

Brussels, 25 January 2016

**NOTICE TO ALL CERTIFIED AUDITORS  
NOTICE 2016-1**

Beste leden,

Op zesmaandelijks basis houdt de Bestuursraad van IREFI eraan haar leden in te lichten omtrent de aandachtspunten die van belang kunnen zijn in het kader van de werkzaamheden.

Gezien de Europese en wereldwijde regelgevende omgeving waarin erkende revisoren werkzaam zijn en daarom talrijke documenten reeds in het Engels zijn opgesteld, werd er beslist om deze berichtgeving in het Engels te verwoorden.

Het hiernavolgende overzicht is opgedeeld conform de relevante werkgroepen binnen IREFI. Zowel de FSMA als de NBB hebben eveneens aandachtspunten geformuleerd, dewelke u respectievelijk in hoofdstuk V en VI terug vindt. In bijlage vindt u eveneens de aandachtspunten van de ECB.

Mocht u nog verdere vragen hebben betreffende dit bericht, aarzel niet mezelf, een bestuurslid van IREFI of Ingrid De Poorter te contacteren.

Chers membres,

Le conseil d'administration de l'IRAIF tient à informer ses membres, sur une base semestrielle, des points d'attention qui peuvent s'avérer importants dans le cadre des travaux d'audit à effectuer.

Compte tenu de l'environnement réglementaire européen et mondial dans lequel les réviseurs agréés travaillent et du fait que dans cet environnement de nombreux documents sont rédigés en anglais, il a été décidé de communiquer les points d'attention en anglais.

L'aperçu des points d'attention ci-dessous est établi en fonction des groupes de travail concernés de l'IRAIF. Tant la FSMA que la BNB ont également formulé leurs points d'attentions clés, lesquels sont repris respectivement dans les chapitres V et VI de la présente note. Vous trouverez également ci-joint les points d'attention de la BCE.

N'hésitez pas à adresser vos éventuelles questions concernant cette note à moi-même, à un autre membre du conseil de l'IRAIF ou à Ingrid De Poorter.

Dear members,

On a six-monthly basis, the Board of Directors of IREFI informs its members of main highlights or attention points which could impact your work.

Since the European and worldwide regulatory environment certified auditors are working in, it has been decided to communicate these attention points in English as several documents are also in English. The following overview is categorized in function of the relevant working groups of IREFI. The FSMA and the NBB also provide their key attention points, which you may find respectively in chapters V and VI of this notification. Attached you may find the attention points of the ECB as well.

Should you have any questions regarding this document, please do not hesitate to contact me, any Board Member of IREFI or Ingrid De Poorter.

Yours sincerely,

Jean-François Hubin  
(President IREFI)

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I. **Regulatory developments regarding payment institutions and electronic money institutions**

Regarding the payment institutions and electronic money institutions, the NBB fine-tuned in 2015 on the one hand its prudential status on those institutions and on the other explained its exemption policy towards these institutions.

a) **Prudential supervision on payments institutions and electronic money institutions**

Circular NBB\_2015\_09 on payment institutions and Circular NBB\_2015\_10 describe the prudential requirements respectively for payment institutions and for electronic money institutions. More precisely, it defines which of the NBB's circulars are fully or partially applicable on those institutions. The NBB accentuates to that extent the principle of proportionality based upon the nature, the scale, the complexity and the risk profile of the concerned institution.

Based upon the above mentioned circulars, payments institutions as well as electronic money institutions need to comply with the following main circulars:

- the Fit and Proper provisions (NBB\_2013\_02),
- internal audit and internal control (D1 97/4),
- tax avoidance policy (D1 97/10),
- compliance function (NBB\_2012\_14),
- outsourcing standards (PPB 2004/5),
- business continuity requirements (PPB 2005/2),
- sound governance (PPB-2007-6-CPB-CPA),
- communication on qualified participations (NBB\_2009\_31),
- financial services provided via internet (NBB\_2009\_17),
- cloud computing (NBB\_2012\_11),
- money laundering, synergy between external and internal audit, internal control reporting (D1 99/2) and
- reporting requirements on internal control (NBB\_2011\_09).

