CP43/15 'Solvency II: external audit of the public disclosure requirement'.

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1 Overview

1.1 This Prudential Regulation Authority (PRA) policy statement (PS) provides feedback to responses to Consultation Paper (CP) 23/16 'Solvency II: external audit of the public disclosure requirement'.¹

1.2 The PRA consulted in November 2015 in CP43/15 'Solvency II: external audit of the public disclosure requirement'.² An account of responses received to CP43/15 and how the PRA proposed dealing with those responses was given in CP23/16. In CP23/16, the PRA consulted on rules and a supervisory statement for external audit of the Solvency II public disclosure. The appendices to this PS set out the final rules and supervisory statement to implement the proposals consulted on in CP23/16.

1.3 This PS is relevant to firms in scope of Solvency II including the Society of Lloyd's (collectively 'insurers'), auditors and those individuals or firms who are likely to use the Solvency and Financial Condition Report (SFCR). The rules apply to insurers with financial year ends on or after 15 November 2016.

1.4 The PRA is required by Financial Services and Markets Act 2000 (FSMA) to have regard to any representations made to the proposals in a consultation, to publish an account, in general terms, of those representations and its response to them, and to publish details of any significant differences in the rules as made.

1.5 Overall, the PRA does not consider that the responses received to CP23/16 require significant changes to its proposals. The PRA has however made minor amendments to the proposed rules and supervisory statement in light of feedback received, to add further clarity to the PRA's expectations. Chapter 2 of this PS describes the key issues raised by respondents and sets out the PRA's response.

1.6 Section 138J(5) of FSMA requires the PRA to publish a cost benefit analysis of any changes to the consultation proposals which the PRA considers to be significant. As noted above, the PRA has made some clarifications to the policy consulted on in CP23/16. These clarifications will not have a significant impact on the cost benefit analysis as presented in CP23/16. No new material cost information was provided in response to CP23/16.

1.7 The PRA is also required by the FSMA to publish a statement on the impact of rules on mutuals where the final rules differ from the draft of the proposed rules. In the PRA's opinion, the impact of the final rules on mutuals is not significantly different from the impact of the previously proposed rules on mutuals. Mutuals have members, policyholders and beneficiaries who may equally want access to the disclosure. Independent financial advisors might consider this information before recommending one of their products. Therefore the PRA considers that benefits of external audit also apply to mutual insurers and it is therefore appropriate for the requirements to apply to mutuals.

1 July 2016, www.bankofengland.co.uk/pr/Pages/publications/cp/2016/cp2316.aspx.

2 November 2015, www.bankofengland.co.uk/pr/Pages/publications/cp/2015/cp4315.aspx.

2 Responses

2.1 Respondents to CP23/16 were supportive of the proposals. A number of specific issues and questions on the details of the rules and supervisory statement were raised. These are discussed by topic below.

Transitional measures on technical provisions

2.2 Respondents asked for clarification over the audit work expected on the transitional measures on technical provisions (TMTP). The intention was not to require external audit of information prepared in accordance with the previous regime. The PRA has updated paragraph 3.4 on approvals in the supervisory statement to:

The auditor is not expected to express an opinion on the validity of an approval, waiver or other supervisory determination. Instead approvals, waivers and supervisory determinations provided by the competent authority should be considered as part of the framework against which the audit opinion is being given. For the purposes of transitional measures on technical provisions, Pillar 1 and 2 assets, liabilities and capital calculated in accordance with the previous regime, should be treated as part of the framework against which the audit opinion is being given.

Other information

2.3 The PRA has made some wording changes in the rules and supervisory statement to conform to International Standards on Auditing.¹ These include changing 'assess' to 'read and consider' and 'acquired' to 'obtained'.

¹ International Standard on Auditing (UK) 720 (Revised June 2016) The Auditor's Responsibilities Relating to Other Information

Appendices

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- 1 PRA RULEBOOK: SOLVENCY II FIRMS AND NON-AUTHORISED PERSONS: EXTERNAL AUDIT INSTRUMENT 2016, available at:
www.bankofengland.co.uk/pr/Pages/publications/ps/2016/ps2416.aspx**
 - 2 Supervisory Statement 11/16: Solvency II: external audit of the public disclosure requirement, available at
www.bankofengland.co.uk/pr/Pages/publications/ss/2016/ss1116.aspx**