Technical paper – EU goals for Regulatory Simplification

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Introduction

Insurance companies in the EU currently navigate a complex and dense web of reporting requirements, governed by multiple frameworks aimed at providing comprehensive, transparent and comparable information about their financial, solvency and sustainability conditions, performance, risk management and governance. Although each of these frameworks serves distinct purposes, the reporting obligations often overlap, leading to redundancies and introducing unnecessary complexity. For insurance companies, these overlapping reporting obligations come with considerable drawbacks. While providing useful information to stakeholders is essential, a balance needs to be found between the need for transparency and imposing undue reporting burden for companies.

Over the last legislative period (2019 to 2024), the Commission, Parliament and Council have launched over 77 legal acts comprising around 10,000 pages. In addition, the European Insurance and Occupational Pensions Authority (EIOPA) published 55 further sub-legislative regulations (guidelines, opinions and supervisory statements). EIOPA has also provided 2,000 Q&As (Questions & Answers) to assist national supervisory authorities and companies in the correct application of the regulation. In connection with the Green Deal, the European co-legislators and the EU Commission have significantly expanded the reporting obligations in particular. The Corporate Sustainability Reporting Directive (CSRD) requires companies e.g., to report between 190 and 823 data points annually. The Taxonomy Regulation and further amendments to tax law introduced by the OECD Global Minimum Taxation also define new reporting obligations. In addition to that, the recent implementation of IFRS 9 and IFRS 17 led to high implementation costs for insurers.

In fact, over-regulation is one of the biggest long-term obstacles to the insurance sector's competitiveness globally. The need to reduce regulatory burden was also recognised by the EU Commission President Ursula von der Leyen who, in March 2024, set the target of reducing the burden of reporting requirements on companies by 25%.[1] In its recently published report on European competitiveness, the EU Commission emphasizes the need to simplify rules, arguing that "the regulatory burden on European companies is high and continues to grow, but the EU lacks a common methodology to assess it", which creates a competitive disadvantage with the US ("around 3,500 pieces of legislation were enacted and around 2,000 resolutions were passed in the US at the federal level over the past three Congress mandates (2019-2024). During the same period, around 13,000 acts were passed by the EU.")[2].

The rise of overlapping reporting requirements across these frameworks has introduced complexity that not only burdens insurance companies but also makes it difficult for stakeholders to understand and use the information.

[1] Factsheet_CWP_Burdens_10.pdf (europa.eu)

[2] The future of European Competitiveness, Sept 2024 - 97e481fd-2dc3-412d-be4c-f152a8232961_en (europa.eu)

With this paper, the CFO Forum, a high-level discussion group formed and attended by the Chief Financial Officers (CFOs) of 22 major European listed, and some non-listed, insurance companies, aims at making a contribution to the public debate on the reduction of the regulatory burden for insurance companies in Europe by providing specific recommendations in the following four areas:

I. Sustainability reporting regulation
II. Use of IFRS for separate financial statements
III. Supervisory and regulatory reporting regulation
IV. Global Minimum Taxation

Sustainability reporting regulation

European insurance companies are increasingly subjected to strict and comprehensive sustainability reporting requirements and disclosures on Environmental, Social, and Governance (ESG) issues that are aimed at enhancing transparency and accountability in sustainability practices across various sectors. These requirements are primarily driven by EU regulations and directives, as well as standards from global organisations. The key regulatory frameworks include:

- Directive (EU) 2022/2464: Corporate Sustainability Reporting Directive (CSRD)
- Commission Delegated Regulation (EU) 2023/2772: European Sustainability Reporting Standards (ESRS) developed by the European Financial Reporting Advisory Group (EFRAG)
- International Financial Reporting Standards on Sustainability Disclosure (IFRS S) developed by the International Sustainability Standards Board (ISSB)
- Regulation (EU) 2019/2088: Sustainable Finance Disclosure Regulation (SFDR)
- Regulation (EU) 2020/852: Taxonomy Regulation
- European Insurance and Occupational Pensions Authority (EIOPA) guidelines and recommendations for integrating sustainability risk
- National regulation established by individual EU member states.
- Directive (EU) 2024/1760 Corporate Sustainability Due Diligence Directive

In general, sustainability reporting for insurance companies presents several challenges due to the nature of their business and the evolving landscape of sustainability standards and expectations. These challenges include, amongst others, the complex risk assessment of long-term risks and emerging risks in the insurance business, data availability and integration of sustainability data with traditional financial data and balancing the varied and sometimes contradicting expectations of different stakeholders, including regulators, investors and customers. Insurance companies are highly regulated and already obliged to fulfil broad financial and regulatory reporting requirements. Extensive and overlapping sustainability reporting requirements add to these challenges, making compliance complex and resource-intensive.

The recently published report on EU competitiveness[3]., recognises that “the EU’s sustainability reporting and due diligence framework is a major source of regulatory burden, magnified by a lack of guidance to facilitate the application of complex rules and to clarify the interaction between various pieces of legislation” and further points out that “risks of over-compliance (e.g. over-reporting) exist across the value chain”. The report also

[3] The future of European Competitiveness, Sept 2024 - 97e481fd-2dc3-412d-be4c-f152a8232961_en (europa.eu)

suggests that “further changes in this framework, including sector-specific reporting standards required by the CSRD, may raise compliance costs.”

While sustainability reporting plays a vital role in promoting transparency and accountability regarding ESG issues, they are not a guarantee for effecting actual behavioural change within organisations. On the contrary, extensive reporting can lead to an overload of information and especially data, which, if not properly analysed and used, does little to foster real understanding or drive decisions. Without insights and actions derived from the data, reporting becomes a bureaucratic exercise rather than a tool for improvement, eroding the acceptance of sustainability issues. Regulators and standard setters tend to overestimate the influence of insurance companies with regard to ESG-related matters as a significant potential for influence is seen even though in fact the insurer has limited to no influence. This, amongst others, leads to extensive reporting requirements. It has to be acknowledged that for insurers as underwriters, asset owners and asset managers, the impacts associated with an insurer’s activities occur mainly outside of its direct influence. Extensive reporting requirements could potentially raise the expectation that insurers are able to make changes in areas with no influence. In general, over-reporting is not just a bureaucratic burden, it represents a competitive disadvantage for European insurers, potentially diverting resources from core business and sustainability initiatives.

Aligning reporting standards minimises duplication of efforts for companies that would otherwise need to prepare separate reports for different reporting requirements. This also applies for companies headquartered outside the EU, but subject to EU Sustainability Reporting requirement for their EU activities. Those companies have to comply with a combination of both mandatory ISSB reporting at the Group-level, but also CSRD at EU Entity level and potentially at Group-level in the future. Having interoperable standards ensures that companies can more easily comply with various national and international requirements as sustainability reporting regulations evolve. The CFO Forum strongly supports the “report only once” approach.

CFOF recommendations

1. **Allow for a reasonable period of time to gain experience in the application of sector-agnostic sustainability reporting standards before assessing the need for additional data and setting up sector-specific standards.**
2. **Further simplifying sector-agnostic standards with an initial focus on climate-related information should be fostered.**
3. **Interoperability between the ESRS and ISSB standards should be a priority, in particular for future standard setting activities such as the development of sector-specific standards to allow companies operating internationally to comply with multiple reporting frameworks.**
4. **Sustainability risk plans mandated by EIOPA should, with regards to climate risk, enable consistency and be leveraged from the transition plans required by the CSDDD, while providing additional granularity specific to financial resilience and risk management if needed.**
5. **EU Taxonomy should focus more on providing a standardised set of core KPI, introduce materiality considerations and assure consistency with ESRS.**

More details on the recommendation can be found in Annex I.