The NBB clarifies that circular NBB\_2012\_16 describing the cooperation principles of the external auditor for Belgian electronic money institutions or payments institutions and certified external auditor applies to Belgian branches of EEU institutions.

b) **Exemption policy of the NBB**

Based upon articles 48 and 105 of the Law of 21 December 2009 on the legal status of payment institutions, access to the activity of payment service provider and access to payment systems, the NBB issued two circulars (NBB\_2015\_11 and NBB\_2015\_12) describing the exemption policy of the NBB towards respectively payment institutions or electronic money institutions, as well as to what extent the exemption applies.

Articles 48 and 105 define the thresholds for those institutions able to apply for an exemption status.

The NBB requires such institutions filing for an exemption, to provide specific information regarding (non-exhaustive) its business activities, business plan for three years, evidence of the required initial



capital, description of the measures taken to safeguard the funds, etc. This in order for the NBB to verify if the legal conditions for the exemption are met.

This exemption status means that the institution cannot benefit from an EU passport for its activities and that its operations are performed from a Belgium registered office.

The anti-money laundering requirements are applicable to those institutions meaning that they need to report yearly on these requirements in accordance to circular NBB\_2015\_27.

In addition for electronic money institutions the amount on an electronic carrier cannot exceed EUR 150.

Annually the registered auditor reports on the soundness of the measures taken by the exempted institution to safeguard the funds it receives.

In addition semi-annually the registered auditor declares for exempted electronic money institutions that the average outstanding electronic money does not exceed the threshold of EUR 5.000.000 and for exempted payment institutions that the average of payment transactions executed in the last 12 months does not exceed the threshold of EUR 3.000.000.

## II. Main attention points regarding 31 December 2015 year-end closings

### a) Impact of low interest rate environment: Refinancing of mortgage loans

The Belgian financial sector is currently confronted with a high volume of early repayments and renegotiations of fixed rate mortgage loans.

We refer to the notice 2015-10 dd. 3 July 2015 for the implications with respect to the "macro fair value hedges" under IAS 39. The early repayments and renegotiations can involve the payment of penalties and/or commissions, as there is diversity in practice (extinguishment vs modification) on how to account for these it is recommendable to pay attention to the documentation and the consistency application of the accounting policy selected.

### b) Business plan assessment (impairment testing of goodwill and intangibles, deferred tax assets, etc.)

When performing impairment testing and identifying impairment triggers of goodwill, intangibles and deferred tax assets or assessing going concern one should consider the low interest rate environment, country risk and foreign exchange. Especially the assumptions underlying the future business plan and resulting cash flows should be duly considered in the context of the low interest rate environment.

Especially when assessing impairment triggers (considering both internal and external factors) and when using the value-in-use model, which is a pre-tax model, key assumptions should stand up against external market data and cash flow growth assumptions should be comparable with up-to-date economic forecasts.

### c) Fair value measurement and related disclosures

Fair value measurement and the related disclosures continue to be an attention point. We refer to the 2015 ESMA enforcement priorities dd. 27 October 2015 which can be of interest for financial institutions given the extensive use of financial instruments.

Some key reminders in terms of measurement:

- valuation techniques shall be compliant with the IFRS requirements;
- the use of observable inputs shall be maximized and the use of unobservable inputs minimized;
- issuers should use quoted prices in an active market without any adjustment (i.e. a Level 1 input) where available;
- issuers should consider the implications of evolutions in market conventions for pricing of financial instruments and determine if model adjustments are required for elements such as Credit Value Adjustments/Debit Value Adjustments/Funding Value Adjustments, multi-curve valuations and OIS discounting.

