



IAIS

INTERNATIONAL ASSOCIATION OF
INSURANCE SUPERVISORS

02 April 2014

Ref: 14/08

Prof Arnold Schilder
Chairman
International Auditing and Assurance
Standards Board
529 Fifth Avenue, 6th floor
New York
New York 10017 USA

Re: IAASB's Proposed Strategy for 2015-2019 and Proposed Work Program for 2015-2016

Dear Prof Schilder:

The International Association of Insurance Supervisors (IAIS) welcomes the opportunity to comment on the International Auditing and Assurance Standards Board's Proposed Strategy for 2015-2019 (Proposed Strategy) and the IAASB's Proposed Work Program for 2015-2106 (Proposed Work Program).

We are very supportive of IAASB's efforts to enhance audit quality in its Proposed Strategy and Proposed Work Program. However, we observe that the Proposed Work Program does not specifically mention audits of insurers. Given changes taking place in insurance regulation and supervision, particularly with respect to global systemically important insurers (G-SIIs) and other internationally active insurance groups (IAIGs), we believe this to be a significant gap.

In this regard, we suggest that the work plan consider the development of additional contextual information and guidance that reflects the current and evolving state of supervisory developments involving G-SIIs and IAIGs. In 2013 the Financial Stability Board (FSB), in consultation with the IAIS and national authorities, identified nine G-SIIs. The FSB will decide on the G-SII status of major reinsurers in July 2014. The IAIS published, and the FSB endorsed, a set of policy measures that will apply to G-SIIs, including enhanced group-wide supervision, recovery and resolution planning, and higher loss absorbency (HLA) requirements. The IAIS, as directed by the FSB, will finalise in 2014 straightforward basic capital requirements (BCR) to serve as a common baseline for HLA requirements for G-SIIs.

The IAIS will develop, and the FSB will review, a work plan to develop a comprehensive, group-wide supervisory and regulatory framework for IAIGs, including a quantitative insurance capital standard (ICS). Since 2010, the IAIS has been developing a Common Framework for the Supervision of IAIGs (ComFrame). While auditing literature already acknowledges heightened audit risk of financial institutions, including insurers, due to the presence of regulatory scrutiny, the foregoing developments will exacerbate that and are thus worthy of emphasis.

We therefore suggest the activities in the Proposed Work Program be expanded upon to address these developments, and be reordered to put *Special Audit Considerations Relevant to Financial Institutions* first, followed by *Professional Skepticism* and *Quality Control*.

The accounting for technical provisions will undergo significant change as the International Accounting Standards Board (IASB) and the US Financial Accounting Standards Board (FASB) complete their work on insurance contracts accounting standards. As accounting standards change, audit considerations related to technical provisions need to be reviewed and revised. The enhancements under *Special Audit Considerations Relevant to Financial Institutions* should in our view include the audit of technical provisions as an audit issue of particular significance to insurers.

The FASB recently decided that its project on insurance contracts should focus on making targeted improvements to existing US GAAP. The implications of this decision by the FASB are as yet uncertain, but seem to set the stage for some degree of continued divergence with the IASB on insurance contracts. This development may also increase audit risk and present an apparent need for additional contextual information within international auditing guidance for insurers.

Also, the provisions of ISA 570, *Going Concern*, are not sufficient when auditing insurers, as the insurance capital calculations become more complex and make more use of internal models and stress testing. It is therefore necessary to require additional work carried out by the auditor supplementing the work required by ISA 570 to obtain sufficient audit evidence for proper use of the assumption of going concern in the annual accounts of insurers. Consideration should be given to developing audit standards and guidance in this area.

Under *Quality Control*, there is provision for a review of the clarity of provisions relating to the use of the work of a specialist and an auditor's expert. This review should explicitly consider the use of the work of actuaries in audits of insurers.

The IAIS is keenly interested in developing a strong relationship with the IAASB. When appropriate and relevant, the Accounting and Auditing Issues Subcommittee intends to invite representatives of the IAASB to future meetings to exchange views on developments in the supervision and regulation of GSIs and IAIGs and their implications for audit standards.

This letter was prepared on behalf of the IAIS by its Accounting and Auditing Issues Subcommittee (AAISC). The AAISC's membership represents a subset of all IAIS members. Therefore individual members of the IAIS may have views that differ in some respects from the consensus views expressed herein.

If you have questions regarding this letter, please contact Markus Grund, Chair of the IAIS Accounting and Auditing Issues Subcommittee (tel: +49 228 4108 3671; email: markus.grund@bafin.de) or Aina Liepins at the IAIS Secretariat (tel: +41 61 280 8199; email: aina.liepins@bis.org).

Yours sincerely,



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