Use of IFRS for separate financial statements

The regulation (EC) 1606/2002 on the application of international accounting standards (IAS Regulation) requires publicly listed companies to prepare their consolidated financial statements in accordance with a single set of international financial reporting standards (IFRS). Listed insurance companies often need to apply up to 4 different sets of accounting regimes for different reporting purposes within their groups:

- IFRS for the consolidated financial statements,
- local GAAP for the separate financial statements,
- local tax GAAP and
- Solvency II for supervisory and regulatory reporting purposes.

Article 5 of the IAS Regulation gives member states an option to also permit or require the use of IFRS for local reporting purposes. However, this option has not been picked up by many major member states (for a summary of IFRS use in the EU, please see Annex II).

Giving companies the option to report using one accounting regime, for local and group reporting purposes, would significantly reduce internal costs and improve the transparency, comparability and credibility of financial information. In addition, the use of a single regime could lead to an increase in quality by reducing errors stemming from "adjustments and translation", reducing transaction costs (including increase of world-wide corporate tax harmonisation as next step after GloBE), and further promoting global economic integration. Those benefits would extend beyond the financial industry but apply market wide. Therefore, CFOF would like to foster a stronger collaboration across all industry sectors.

It would reduce costs by requiring the preparation and audit of only a single set of group-wide financial statements, as well as the usage of a group-wide uniform data base, accounting and reporting system and process. This would lead to reduced time and efforts for all functions involved, including supporting functions / users (e.g. Tax, Controlling, IT, Internal Audit, M&A) and auditors of the financial statements. It would also decrease the need for specialised knowledge of local GAAP and local processes and systems, incl. reducing associated training and education costs in the reporting environment and improving workforce mobility, which expands the options of centralising and simplifying tasks for functions involved.

From the point of view of capital market-oriented companies, IFRS better reflect the economic performance of the company and can therefore be better explained in external communication. They are also useful for comparability with international competitors, as the company speaks to investors in the same language as respective companies in the peer group. Additionally, planning and steering for capital market-oriented groups is usually based on IFRS figures. However, the dividend distribution is generally based on local GAAP result which will have specific restrictions on dividend distribution (e.g. with regard to recognition of unrealised gains and hidden reserves) and hence, will deviate from IFRS result. Replacing dividend distribution and capital management based on local GAAP by IFRS, would reduce the disconnect to IFRS on group level, lead to overall simplified steering and capital management plus simplified communication due to improved transparency. In the Life segment, it would also allow greater consistency between on the one hand profit sharing determination under local GAAPs and on the other hand insurers' profitability as determined under consolidated financial statements under IFRS.

Finally, allowing companies to optionally use IFRS for local reporting would improve the quality and credibility of the group and subsidiary's financial statements, as knowledge exists broadly, and processes and controls can be standardised designed and implemented globally. This would lead to fewer errors or earlier identification and correction of errors.

<u>CFOF recommendation:</u>

6. **Allow for IFRS to be used as option for local reporting purposes by amending IAS regulation to always have the option to report under IFRS (no more member state "opt in"). This would give companies the option to apply IFRS for local reporting purposes, if they wish to.**

Supervisory and regulatory reporting regulation

For financial reporting, publicly traded European insurance companies must prepare consolidated financial statements applying IFRS as adopted by the EU. The objective of IFRS is to provide a comprehensive view of an entity's financial position, financial performance and cash flows that is useful to a wide range of users in making economic decisions.

On the other hand, the Solvency II Directive (Directive 2009/138/EC) sets out the regulatory framework for insurance and reinsurance companies operating within the European Economic Area (EEA). Solvency II is specifically tailored to ensure the solvency and stability of insurance companies, with a strong focus on risk management and market-consistent valuation. By adhering to market consistency principles, Solvency II ensures that insurers maintain sufficient capital to withstand market fluctuations and meet their obligations, thereby enhancing the overall stability and resilience of the insurance sector.

While both regimes aim to provide a true and fair view of the economic substance of the respective insurance group, there are still conceptual differences between them. These differences can result in increased complexity and make it more difficult for stakeholders to interpret the results of the two reporting frameworks as both have an economic perspective but partially differ with regard to valuation methodologies and other conceptual accounting-related treatments.

The main differences between IFRS and Solvency II result because they were developed without optimisation and simplification in mind and from the respective purposes of the two frameworks (see. Annex III.) Looking at IFRS and Solvency II, differences between the frameworks are not necessarily needed but lead to increased complexity for preparers and stakeholders. For example, differences in initial contract recognition leads to slight timing differences between IFRS and Solvency II. Differences can also lead to significantly diverging valuation for the same treaty due to different definitions of contract boundaries.. An ongoing analysis of differences between IFRS and Solvency II could support identifying potential simplifications to reduce the reporting burden for insurance companies, while maintaining the purpose of the respective frameworks.. iIt would be also beneficial ensuring that IFRS and Solvency II measurement and disclosures will – if possible – not further diverge in future.

<u>CFOF recommendations</u>

7. **Implement a continuous selective harmonisation process to allow further alignment of the IFRS and Solvency II reporting processes where relevant. should avoid that IFRS and Solvency II measurement and disclosures further diverge in ways which add to the cost and complexity, increasing the reporting burden for insurance companies and groups in the EU. Potential areas to consider are contract boundaries and initial contract recognition.**

Under Solvency II Pillar 3 two regulatory reporting requirements are set. On the one hand the Regular Supervisory Report (RSR), which is prepared for regulatory purposes and only provided to the respective supervisory authority. On the other hand, the Solvency and Financial Condition Report (SFCR) which is publicly available and serves to provide information to all relevant stakeholders. While these reports partly address different stakeholders and aim to cover information on different topics or with specific focus, some overlap remains between the reporting requirements.

The SFCR aims to increase transparency by providing stakeholders with clear and understandable information, enhance market discipline by making detailed financial and risk information publicly available, and supply policyholders and investors with key information for decision-making, including understanding the insurer's ability to meet its obligations and promote comparability of financial and solvency positions by establishing a standardised report. Despite these objectives, it appears that there is a low level of public interest in the SFCR both on a single entity level and the group SFCR because the reports are only downloaded a few times per month. Besides that, approximately 60% of the content in the SFCR is derived from information published elsewhere like e.g. the group's annual consolidated financial statements.

In order to reduce the extent of the SFCR and avoid duplications and redundancies to other reports and disclosures links and cross-references to information and reports published elsewhere (e.g. on the company's website) should be included. As the usage of links and cross-references is already in line with level 1 Solvency II regulation, a harmonised approach is needed for the option to use links and cross-references to information and reports published elsewhere to allow insurance companies in all EU member states to make use of this simplification. In general a "Core and More" reporting approach seems to be beneficial providing information relevant for a wide range of stakeholders in the "Core" report, and supplementary details for a more limited audience in the "More" reports. While the SFCR is publicly available, the RSR is prepared for regulatory purposes and only provided to the respective supervisory authority. Similar to the simplifications suggested for the SFCR, the content of the RSR should not be extended but rather be condensed to reduce reporting burden for insurance companies and to avoid redundancies. It is worth noting that the Prudential Regulation Authority (PRA) in the UK, removed the requirement for insurers to submit the Regulatory Supervisory Report (RSR) for several reasons, including it being burdensome for insurers to prepare.[4]

CFOF recommendations

8. **Implement a harmonised approach to insert links and cross-references to information and reports published elsewhere to reduce the extent of the SFCR and avoid duplications and redundancies to other reports and disclosures (Core and More reporting approach). With regard to the usage of links and cross-references, the Core and More reporting approach is already in line with level 1 Solvency II regulation.**

9. **Implement a more flexible consolidation approach and allow (re-)insurance groups to bundle narrative reporting for entity subgroups or segments for which they see meaningful harmonisation and simplification potential (e.g. bundling reports for all life insurance entities in one country or bundling of the reports on group level with the reports of the ultimate parent company of the group).**

[4] PwC (2024) - https://www.pwc.co.uk/financial-services/assets/pdf/pra-finalises-new-solvency-uk-framework.pdf

10. **The European solvency regimes are similar to the International Capital Standards (ICS) in terms of risk-based nature and target calibration. As such, Solvency II, Solvency UK and the Swiss Solvency Test (SST) should be considered as an implementation of the ICS in the EU, the UK and Switzerland, without any further changes to avoid duplications and reduce reporting burden. There should be no double-standards and double-reporting requirements linked to the ICS.**

More details on the recommendation can be found in Annex IV.