In terms of disclosures, issuers should provide relevant information to meet the standard's objective, even when the fair value is determined by third parties. Below some highlight disclosure requirements, for a complete list of disclosure requirements refer to IFRS 13.

Issuers should provide a description of:

- the valuation techniques used;
- the inputs used (e.g. quantitative info for significant unobservable inputs) -Level 2 and 3;
- any changes in the valuation techniques and reasons;
- levels of FV hierarchy;
- the sensitivity to changes in unobservable inputs and
- whether current use of the non-financial asset differs from its highest and best use.

d) Budget 2015 - impact contributions of the financial sector on the Deferred Tax Assets

The program act of 10 August 2015 governs the contribution of the financial sector and limits the tax deductions for banks and insurance companies based on the debts to customers for banks and the technical provisions for insurance companies. The reduction of deductions have to be allocated in a specific order. The recurring nature of the reduction of deductions requires a careful analysis of the tax basis to determine the impact on the recognition of deferred tax assets.

e) Visa Europe shares

As announced by Visa Europe and Visa Inc. on 2 November 2015, Visa Inc. has agreed, subject to regulatory approvals, to acquire Visa Europe Limited.

The transaction is expected to complete in Q2 2016 (referred to by Visa Inc. as fiscal Q3, given their 30 September year-end).

Many banks have historically treated their existing interest in Visa Europe as an Available For Sale (AFS) equity investment under IAS 39, typically measured at a de minimis amount on the basis that the fair value could not previously be reliably measured / was minimal due to the significant restrictions on sale.

It should be considered when the fair value of the existing AFS equity instrument should be re-estimated taking into account the new information provided by the agreed transaction. Whilst there are restrictions on the sale of Visa Europe interests (they can only be sold to other Visa Europe members or Visa Inc), it should be assessed when the agreed sale to Visa Inc., is a credible purchaser meeting the IFRS 13 Appendix A definition of a 'market participant', and the package of consideration that will be received upon completion evidences (in accordance with IFRS 13.22) the assumptions that a market participant would use when pricing the asset.

f) Waiver to article 36 bis of the RD of 23 September 1992 on financial statements of credit institutions, investment companies and management companies<sup>1</sup>

In the context of the application by the institutions of the waivers obtained (not to apply the article 36 bis), the NBB requests the institutions to provide certain information on the situation as of 31 December 2015 (with a 31 March 2016 as due date). The accredited auditors will have to verify this information and report to the NBB in the frame of the 30 June 2016 situation. The verification (to be carried out primarily as part of the financial statements as of 31 December 2015) will primarily consist of the analysis of the proper application of the waiver(s).

In addition, for the new hedging instruments entered into after January 1, 2016 referring or not to waivers referred to above, the institutions will have to inform the NBB and the accredited auditors will have to examine the information. The examination will primarily consist of reading and

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<sup>1</sup> NBB uniform letter of 22 December 2015, [https://www.nbb.be/doc/cp/nl/2015/uniforme\\_brief\\_22122015.pdf](https://www.nbb.be/doc/cp/nl/2015/uniforme_brief_22122015.pdf)



discussing the information with the institutions and, when appropriate in the circumstances, performing the necessary procedures to evaluate whether the criteria are met.

### III. Main attention points regarding Rules of Conduct

#### a) MiFID and AssurMiFID

The obligations set by rules of conduct that apply to the financial sector have significantly been increased the last years with the regulation MiFID I that was applicable from June 2007 (banking and asset management) and AssurMiFID from May 2015<sup>2</sup> (insurance companies and intermediaries).

Those regulations have implied a modification on how investment services and the offering of insurance products are organized within institutions and how the services are provided to clients.

