

To: Mr. Jonathan Bravo
IOSCO General Secretariat
International Organization of Securities Commissions (IOSCO)
Calle Oquendo 12
28006 Madrid
Spain

Your
reference:

Our
reference: ECO-FRG-14-286

Subject: Insurance Europe response to IOSCO proposed statement on non-GAAP Financial Measures

Brussels, 5 December 2014

Dear Mr. Bravo,

We are taking this opportunity to publicly comment on the International Organisation of Securities Commissions (IOSCO) proposed statement on Non-GAAP Financial Measures. Insurance Europe, through its 34 member bodies — the national insurance associations — represents all types of insurance and reinsurance undertakings, eg pan-European companies, monoliners, mutuals and SMEs. Based in Brussels, Insurance Europe represents undertakings that account for around 95% of total European premium income. European insurers generate premium income of more than €1 110bn, employ almost one million people and invest over €8 500bn in the economy. Please find our comments below.

The use on non-GAAP financial measures is equally important as performance figures drawn up according to applicable GAAP.

We appreciate IOSCO's recognition that the use of non-GAAP/alternative performance measures has an equally important role as financial statement figures to explain our business. For insurers, some non-GAAP measures are complementary to the financial statements and are needed to understand the specificities of the insurance business model. We also note that non-GAAP measures are, to a large extent, inevitable. This is because IFRS are not industry-specific, and thus do not generate all specific information that could be useful to the investor.

The reason for using a non-GAAP measure is often to explain industry - or entity-specific - information for which a GAAP measure does not exist. For example, the use of embedded value is a very important non-GAAP measure that is widely understood and used by both investors and analysts of insurance companies. We therefore would caution against opinions that non-GAAP financial measures outside of financial statements should be displayed with less prominence. As such we suggest removing the first sentence in paragraph 6.

Defining principles that result in clear and understandable non-GAAP measures is a worthwhile objective but the scope regarding guidelines should be carefully considered.

Insurance Europe agrees with IOSCO's identification of the investors' need to have clearly understandable information about issuers' financial performance. It should always be transparent what non-GAAP measures are used and why. From our perspective, a principle-based approach to provide guidelines would be the most appropriate manner as it would help companies to interpret them to provide relevant disclosure. On the contrary, a rules-based approach would easily lead to burdensome and boilerplate-type disclosures which do not benefit the investor. Our comments to the proposed guidelines are written with this in mind.

Regarding the scope of the proposed guidelines we believe that a number of improvements could be made to avoid unnecessary duplication of work which is already covered by other regulatory requirements or directly related to those. For instance it could be more clearly mentioned that the scope does not cover prospectuses or financial statements drawn up in accordance with regulatory or statutory requirements. Furthermore, the scope should not cover reports that are filed in compliance with the request of a securities regulator.

Also, we believe that non-GAAP measures derived from the primary financial statements which are merely totals or subtotals of measures that are directly readable from the financial statements should not be included in the scope of the guidelines. We therefore suggest rephrasing the reference "*whenever the measure is disclosed outside of the financial statements*" to improve the scope for the benefit of providing relevant information to investors.

Exemptions should be allowed based on a cost/benefit assessment.

Insurance Europe considers that the IOSCO statement could be further improved by adding that compliance can be exempted from some principles if it may not be practicable, when costs outweigh the benefits or, when a guideline is considered not relevant in a specific situation provided that the reason behind the irrelevance is explained.

The use of a "warning statement" undermines that non-GAAP figures also have a useful meaning.

Although we believe that paragraph 4 of the proposed IOSCO Statement is a useful and pragmatic approach to remind users of the characteristics that non-GAAP measures may possess, it would mean that non-GAAP measures are less important than those prepared according to Generally Accepted Accounting Principles. We propose to modify the "warning statement" so as to avoid the implication that non-GAAP measures are not useful.

For example, investors in insurance companies understand non-GAAP metrics such as "Value of new business" which are widely used to assess the performance of insurers. In the case of life insurers some of these metrics are focused on explaining the long-term value creation through Key Performance Indicators (KPI).

Mandatory reconciliation of non-GAAP measures to GAAP figures is too extensive.

Insurance Europe disagrees with the proposal in paragraph 7 which suggest providing reconciliations to the "*most directly comparable*" GAAP measures presented in the financial statements. This would be overly burdensome, expensive and result in unhelpful disclosures to investors. For example, KPI's such as embedded value are not always reconcilable to IFRS figures. Insurance Europe therefore proposes to remove paragraph 7 from the final Statement. A similar logic applies to paragraph 8, which we also propose to remove.

Furthermore, we support that IOSCO correctly does not propose to provide a reconciliation of comparatives figures of non-GAAP measures. We believe that such a method would give little information value to investors and the costs for insurers would certainly outweigh the benefits.

Disclosure of the information of non-GAAP measures should be provided in a clear manner.

Insurance Europe agrees with the IOSCO recommendation that the information should either accompany the non-GAAP financial measures or via a reference. We believe this approach is more operational compared to requiring an appendix to each publication that uses non-GAAP measures.

Please feel free to contact us should you have any further questions or comments.

Yours sincerely,



Olav Jones
Deputy Director General