Global Minimum Taxation

The Organisation for Economic Co-operation and Development (OECD) Global Minimum Tax is an international tax reform, officially known as the Global Anti-Base Erosion (GloBE) rules. It is part the second pillar (Pillar Two) of the broader OECD/G20 inclusive framework on base erosion and profit shifting and specifically aims at ensuring that large multinational enterprises, including insurance companies, pay a minimum level of tax on their profits.

European insurance companies are subject to a comprehensive set of requirements under the GloBE rules, as the EU has been proactive in implementing the OECD's Pillar Two framework. This comprises, amongst others:

- **Global Minimum Tax Rate (15%):**
  European insurers must ensure that their effective tax rate in each jurisdiction where they operate meets or exceeds the 15% minimum. This necessitates thorough analysis and potential restructuring of tax strategies, particularly in jurisdictions where the statutory tax rate is below this threshold.
- **Income Inclusion Rule (IIR):**
  The IIR mandates that the parent company of a multinational group, typically located in the EU, applies a "Top-up" tax if the income of its foreign subsidiaries is taxed below the 15% minimum rate. This rule ensures that all profits within the group are taxed at or above the minimum rate, reducing the benefit of profit shifting to low-tax jurisdictions.
- **Country-by-Country Reporting (CbCR):**
  European insurers are required to provide detailed reporting on their income, taxes paid, and other economic activities on a country-by-country basis. This enhanced transparency aims to prevent base erosion and profit shifting but also significantly increases the administrative burden on insurers.
- **Exclusions for regulatory capital:**
  Income derived from regulatory capital is often excluded from the global minimum tax calculations, acknowledging the unique nature of capital requirements in the insurance industry. However, European insurers must accurately account for these exclusions to remain compliant with the GloBE rules.

In contrast, the adoption of the GloBE rules outside the EU varies significantly, leading to different requirements for insurance companies operating in other jurisdictions. While some countries have adopted or are in the process of adopting the GloBE rules, others have not. For instance, countries like the United Kingdom and Japan are aligning their tax regimes with the OECD framework, while other jurisdictions, particularly low-tax countries, have shown reluctance or delayed adoption. Insurers operating outside the EU, especially in jurisdictions with less comprehensive adoption of the GloBE rules, may continue to benefit from more favourable tax regimes. This includes lower effective tax rates and fewer reporting obligations, which can reduce both tax liabilities and compliance costs.

The differences in the adoption and implementation of the GloBE rules create several disadvantages for EU-based insurers compared to their counterparts in other jurisdictions. The rigorous implementation of the GloBE rules in the EU results in significantly higher compliance costs for European insurers. The need for detailed country-by-country reporting, combined with the complexities of the IIR and adjustments for deferred taxes, increases administrative burdens and operational costs.

CFOF recommendations

11. **The use of existing reporting packages which may contain simplifications due to a process-oriented fast close process as a starting point for the GloBE calculations would significantly reduce compliance burden and costs.**
12. **Entities, that are not consolidated due to their size or materiality, should not be included in the scope of the global minimum taxation. At the very least, there should not be a requirement to prepare IFRS financial statements but to use the existing local GAAP figures.**
13. **Abolish the recapture rule.**
14. **Introduction of permanent safe harbour rules and introduction of a whitelist for certain high-taxed jurisdictions would be beneficial.**
15. **Avoid the need to change investment strategy and structure e.g. due to a Top-up tax for funds that mainly invest in shares and funds that are held by jurisdictions with tax rate below 15%.**

More details on the recommendation can be found in Annex V.

About the European Insurance CFO Forum and its work

The European Insurance CFO Forum ('CFO Forum') is a high-level discussion group formed and attended by the Chief Financial Officers of major European insurance companies. Its aim is to influence the development of financial reporting, value-based reporting, and related regulatory developments for insurance enterprises on behalf of its members, who represent a significant part of the European insurance industry. The CFO Forum was created in 2002. More information on the CFO Forum is available at www.cfoforum.eu.

Annex I – Sustainability Reporting Recommendations

Sector-specific standards

In addition to the already published general, sector-agnostic ESRS, EFRAG, under the direction of the EU, plans to develop additional standards to expand and refine the current reporting framework. These planed future developments include sector-specific standards that are supposed to be tailored requirements for different industries, such as the insurance sector, to address their specific sustainability challenges and risks. These sector-specific clarifications might not only lead to additional disclosure requirements but also bear the potential for substitution of general reporting requirements by industry-specific disclosures.

In general, we recommend to allow for a reasonable period of time to gain experience in the application of sector-agnostic reporting. This would provide the opportunity to monitor market developments and analyse convergence and better practice approaches enabling standard setters and preparers to better understand decision usefulness of information and stakeholders' needs for additional data before setting up sector-specific standards.

In our view, there must be a common understanding of an insurer's possibilities to influence and steer the behaviour of business partners before setting up meaningful sector-specific standards for the insurance industry. Furthermore, legal, regulatory and economic restrictions and requirements provided by already existing frameworks need to be taken into account. For example, the European Insurance and Occupational Pensions Authority (EIOPA) is extending the reporting requirements more and more also to sustainability risks. To avoid inefficient double reporting and to take into account the specific meaning of e.g., physical risks for an insurance company, the sustainability risk reporting should be limited to one framework or regulation only, i.e. EIOPA disclosure requirements. This means that sector-specific ESRS for insurance companies should refer to EIOPA guidance at least to the selected sustainability risks also covered by EIOPA.

In general, the need for additional sector-specific standards can be questioned. While the current ESRS are designed to be sector-agnostic, they include provisions that address many aspects relevant to insurance companies due to the broad nature of the sustainability issues they cover. The CFO Forum believes that the sector-agnostic ESRS already address the core issues relevant to the insurance industry. Even though the sector-agnostic standard also includes several disclosure requirements that might not fit to the insurance industry and therefore, tailored sector-specific standards could add value, introducing additional sector-specific ESRS could lead to redundancy and over-reporting, potentially diluting the focus on truly material issues without providing substantial benefits. This shall be analysed in more detail in the following.

The sector-agnostic ESRS are comprehensive and designed to cover a wide range of sustainability matters relevant to various industries, including insurance. These standards already encompass key sustainability areas and require detailed disclosures on environmental and especially climate impacts, social practices, and governance structures. The flexibility of ESRS allows for the general standards to be applied across different sectors. This adaptability means that insurance companies can effectively use the existing framework to report on their specific sustainability issues without the need for additional sector-specific disclosure requirements. Therefore, sector-specific standards should be limited to specifying (amending, adjusting, replacing, redrafting or deleting) existing disclosure requirements where necessary to guarantee aligned and consistent reporting within an industry. A renewed elaboration of sustainability matters is redundant and increasing administrative burden without providing additional meaningful insights.

ESRS standards also include robust requirements for risk management and governance disclosures, which apply to all sectors. These frameworks are comprehensive enough to encompass the unique risk management processes of insurance companies, including the identification and management of climate-related and other sustainability risks. Moreover, insurance companies already monitor such sustainability-related risks in their normal course of business and are subject to extensive reporting and regulatory requirements regarding their risk management.