The main developments over 2015 are:

- AssurMiFID working programs have been developed by the FSMA in cooperation with the accredited auditors.
- AssurMiFID FSMA circular letter 2014\_02 has been updated in 2015. A new chapter on record keeping has been included.
- FSMA inspections: The FSMA has continued its “Duty of care” inspections with banks and investment firms and has started *awareness inspections* on AssurMiFID in the insurance sector. In 2016 inspections on “Duty of care” will continue for banks and investment firms and inspections relating to the MiFID area “Best execution” will be performed. In the course of 2016 the FSMA will also start with official inspections on AssurMiFID.

The future developments:

#### **MiFID II/MIFIR**

MiFID I has been subjected to a revision and a new European directive and regulation have been adopted in April 2014 (MiFID II/MiFIR) and will come into force normally in 2017 (but the applicable date will probably be postponed to 2018).

The main purpose of this new directive is to increase investor protection by promoting transparency and safer markets through enhanced reporting, policy and documentation standards.

The scope of this framework is now extended to the majority of non-equity products and a significant part of OTC derivatives.

The new directive (MiFID II) and regulation (MiFIR) still need to be completed by a set of “level 2” measures i.e. Delegated Acts, RTS and ITS.

The new regulations imply significant and numerous changes. These changes can introduce improvements to some MiFID I provisions or introduce new obligations/provisions. We summarize very briefly hereafter the most significant issues that are raised:

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<sup>2</sup> Date of application postponed to 1 may 2015 by decision of the Constitutional Court



*MiFIR main provisions:*

- New trading venues for bonds, structured finance products, emissions allowances and derivatives i.e. “Organised Trading Facilities” and are defined as “multilateral system in which multiple third party buying and selling interest interact”;
- Increased transparency requirements for trading venues and for investment firms;
- OTC derivatives that are subject to clearing obligations under EMIR will have to be traded on an EU regulated market, a Multilateral Trading Facility or a Organised Trading Facility.

*MiFID II main provisions:*

- A new regime of position limits for commodity derivatives will come into force and the supervision of commodity derivative dealers will be strengthened;
- High frequency trading and algorithmic trading firms will be subjected to new rules imposing them to enhance their systems, processes and controls;
- Introduction of strict product governance obligations for manufacturers and distributors. Manufacturers must have a product approval process with identification of the targeted markets and clients, the risks associated with that market and the consistency of the distribution strategy with the market. Distributors will have to justify that the product that is marketed is consistent with the need of the target market and whether the distribution strategy is appropriate;
- The concept of independent advice has been introduced relating to financial products that are proposed. A firm that declares itself to be independent must propose a large and diverse range of financial instruments and must not accept or retain inducements from third parties;
- Requirement about the recording of telephone conversations or electronic communications;
- The requirements about client’s information are increased. Clear information has to be provided on the nature of the investment advice (independent or not) and if it is based on a broad or restricted analysis of the financial instruments available on the market. Information about the financial instruments have also to be precise about the risks and about the category of client that is concerned (retail or professional);
- Restriction about inducements received from third parties;
- Suitability and appropriateness tests requirements are increased : obligation to take into account the client’s risk tolerance; obligation to provide a statement to the client that specifies how the advice is consistent with the objectives, situation and preferences of the client; obligation to perform a periodic assessment of suitability; for the appropriateness test, the list of complex instruments has been completed (with structured UCITS, shares that embed a derivative, ...);
- Specific requirements are introduced when a firm offers a package of products or services;
- Additional information has to be provided by investment firms and trading venues about best execution.

As of today, ESMA has issued detailed Regulatory Technical standards (RTS) and Implementing Technical Standards (ITS) on MiFID II/MiFIR. These technical standards await endorsement by the European Commission which had 3 months to approve them. Once endorsed, both the European Parliament and the Council have 3 months objection period.