Furthermore, ESRS emphasise the double materiality perspective, which considers both the risk or opportunities arising from sustainability issues and the company's impact on the environment and society. By identifying company specific impacts, risks and opportunities it is ensured that sustainability reports focus on material sustainability topics specific to their operations and business activities. Hence, it is already inherent in the current sector-agnostic standards that insurance companies cover all relevant sustainability aspects along their value chain. By introducing insurance-specific standards, there is a risk of shifting focus towards less material aspects merely because they are unique to the sector, potentially overshadowing more critical sustainability issues.

For example, with regard to climate change and environmental impact, sector-agnostic standards already include detailed requirements for reporting on impacts, risks, and opportunities along their value chain if assessed as material. Moreover, the general requirements for reporting on environmental impacts, such as GHG emissions, are applicable to insurers' operational activities and investment portfolios.

On social aspects, sector-agnostic ESRS cover various social factors, including labour practices, human rights, and community engagement, which are relevant to insurers in their operations and through their influence on investee companies. The business model of insurance companies does not give rise to specific additional risks in that regard. Governance disclosures required by ESRS include aspects such as board oversight of sustainability issues and the integration of sustainability into corporate strategy, which is also sufficient for insurance companies.

Adding sector-specific layers to the already complex reporting requirements can also lead to confusion and reduce the clarity of disclosures if not performed properly and demand-oriented. Stakeholders, including investors, customers, and regulators, benefit from clear and concise reports that provide directly actionable insights and decision-useful information. Increased complexity might dilute the effectiveness of the reports and make it harder for stakeholders to draw meaningful conclusions about the insurer's sustainability performance. Even though sector-specific standards bear the opportunity for more refined and tailored disclosure requirements, the potential additional granularity provided by an extensive set of insurance-specific standards may not necessarily lead to better sustainability outcomes. The key is to focus on materiality and therefore, identifying and reporting on issues that genuinely affect the company's ability to create or erode economic, environmental, and social value. An extensive set of specific standards might not enhance this focus and could instead divert attention and resources away from core sustainability objectives. On the other hand, the sector-specific standards might have the potential to delete disclosure requirements if not applicable to insurance business models and therefore, lead to more refined sector-specific disclosures.

Maintaining sector-agnostic standards and thereby enabling the application of existing industry-based guidance as also included in the internationally applicable IFRS S enhances global consistency and comparability. This is beneficial for stakeholders who can compare sustainability performance across companies more easily. The ESRS aims to harmonise sustainability reporting requirements across the EU. The IFRS S aim to establish a global minimum sustainability reporting baseline. Introducing additional sector-specific standards could fragment this interoperable approach, leading to inconsistencies. Instead, a unified framework under ESRS is scalable and can accommodate the diverse needs of different sectors. This scalability allows for continuous improvement and potential updates to the standards as sustainability reporting evolves, without the need for separate sector-specific standards. In addition, referring to SASB standards instead of inventing new ESRS disclosure requirements could foster global harmonisation while at the same time taking industry-specific issues into account.

Moreover, the development and implementation of additional sector-specific standards entail significant costs. These include the initial development phase, ongoing reporting, and auditing expenses. For insurers, particularly those operating on a global scale, aligning with multiple, possibly conflicting, standards can be costly. The benefits of such specialised standards need to be clearly defined and must outweigh these costs, which may be challenging to justify given the broad coverage of the current ESRS. Additionally for European insurers, more stringent or detailed reporting requirements compared to their global counterparts can create a competitive disadvantage.

In summary, the sector-agnostic ESRS provide a comprehensive framework that already covers many aspects relevant to the insurance industry if assessed material, thanks to the universal nature of sustainability issues and the broad scope of the standards. This approach ensures consistency and comparability across different sectors. The existing framework is robust enough to address the key sustainability issues relevant to insurance companies, ensuring effective and meaningful sustainability reporting. While the intention behind developing insurance sector-specific sustainability standards might be to enhance transparency and accountability, their actual utility needs to be carefully balanced against the potential drawbacks.

Given these considerations, a more reasonable approach would be to develop concrete guidance for applying sector-agnostic ESRS standards to the insurance sector instead of duplicating or even extending existing ESRS. They should focus on a specification of most important aspects, e.g. climate change, and on areas where insurers have unique impacts or risks not adequately covered by the general standards. Alignment with the broader ESRS framework and the global IFRS S standards incl. the existing ISSB industry-based guidance should ensure consistency and avoid unnecessary reporting complexities.

Interoperability

Interoperability between ESRS and IFRS S is crucial for several reasons. First of all, standard setters should aim for global consistency. Companies operating internationally need to comply with multiple reporting frameworks. Investors and stakeholders seek reliable and comparable sustainability information to make informed decisions. Interoperability ensures that sustainability disclosures are consistent across different jurisdictions and thereby enhances the credibility of sustainability disclosures. Thus, interoperable standards reduce regulatory complexity, form the basis for global harmonisation and create transparency and comparability regarding companies' business activities, making it easier for investors to assess and compare the sustainability performance of companies globally.

Additionally, aligning reporting standards minimises duplication of efforts for companies that would otherwise need to prepare separate reports for different reporting requirements. This reduces administrative burdens and costs since even small deviations, e.g. a slightly different definition of the reporting scope, might lead to high internal costs for updating the IT infrastructure. These costs might far outweigh the added value of the additional information. Therefore, the CFO Forum strongly supports the “report only once” approach.

As sustainability reporting regulations evolve, having interoperable standards ensures that companies can more easily comply with various national and international requirements, thereby avoiding legal and regulatory risks. Interoperability also supports global sustainability initiatives and goals, such as the United Nations Sustainable Development Goals, by providing a unified approach to reporting and tracking progress.

In May 2024, EFRAG and the IFRS foundation have published guidance material to illustrate the high level of alignment achieved between IFRS S and ESRS.[5] The CFO Forum appreciates this but also emphasises the necessity to continue to ensure interoperability and alignment of standards in future standard setting activities such as the development of sector-specific standards.

Sustainability Risk

The European Insurance and Occupational Pensions Authority (EIOPA) plays a significant role in integrating sustainability considerations into the insurance sector within the EU. EIOPA's work on sustainability risk encompasses several key areas:

- Guidance on sustainability risk integration; this includes the incorporation of ESG risks into the overall risk management frameworks and developing and applying scenarios and stress tests that include sustainability risks.
- Supervisory expectations to adequately address sustainability risks, e.g. by enhancing transparency through refined disclosures on sustainability risk and related mitigation strategies by insurers.
- Climate risk assessment conducted by EIOPA to evaluate the exposure of insurance companies to climate change scenarios.
- Promoting sustainable investments, e.g. by providing guidelines on best practices for integrating ESG factors into the investment decision making process.

Disclosure requirements for sustainability risk established or intended by EIOPA aim to enhance transparency and ensure that stakeholders have access to relevant and reliable information about how insurers are managing sustainability risks. These requirements are part of broader EU initiatives, such as the CSRD and the EU Taxonomy Regulation, which seek to promote sustainable finance and mitigate greenwashing.

Under the Solvency II Directive, insurers are required to integrate sustainability risks into their risk management frameworks and disclose relevant information to stakeholders. Insurers must include information on their exposure to sustainability risks, the impact of these risks on their business, and how they are managing these risks in their SFCR and need to report quantitative information on sustainability risks as part of their regular QRT submissions to regulators.

EIOPA is currently developing a climate risk assessment framework for insurance companies to evaluate and manage climate-related risks. This includes conducting climate stress tests to assess the financial resilience of insurers under various climate scenarios. These tests shall help identify vulnerabilities and prepare for potential adverse impacts. EIOPA also promotes the use of scenario analysis to understand the potential long-term effects of climate change on financial stability and business operations.

Furthermore, EIOPA has issued guidelines to integrate sustainability risks into governance and risk management frameworks. These are supposed to ensure that boards of directors and senior management have the necessary oversight and expertise to manage sustainability risks and to incorporate sustainability risks into existing risk management processes, including risk identification, assessment, monitoring, and mitigation.

EIOPA also emphasises the importance of including sustainability risks in the ORSA process. Consequently, insurers shall consider climate-related and other ESG risks within their overall risk assessment and capital

[5] https://www.efrag.org/en/sustainability-reporting/esrs-workstreams/interoperability.

planning processes and report on how sustainability risks are managed and their potential impact on solvency needs.

In addition, Art. 44 Solvency II Amending Directive requires companies to implementing specific plans, quantifiable targets, and processes to monitor and address the financial risks arising in the short, medium, and long-term from sustainability factors, including those arising from the process of adjustment and transition trends towards the relevant Member States and Union regulatory objectives and legal acts in relation to sustainability factors, in particular those set out in Regulation (EU) 2021/1119 (European Climate Law). This plan is referred to as "sustainability risk plan". To build the bridge from the "sustainability risk plan" to the "transition plan for climate change mitigation" as referred to in CSRD, the Solvency II Amending Directive further says that "where the undertaking discloses information on sustainability matters in accordance with CSRD, the plans referred to in Solvency II shall be consistent with the plans referred to in CSRD. In particular, the plans referred to in Solvency II shall include actions with regards to the business model and strategy of the undertaking that are consistent across both plans." EIOPA is mandated to further specify this provision via Regulators technical standards.

On the other hand, the Corporate Sustainability Due Diligence Directive (CSDDD) is an EU initiative that aims to ensure that companies operating within the EU and beyond conduct due diligence to identify, prevent, mitigate, and account for adverse human rights and environmental impacts in their own operations and their value chains. The CSDDD requires companies to develop and implement a transition plan to address these risks and outline their strategies for transitioning towards sustainable and responsible business practices, which relates closely to the work and guidelines provided by EIOPA on sustainability risks and resilience planning. Such as the Solvency II Amending Directive, also CSDDD refers back to CSRD and says, where a company discloses information on its transition plan in accordance with CSRD, it is deemed to have complied with the obligation to adopt a transition plan in accordance with CSDDD.

ESRS E1-1 requires insurer to publicly disclose information about their due diligence processes, including the implementation and effectiveness of their transition plans. Alternatively, EIOPA requires insurers to report on how they integrate sustainability risks into their risk management and governance frameworks, as well as the outcomes of their climate risk assessments and stress tests.

To streamline efforts and avoid redundancy, the CFO Forum proposes that sustainability risk plans mandated by EIOPA should, with regards to climate risk, enable consistency and be leveraged from the transition plans required by the CSDDD, while providing additional granularity specific to financial resilience and risk management if needed. This will promote a streamlined, efficient, and comprehensive approach to sustainability risk management for European insurers. By focusing on a unified structure and providing additional granularity only if needed, insurers can meet regulatory expectations without duplicating efforts, ensuring resilience and transparency in addressing sustainability risks.

EU Taxonomy

The EU Taxonomy Regulation requires insurers that fall within the scope of the CSRD to disclose the extent to which their economic activities are environmentally sustainable within the meaning of the taxonomy. Although the KPIs and technical screening criteria for this are defined in separate delegated acts, they must nevertheless be disclosed alongside the other environmental information defined in the CSRD and specified by the ESRS. Both regulations aim to create transparency on the insurer's sustainability performance with regards to the six main environmental objectives: Climate change mitigation and adaptation, sustainable use and protection of water and marine resources, transition to a circular economy, pollution prevention and control, and protection and restoration of biodiversity and ecosystems. The CSRD and the EU taxonomy are therefore closely linked in terms of content but are not yet sufficiently aligned in terms of implementation. In particular, the aim of the CSRD to provide reliable, comparable and relevant information should be given greater focus.

The CFO Forum would like to point out that the insurers' reported results for FY 2023 indicate that the prescriptive templates require disclosure on data points without meaningful interpretation possible, which particularly involves data on fossil gas and nuclear energy generation activities. The CSRD objectives call for focusing on a standardized set of core KPIs and for introducing materiality considerations into the EU taxonomy disclosures to not obscure decision-useful information. Finally, for comparable and reliable information consistency with ESRS is to be ensured to (e.g. investments vs. own operations definition).

Annex II - Summary of IFRS use in the EU

IFRS is used in more than 140 countries around the world, including Canada, Australia, Japan, and India. IFRS refers in general to the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB). EU-endorsed IFRS refers to IFRS to be used by companies in the European Union (EU). These are in general the same as IFRS, except that through the EU endorsement process there may be delays between the issuance of a standard by the IASB and its adoption by the EU or a modification or rejection of a standard. For example, the EU did not endorse IFRS 9 Financial Instruments until 2016, while it was issued by the IASB in 2014. Besides the EU-endorsed version there are also other kind of IFRS (e.g. IFRS UK), or IFRS converged/equivalents (e.g. India, China, Singapore). The main implication of these difference is, that if the IFRS used for the consolidated reporting is from a local perspective materially not in line with the IFRS required or allowed to be used in the subsidiaries' and branches' jurisdictions there will still be a need for deviating local separate financial statements, also if based on IFRS.

Most of the world's significant capital markets now require IFRS consolidated FS, or some form thereof, for FS of public-interest entities. The remaining major capital markets without an IFRS mandate are:

- US, with no current plans to change for domestic registrants (full IFRS allowed for non-US filers);
- Japan, where voluntary adoption is allowed, but no mandatory transition date has been established;
- China, whose accounting standards are converged with IFRS to some extent ("IFRS equivalent")

Replacing of "dual" or multiple "accounting can be achieved, if Group IFRS can be used as much as possible locally. High-level summary of current IFRS separate financial statements status for main/selected countries:[6]

Subsidiary located in	**IFRS separate financial statements permitted?** If not replacing local GAAP, was local GAAP in the past to converged with IFRS **("IFRS converged")?**	IFRS **EU-endorsed version**?	IFRS deliberates from **local (tax) GAAP**?
Germany	Yes, excl. regulated companies; Local GAAP was IFRS converged by BilMoG in 2009	Yes	No
France	No	--	No
Italy	Yes, excl. very small or regulated (not listed) companies	Yes	No[7]
UK	Yes	No[8]	Yes, if no specific regime (e.g. Life insurer) applies
Spain	Yes, for listed companies	Yes	No
Switzerland	Yes for Groups	No	No[9]
South Africa	Yes	No	No
United States	Yes (excl. US Issuer)	No	No

[6] Analysis mainly based on Use of IFRS by jurisdiction (iasplus.com) and Worldwide Tax Summaries Online (pwc.com).

[7] Italy - Corporate - Income determination (pwc.com): Specific rules have been released for entities adopting Italian Generally Accepted Accounting Principles (GAAP) rather than International Financial Reporting Standards (IFRS) for Italian statutory financial reporting purposes. These provisions are aimed to align the taxable basis determination rules with the statutory financial reporting (so-called principle of derivation of the corporate income taxable basis from the statutory financial statements). For IRAP purposes, relevant income and expenses are those reported in the statutory financial statements.

[8] Endorsement with time-lag and not necessarily following the EU endorsed version in the future.

[9] Switzerland - Corporate - Income determination (pwc.com): There are generally very few differences between statutory profit and taxable profit apart from the participation relief for dividend income and capital gains.