- On a Belgian level, the AssurMiFID framework still needs to be completed by a regulation on costs and charges and by rules on reporting.
- On a European level, the Insurance Distribution Directive (IDD) has recently been approved by the European Parliament. This revises the existing Insurance Mediation Directive (IMD) and will bring the following, amongst others MiFID-like, changes:
  - (1) The scope of the revised IMD will be extended to all sellers of insurance products, including insurance companies that sell directly to consumers. Other market players who sell insurance products on an ancillary basis (e.g. car rental companies) will be included in a proportionate manner in the scope of the revised IMD.
  - (2) Rules that address more effectively the risk of conflicts of interest, including rules mandating the disclosure of remuneration by intermediaries, will be introduced.
  - (3) Improved requirements would apply to life insurance products with investment elements, covering sales standards, conflicts of interest, and a ban on commission for independent advice.
  - (4) There would be mutual recognition of professional knowledge and ability, as evidenced by registration and proof of professional qualifications acquired in another Member State.
  - (5) Special information requirements would apply where suppliers adopt the practice of bundling products together by informing the customer that it is possible to buy the two products separately.
  - (6) Effective, proportionate, and dissuasive administrative sanctions and measures by competent authorities in respect of breaches would be required by providing guidelines to Member States.

The IDD is expected to enter into force end of 2017/beginning of 2018.

b) Other conduct regulation

The main developments over 2015 are:

In the course of 2015, a number of other Belgian conduct regulations/circulars have been published or entered into force, amongst other:

- the Royal Decree modifying the Royal Decree of 25 April 2014 concerning certain information obligations when distributing financial products to retail clients (partially applicable as of 12 June 2015)
- the Circular FSMA\_2015\_16 of 27 October 2015 relating to publicity rules for commercializing financial products with non-professional clients.



The future developments:

Other significant new regulations on a European level are MAR (Market Abuse Regulation) and CSDR (Central Securities Depositories Regulation) and PRIIPs (packaged retail investment and insurance-based investment products).

MAR will enter into force in 2016 and aims at enhancing investor protection and market integrity. CSDR will enter into force harmonises the authorisation and supervision of central securities depositories within Europe.

It provides organisational, conduct of business and prudential requirements to ensure those depositories are safe, efficient and sound. PRIIPS, the regulation on key information documents for packaged retail and insurance-based investment products was published into the Official Journal of the EU. It shall apply from end 2016.

#### IV. Main attention points for the Insurance Sector

2015 has been rather intensive in terms of regulatory developments for the insurance sector.

The key themes that remain on the regulatory agenda are:

- a) Solvency II;
  - b) The new RD on the Annual Accounts of Insurance and Reinsurance undertakings (RD of 17 November 1994);
  - c) The draft RD on policyholder participation.
- a) Solvency II

The main central theme dominating the NBB's regulatory agenda is and remains Solvency II.

The legal framework for the introduction of the Solvency II regime into Belgian Law is composed of the following elements:

- Directive 2009/138/EC of the European Parliament and of the Council of 25 November 2009 on the taking-up and pursuit of the business of Insurance and Reinsurance (Solvency II);
- Delegated Regulation (EU) 2015/35 of October 10, 2014 supplementing Directive (EU) 2009/138 of the European Parliament on the taking-up and pursuit of the business of Insurance and Reinsurance (Delegated acts);
- EIOPA technical specifications (implementing regulations) and guidelines (draft), directly applicable and/or translated into NBB Circulars (work in progress);
- Law on the statute and supervision of Insurance and Reinsurance undertakings (work in progress);
- NBB Circulars (work in progress).

Below we elaborate on a number of key attention points that were highlighted in ongoing discussions with the NBB.