Canada	Yes	No	Yes, with adjustments[10]
Brazil	Yes (excl. espec. domestic unlisted companies)	No	Yes, with adjustments[11]
China	No, IFRS converged	No	No
India	No, largely IFRS converged	No	No
Singapore	No, IFRS converged	No	No
Australia	No, IFRS converged	No	No

Regarding the law or statues for profit distribution following summary derived from the European Law Institute (2022)[12] gives a good overview which separate financial statements within selected 28 European countries to be applied:

	Number of countries	Countries
Local GAAP are mandatory for all companies	6	France, Germany, Spain, Sweden, Austria, Hungary
IFRS or local GAAP application **depends** on the company[13]	9	Belgium, Croatia, Czech Republic, Italy, Latvia, Poland, Portugal, Slovakia, Romania
IFRS or local GAAP can be applied	4	UK, Ireland, Luxembourg, Netherlands
IFRS are mandatory or can be applied	8	Bulgaria, Denmark, Estonia, Finland, Greece, Lithuania, Malta, Slovenia
IFRS are mandatory for all companies	1	Cyprus
	28	

16 out of the 28 European countries, require a legal reserve, which is between 5% to 33,33% of the share capital. Besides this the 2013/34 European Directive refers to four optional accounting treatments in separate financial statements for which it recommends limitations on dividend distribution: Capitalisation of development costs, Capitalisation of start-up costs, Revaluation of fixed assets (intangible, tangible and financial), Equity method to measure investments in subsidiaries. There are four (other) cases of unrealised gains, which limit in certain restrictions the dividend distribution: Fair value option for financial instruments, Deferred tax assets, Actuarial gains on pension plan benefits, Measurement at fair value of investment properties. Additional to already mentioned, further restrictions are implemented in selected countries, when a company holds its own shares (specified by 2017/1132 European Directive) or for the share premium connected with an increase in capital (not specified by the European Regulation).

Regarding IFRS 17 as tax basis, for example for Canada's life insurer following tax measures have been implemented. CSM is not deductible for tax purposes (with the exception for CSM associated with segregated fund reserves, which will be fully deductible). However, the budget does allow 10% of CSM to be deducted in respect of life (other than segregated fund reserves), mortgage and title insurance contracts. This deduction is intended to reflect future non-attributable expenses included as part of the CSM. The 10% deductible portion will

[10] The Canadian income tax return principles are predicated on the Canadian statutory accounting principles, which are built upon IFRS with a few adjustments. In line with this, the Canada Revenue Agency (CRA) considers financial statements prepared under IFRS to be an acceptable starting point for computing taxable income.

[11] Brazilian taxpayers are subject to IRPJ and CSLL using an 'actual profits' method, which is based on taxable income (i.e. earnings before taxes or EBT), adjusted by certain additions and exclusions as determined by the legislation. The actual profit can be calculated annually or quarterly. For the annual calculation, the tax authorities collect anticipations during the year, as the taxpayer is required to calculate the income tax monthly.

[12] Présentation PowerPoint (europeanlawinstitute.eu)

[13] Company criteria are specific industries/regulated segments, size, parent company applying IFRS.

then be included in income for tax purposes when the non-attributable expenses are incurred in the future. The non-deductible CSM and accumulated other comprehensive income will be required to be added to the tax base, and deferred tax assets will no longer be deducted. Three transitional rules were also included in the IFRS 17 tax measures: (1) Five-year transition period for smoothing tax impacts of insurance reserves converting from IFRS 4 to IFRS 17, including the 90% non-deductible portion of the CSM; (2) Five-year transition period for potential mark-to-market adjustments on certain fixed-income assets arising on the adoption of IFRS 9; and (3) Transitional deduction with respect to reclassification of certain reserves from IFRS 4 insurance contracts to IFRS 17 investment contracts. A deduction for the investment contract amount will be allowed given that the premium income for these contracts was originally taxed.[14]

The UK government[15] e.g., has decided that insurance finance income or expenses should not be included within the tax income calculation (I-E calculation) and for OCI that where an insurance contract matures, expires or is derecognised in a period of account (and so is no longer recognised in accounts prepared under IFRS 17), any amounts remaining in OCI are brought into account for tax. To spread the IFRS 17 tax transitional amount on a straight-line basis a fix period of 10 years was implemented. Besides this, in UK any first order of policyholder impacts as IFRS 17 is not foresee, as it does not change the underlying contractual arrangements between the insurance company and its policyholders.

Regarding IASB standard setting projects currently under development, IFRS 19 allows eligible subsidiaries to apply IFRS Accounting Standards with the reduced disclosure requirements of IFRS 19. However, it should be noted that the scope of the IASB's initiative unduly excludes insurance companies, as clarified in IFRS 19.11, which defines public accountability. While it is agreed that listed companies, including insurance undertakings, have public accountability, insurers are not always holding assets in a fiduciary capacity, thus excluding them from the standard's application. In addition, IFRS 19 is applied on a voluntary basis and, as such, eligible subsidiaries can elect whether to apply the standard or not.

[14] EY Tax Alert 2022 no 23 - An engine for growth: federal budget 2022–23 (eylaw.ca)

[15] Corporation tax: response to accounting changes for insurance contracts – summary of responses - GOV.UK (www.gov.uk)

Annex III - Identification of conceptual differences between IFRS and Solvency II

CFO Forum analysed major existing conceptual differences between IFRS and Solvency II as the basis for further alignment. As IFRS 17 and IFRS 9 are the most prominent standards from an insurers point of view, some of the major differences are listed below.

IFRS 17

IFRS 17 and Solvency II are two of the main regulatory projects within the insurance industry in the past years and share most of their core elements, such as market consistent valuation based on probability weighted future cash flows, discounting, consideration of non-financial risk etc. However, there are still some methodological differences that are further discussed in the following. EIOPA acknowledges that frequently small differences require major changes in existing processes.[16]

Initial recognition:

- Following IFRS 17, a group of insurance contracts issued is recognised either at the beginning of the coverage period, when the first payment from the policyholder becomes due or when the group of insurance contracts becomes onerous, whichever comes first. A group of reinsurance contracts held is recognised either at the beginning of the coverage period of the group of reinsurance contracts held or when an onerous group of underlying insurance contracts is recognised.
- According to Solvency II regulations, an insurance or reinsurance contract is recognised when it becomes legally binding meaning at the date the insurer becomes a party to the contract that gives rise to the obligation or the date the insurance or reinsurance cover begins, whichever date occurs earlier. This might lead to slight timing differences for the initial recognition compared to IFRS 17.

Risk adjustment vs. risk margin:

- Risk adjustment in IFRS 17 reflects the compensation the insurer requires for bearing the risk.
- Risk margin in Solvency II ensures that the liabilities reflect the amount another insurer would require to assume the obligations.

Discount rates:

- IFRS 17 allows insurers to use entity-specific discount rates that reflect the characteristics of the liabilities.
- Solvency II prescribes discount rates based on risk-free rates published by EIOPA, potentially adjusted for credit risk.

Valuation Approaches:

- IFRS 17 requires/allows for multiple valuation methods, i.e. the General Measurement Model, the Variable Fee Approach that is mandatory for life business with profit participation and the Premium Allocation Approach that is optional for short term business.
- Solvency II mandates a more standardized approach to calculating technical provisions, focusing on best estimates and risk margin.

CSM and profit recognition:

- IFRS 17 introduces the concept of the Contractual Service Margin (CSM), which in essence represents the unearned profit of an insurance contract which will be recognised over time as the insurance services are provided.

[16] IFRS 17 – Insurance contracts report – EIOPA's report on the implementation & synergies and differences with Solvency II (EIOPA-BoS24/111).

- Under Solvency II, the emphasis is on the current value of liabilities, with no explicit profit recognition mechanism as in IFRS 17. The concept of CSM and CSM release does not exist under Solvency II, since the regulation does not measure financial performance.

Cash Flows:

- While there is only a minor difference regarding the cash flow concepts for premiums and claims, the cash flow concept for costs significantly differs between IFRS 17 and Solvency II.
- Under IFRS 17, only directly attributable expenses are taken into account in the fulfilment cash flows.
- Solvency II requires to allocate all expenses in servicing the insurance contracts to be taken into account.

Contract boundaries:

- IFRS 17 emphasises the substantive rights and obligations related to both premium payments and the provision of coverage.
- Solvency II focuses more on the contractual obligations and the ability of the insurer to reprice or amend terms.

While these conceptual differences do not necessarily result in a different treatment, there are specific key areas that lead to significantly diverging valuation, e.g. different contract boundaries for the same treaty.

IFRS 9

Subsequent measurement:

- Under IFRS 9, the subsequent measurement following the at amortised cost approach is available for specific financial instruments. This reduces the volatility in profit and loss compared to a fair value measurement from a preparers point of view.
- According to Solvency II, the at amortised cost approach is explicitly excluded as it conflicts with the market consistent valuation.

Impairment:

- IFRS 9 requires preparers to reflect Expected Credit Losses for financial instruments that are measured at amortised cost or at fair value through OCI.
- Solvency II does not have an equivalent consideration of expected credit losses. Financial instruments are measured at fair value and credit risk is reflected in the Solvency Capital Requirement (SCR) Calculation.
- While the concept of impairment in a major methodological difference, it does not result in a valuation difference for financial instruments measured at fair value through OCI. Amortised cost valuation under IFRS will always result in a difference to Solvency II market consistent valuation, regardless of impairment requirements.

Own credit risk on financial liabilities:

- Under IFRS 9, own credit risk is not separately considered for financial liabilities measured at amortised cost but the overall subsequent measurement conflicts with the market consistent approach under Solvency II.
- Under IFRS 9, all financial liabilities measured at fair value through profit and loss consider own credit risk which is presented in other comprehensive income.
- Under Solvency II, all financial liabilities are measured at fair value without taking into account adjustments for own credit standing.

The CFO Forum acknowledges that the at amortised cost valuation is not in line with the market-consistent valuation approach prescribed by Solvency II. However, different fair values for liabilities may not strictly be necessary.

Further differences

In general, conceptual differences between IFRS and Solvency II arise not only from IFRS 17 and IFRS 9 but also from other standards. For instance, CFO Forum questions whether the different scope of consolidation or the adjusted equity method under Solvency II add value to the overall reporting purpose. In practice, there is a mixed use, and the equity method prescribed in IAS 28 is also applied for Solvency II reporting purposes. Another example is related to the treatment of intangible assets as it is difficult for stakeholders to understand why e.g. internally generated intangible assets are not recognised under Solvency II simply because of the absence of an active market as prescribed by Solvency II regulation. IAS 38.12 clearly states that an intangible asset must be identifiable meaning it is separable and being capable of being sold, transferred, licensed etc. Even if this definition is not limited to an active market, a market is assumed for intangible assets in accordance with IAS 38.

CFO Forum encourages the analysis of all these conceptual differences between IFRS and Solvency II and discussion of potential simplifications to support a continuous harmonisation process and reduce the reporting burden for insurance companies. CFO Forum acknowledges that there are limitations that must be considered. Nevertheless, a continuous harmonisation process will be beneficial as it will ensure that IFRS and Solvency II measurement and disclosures will not further diverge in future, e.g. in the context of post-implementation reviews carried out by the IASB.

Annex IV - Analysis and identification of simplifications and improvements

Solvency and Financial Condition Report (SFCR)

The Solvency II Directive or its implementation in the respective national legislation requires insurance companies and groups to publicly disclose information about their solvency and financial condition.[17] According to recital (140) of the Delegated Regulation (EU) 2015/35, the main purpose of the SFCR is to ensure that interested stakeholders are properly informed, while at the same time reducing to the extent appropriate the related burden for such groups. Furthermore, the Delegated Regulation (EU) 2015/35 emphasises in that context that it is necessary to harmonise the requirements applicable to public disclosure by insurance groups.

Specifically, the SFCR aims to:

- Increase transparency by providing stakeholders with clear and understandable information
- Enhance market discipline by making detailed financial and risk information publicly available
- Provide policyholders and investors with necessary information to make informed decisions, including understanding the insurer's ability to meet its obligations
- Promote comparability of financial and solvency positions by establishing a standardised report.

Against this background the working group assessed the current status of the SFCR reporting including overlaps to other reporting requirements.

Members of the working group noted that there is a low level of public interest in the SFCR both on a single entity level and the Group SFCR. Both reports are only downloaded a few times per month having a single digit access statistic.[18] Furthermore, insurance companies also receive little to no questions regarding the SFCR from investors which also indicates a low level of public interest.[19] All in all, while the report ensures that information is available to all stakeholders including investors and policyholders, it clearly does not provide them with information they deem to be important to make informed decisions. The reasons for the low interest in the SFCR are not specifically known, but it seems reasonable to assume that stakeholders mainly derive their information from other sources (such as audited annual financial reports) and that the extensive information provided in the SFCR reduces usability for specific solvency and risk related information needs.

Hence, the working group members strive to make concrete proposals for a shortened and more focused form of SFCR reporting, preferably without redundancies to other reports, which not only contributes to a more user-friendly reporting but also has the potential to save costs for the reporting entity.

Based on an assessment carried out by working group members, approximately 60% of the content in the SFCR is derived from information published elsewhere like e.g. the group's annual consolidated financial statements. These duplications and redundancies in the SFCR lead to high run costs for preparers. Even if information is already available it must be ensured that the various reports are kept updated and consistent. With regard to all stakeholders, the high amount of information and especially the duplications can cause information overload.

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[17] Article 51 of the Directive 2009/138/EC.

[18] GDV: Does the SFCR serve its purpose? A look at the numbers: https://www.gdv.de/resource/blob/180780/36d2ff7bf1b7c3a6b93967ed4374ed7b/mi-pur-pk-en-factsheet-data.pdf

[19] GDV calls for deepening the Capital Markets Union - Proposals for less regulation : https://www.gdv.de/gdv-en/media/gdv-calls-for-deepening-the-capital-markets-union-proposals-for-less-regulation-178962; GDV: Does the SFCR serve its purpose? A look at the numbers: https://www.gdv.de/resource/blob/180780/36d2ff7bf1b7c3a6b93967ed4374ed7b/mi-pur-pk-en-factsheet-data.pdf. Besides that, the revised Solvency II Directive provides the possibility to not prepare and publish the SFCR for public disclosure for reinsurers. This can be seen as another proof for a lack of public interest.

This should be avoided, especially if the information presented elsewhere is reported with the same reporting date. In this case, repeating the information in the SFCR does not provide added value for the stakeholders. Furthermore, the extension of audit requirements introduced by the revised Solvency II (SII) Directive might also lead to higher efforts and costs connected to external audits in the future.

In order to reduce the extent of the SFCR and avoid duplications and redundancies to other reports and disclosures the working group members discussed to introduce the possibility to insert links and cross-references to information and reports published elsewhere (e.g., on the company's website). This eliminates redundancies and avoids information overload for the users of the SFCR. Cross-references and links additionally support an integrated reporting approach connecting the information and the different reports that are publicly available on the company's website and providing a comprehensive picture for all relevant stakeholders. Even though the reports referred to may contain additional information not required by the SFCR, this is not harmful, since insurers may disclose additional information about their solvency and financial condition on a voluntary basis.[20] Besides that, the usage of links and cross-references is generally also in line with level 1 Solvency II regulation. Therefore, the working group member would like to foster a harmonised approach to allow insurance companies in all EU member states to make use of this simplification.