- **Solvency II preparatory phase:** our report on the Q3 2015 Solvency II QRT's completes the Solvency II preparatory phase as included in NBB Circular NBB\_2014\_2. We refer in this respect to IREFI message 2015-13.
- **Solvency II "Day-one reporting":** the Solvency II regime will become applicable as from January 1<sup>st</sup>, 2016 for all Belgian insurance and reinsurance undertakings. In the context of this new regime the Insurance and Reinsurance undertakings and groups are requested to report certain financial information to the NBB. This relates to the so-called "Day-one" reporting as referred to in article 314, first part (solo) and article 375, first part (groups) of the EU Regulation 2015/35. Based upon article 40 quarter, first part, 3<sup>o</sup> of the Control Law of July 9, 1975 for Insurance undertakings and article 45, first part of the law of February 16, 2019 on Reinsurance undertakings the NBB will request a special report from the accredited auditor on this "Day-one" reporting. As Circular NBB\_2014\_02 does not deal with the involvement of the statutory accredited auditors subsequent to the preparatory phase, the NBB has informed the accredited auditors of the NBB's expectations with respect to this "Day-one" reporting. In essence the work and reporting will be similar to the work we performed during the preparatory phase. Our report will be due two weeks after the due date for the sector (i.e. 20 + 2 weeks after year-end). We

refer in this respect to IREFI message 2015-13. At discretion of the NBB additional procedures could be requested to the statutory accredited auditors on a case-by-case basis (e.g. see below, in case of transitional measures).

- **Circulars relating to the conversion of the set of EIOPA guidelines into Belgian supervisory regulation.** The NBB is currently publishing a set of (draft) Circulars relating to the harmonized implementation of the principles of the EU Delegated Acts as determined in a first set of EIOPA guidelines. With respect to this first set of EIOPA guidelines the NBB has already informed the sector on March 31, 2015 that it will apply these guidelines in its prudential supervision. Based upon our discussion with the NBB, the text in these guidelines has been completely and accurately translated into the (draft) Circulars. Certain attention points (matters for attention or interpretation guidance) added by the NBB have been / will be made visual in the (draft) Circulars.
- **Ongoing / final interpretation of the EIOPA guidance.** During the preparatory phase the accredited auditors have observed a number of ongoing discussion points between the sector and the NBB with respect to the interpretation of certain EIOPA guidelines. The insurance working party has discussed these points with the NBB on October 28 and subsequently on November 27, 2015. Below we elaborate on the current status and strongly recommend that the undertakings formally document their compliance with the EIOPA guidelines and potential deviation in a formal memorandum that is approved by the relevant governance bodies:
  - Application of the **look-through principle** for related undertakings. Under the standard formula the look-through principle cannot be applied to related undertakings. The NBB will further communicate on a case-by-case basis with the relevant undertakings on possible exemptions (e.g. partial internal model) and / or transitional measures.
  - **IAS 19:** Own pension contracts in the Market Value Balance Sheet (MVBS) are to be valued in accordance with IAS 19 rules rather than being considered as part of technical provisions. In accordance with the EIOPA guidelines on the treatment of market and counterparty risk exposures in the standard formula, only the counterparty default risk and market risk modules are applicable to this liability for the determination of the capital requirements (see guideline 1). As this liability is not part of the technical provisions, the Life and Health SCR shocks are not to be applied;
  - Exclusion of **dividends:** foreseeable (i.e. expected) dividends are to be subtracted from Solvency II own funds. The NBB has clarified that no formal approval of the board / shareholders meeting is required for the qualification of a foreseeable dividend;
  - Tiering of **subordinated loans:** the NBB agreed to follow grandfathering rules as foreseen in the EIOPA Guidelines on the classifications of Own Funds. The NBB will further communicate individually on a case-by-case basis on this topic and will not publish a separate Circular;
  - Treatment of **quasi-government bonds:** corporate bonds with an indirect exposure (e.g. explicit guarantee) to the regional governments and local authorities cannot be considered as sovereign exposure, in line with recital 42 in the Delegated Acts. The NBB will not publish a separate Circular on this topic;