Hence, the idea of using links and cross-references seems to be an efficient and comprehensive concept to be implemented for the SFCR reporting. While stakeholders do not lose any information by this approach, insurance companies could reduce complexity and save reporting costs.

This concept could be realised e.g. via a "Core and More" reporting approach. The concept of "Core and More" was introduced by Accountancy Europe with the aim to present corporate reporting in a smarter way, organising financial and non-financial information based on the interests of users. Information relevant for a wide range of stakeholders would be in the "Core" report, and supplementary details for a more limited audience would form the "More" reports.[21]

Applying the "Core and More" approach to the SFCR would lead to the publication of a comprehensive and condensed executive summary containing the most relevant information for the SFCR stakeholders, increasing decision-usefulness. The content of the executive summary would be enhanced by links and references to other existing reports as well as information required by the SFCR not published in existing reports and hence, published in supplementing files.

Instead of introducing the executive summary accompanied by supplementing files, the existing SFCR could be retained. Duplicating information could be avoided by replacing the respective sections by integrating links and references.

The comparison between the executive summary plus supplementing files and a short and condensed version of the existing SFCR indicates that there are no material advantages or disadvantages for either solution. Both approaches condense the reporting content and avoid redundancies and duplications due to the usage of links and cross-references. Therefore, the CFO Forum suggests that both options should be available to grant insurance companies the most flexible and suitable reporting approach with regard to already existing in-house reporting processes and tools and to choose the most cost-efficient implementation approach.

[20] Article 54 of the Directive 2009/138/EC.

[21] Accountancy Europe (2017): Core & More – An opportunity for smarter corporate reporting; https://accountancyeurope.eu/wp-content/uploads/2022/12/170918-Publication-Core-More-1.pdf?v1.

Furthermore reporting burden should be reduced with regard to the Insurance Capital Standard (ICS). The ICS is being developed as a consolidated group-wide capital standard and consists of three components: valuation, qualifying capital resources, and a standard method for the ICS capital requirement. The purpose of the ICS is to create a common language for supervisory discussions of group solvency to enhance global convergence among group capital standards. In general, the European solvency regimes are similar to the ICS in terms of risk-based nature and target calibration. As such, Solvency II, Solvency UK and the Swiss Solvency Test (SST) should be considered as an implementation of the ICS in the EU, the UK and Switzerland, without any further changes to avoid duplications and reduce reporting burden. There should be no double-standards and double-reporting requirements linked to the ICS.

Regular Supervisory Report (RSR)

While the SFCR is publicly available, the RSR is prepared for regulatory purposes and only provided to the respective supervisory authority. Similar to the simplifications suggested for the SFCR, the content of the RSR should not be extended but rather be condensed to reduce reporting burden for insurance companies and to avoid redundancies. It is worth noting that the Prudential Regulation Authority (PRA) in the UK, removed the requirement for insurers to submit the Regulatory Supervisory Report (RSR) for several reasons, including it being burdensome for insurers to prepare.[22] Therefore, the RSR is also in scope of CFO Forum's initiative.

On the one hand, the respective supervisory authorities might be reluctant to support such a simplification as they are used to receive one report containing all requested information to meet their supervisory obligation. On the other hand, the usage of links and cross-references in the RSR, specifically to other confidential supervisory reports, such as the ORSA, would lead to a leaner report and providing a better overview for the supervisory authorities. From an insurance company point of view, duplications and overlapping reporting obligations could be avoided, and cost savings could be achieved. Information that will be included via links and cross-references is available in other documents which guarantees that all the required content is available for supervisory activities.

One single report for the group

In the current Solvency II Directive, there is already a possibility to produce a single SFCR for (re-)insurance groups. Besides that, the revised Solvency II Directive additionally provides a possibility to produce one single RSR for (re-)insurance groups. This proves that the governmental bodies and supervisory authorities are aware of overlapping reporting requirements and want to simplify the reporting for insurance companies.

The abolishment of solo SFCRs could significantly reduce the reporting burden for insurance groups. However, only few insurance groups (if any) presently make use of this simplification for SFCR, and it is to be expected, that the industry might be unable to make use of the proposed simplification for the RSR as well, because of its impracticability. The reason is that it is hardly feasible to produce a one single report for an entire group and at the same time satisfy the extensive entity specific reporting requirements (especially for the RSR) for all group entities. Overall, the reporting burden at group level could be intensively increased as single entity specific contents are included which, among others, could result in information overload from a stakeholder's point of view.

Instead of this impractical simplification we are proposing a more flexible consolidation approach, such as allow the (re-)insurance groups to bundle narrative reporting for entity subgroups or segments for which they see meaningful harmonisation and simplification potential (e.g. bundling reports for all life insurance entities in one country or bundling of the reports on Group level with the reports of the ultimate parent company of the Group).

[22] PwC (2024) - https://www.pwc.co.uk/financial-services/assets/pdf/pra-finalises-new-solvency-uk-framework.pdf

We believe that such approach would more effectively provide the opportunity to reduce the overall content to be presented in regulatory reporting and avoid overlapping reporting obligations while at the same time not omitting too much of entity specific disclosure that the local regulators might not be willing to allow for. Some insurance companies already apply some sort of bundling to their ORSA reports. Hence, it might also be applicable to the RSR or SFCR.

Annex V – Global Minimum Taxation CFOF Recommendations

Proposed simplifications

Against this background, the CFO Forum analysed the following areas that increase complexity and reporting costs:

- **Permanent safe harbour rules:**

  The OECD has introduced transitional safe harbour rules that provide simplifications until 2026. During this period, a simplified calculation based on the country-by-country report can be performed to determine whether a jurisdiction's effective tax rate exceeds 15%. Insurers benefit from these regulations. The introduction of permanent safe harbour rules would significantly reduce the compliance burden. Also, a whitelist for certain high-taxed jurisdictions (e.g., Germany) would be beneficial.

- **Investment funds:**

  Special rules apply for investment funds. These special rules are highly complex and still changing. In addition, some of the rules may not apply to funds that invest mainly in shares. As a result, the income of these funds could be subject to a Top-up tax. This could significantly disadvantage an investment in shares via funds. The introduction of the global minimum taxation should not lead to a need to change investment structures. Funds held by owners subject to a tax rate below 15% – e.g. Ireland with a taxation of 12,5% – are required to make separate calculations and pay top-up tax at 15% at their level. Besides the complexity of these rules, the outcome is not consistent with the intent of the Globe rules to impose a minimum tax of 15% (and not 27,5% in this example).

- **Reporting packages:**

  During the initial discussion on the introduction of a global minimum taxation, it was emphasised that existing data should be used. Currently, there is a lot of discussion, whether the existing reporting packages can be used as the starting point or whether IFRS standalone financial statements are required. The use of existing reporting packages which may contain simplifications due to a process-oriented fast close process as a starting point for the GloBE calculations would significantly reduce compliance burden and costs.

- **Entities in list of participation category 2**:

  Entities that are not consolidated due to their size or materiality are also subject to the global minimum taxation. These entities are obliged to prepare IFRS financial statements to carry out a full GloBE tax calculation. These entities are not consolidated as they do not have a material impact on the financial statements from a group perspective – therefore, no major tax effects are expected from these entities. It is proposed that entities, that are not consolidated due to their size or materiality, should not be included in the scope of the global minimum taxation. At the very least, the use of the existing local GAAP figures shall be permitted, in case the entity is not fully consolidated by the ultimate parent entity (UPE) due to materiality.

- **Recapture rules:**

  The OECD model rules contain several rules that require a recalculation of the effective tax rate for previous years. This results in multiple tax calculations for the same financial year. The recapture rules significantly increase the administrative burden.