- **Deferred taxes:** the NBB confirmed its position in a draft Circular. The loss absorbing capacity of deferred taxes can be taken into account insofar it does not create a net DTA position in case of a shock. The NBB will inform the sector in the coming weeks through a Circular;
  - **Contract boundaries:** the NBB has clarified its position in line with the EIOPA Guidelines on Contract Boundaries in a draft technical note containing a non-exhaustive list of possible examples. This technical note is not considered a final note but will be a “living document” that can be supplemented with additional examples upon request of the sector through Assuralia;
  - **Unit linked contracts:** for branch 23 contracts the shock on the assets is largely compensated by the corresponding shock on the liabilities. Consequently, except for the operational risk and the recognized margin resulting from the cost loadings (management fees) in the products, pure unit linked contracts do not impact the level of own funds and capital requirements. If the contract contains specific features (e.g. risk premium for biometric risks, etc.), the different components of the contract need to be unbundled for the calculation of the SCR;
  - **Transitional measures (LTG measures):** the adoption of transitional measures need to be discussed by the undertaking with the NBB on a case-by-case basis. The NBB has issued a separate Circular with respect to the expectations of the NBB for the composition of a file (cf. Circular NBB\_2015\_15). The NBB has stressed the importance that the calculation of the SCR /MCR must be calculated correctly based upon the Solvency II Delegated Acts and EIOPA guidelines. On a case-by-case basis the NBB will contact the statutory auditor if additional procedures need to be performed on top of the procedures for the “Day-one” reporting.
- **Solvency II in force** (as from 2016 onwards): as indicated above, the Solvency II-regime will become applicable as from January 1<sup>st</sup>, 2016 for all Belgian Insurance and Reinsurance undertakings. As the Solvency II reporting will be part of the so-called “periodic financial information” that is to be reported by the undertaking to the NBB on a quarterly basis, the statutory accredited auditor will be required to perform the following procedures:
- Limited review / assurance procedures for the half-year Solvency II reporting;
  - Audit / reasonable assurance for the year-end Solvency II reporting.

The model for the half-year and year-end Solvency II reporting will be further specified in a separate Regulation.

At the date of this report, the Insurance working party is still analyzing the following points:

- **The format of our report to the NBB.** As Solvency II is part of the periodic financial information (as Solvency I previously) our reporting will be covered in our existing short form reporting format on the periodic financial information. The procedures to be performed for the purpose of expressing a limited review / assurance opinion or an audit / reasonable assurance opinion have to be based on Solvency II working programs that have been recently updated by the Insurance Working Party on the basis of past working experience during the preparatory phase. We refer in this respect to the final set of working programs in annex to IREFI message 2015-13.

- **The applicable assurance / audit standard:** the Insurance Working Party is still analyzing the applicable limited review / assurance (ISRE 2410 versus ISAE 3000) and audit / reasonable assurance standard (ISA 805 versus ISAE 3000). The Insurance Working Party will come back on this point in the first semester of 2016.
- b) The new RD on the Annual Accounts of Insurance and Reinsurance undertakings (RD of 17 November 1994)

The RD on the Annual Accounts of 17 November 1994 (which will be amended, a draft text has already been circulated by the NBB) remains applicable and remains under the Solvency II regime the basis for the undertaking's corporate tax declaration, the distribution of dividends to shareholders, the determination of policyholder participation, the setup of the so-called flashing light reserves, other dispositions foreseen in the Companies' code. In the draft Report to the King, it has been explicitly indicated that with this amended RD the objective is to pursue the Solvency I requirements for statutory reporting purposes.

Important to highlight in the draft amendments is the integration of the so-called flashing light mechanism in the RD of 17 November 1994. The draft RD now:

- contains new rules for obtaining an exemption from the NBB;
- rejects the reduction of previously recorded reserves;
- prescribes specific requirements in case of a restructuring or a transfer of a portfolio.

c) The draft RD on policyholder participation

The draft RD (hereafter the RD) on policyholder participation will become applicable as from January 1<sup>st</sup>, 2016. The RD introduces an additional limit through the Solvency II SCR ratio (min 100% with or without transitional measures) for the allocation and distribution of policyholder participations and elaborates on the tasks of the actuarial function and on the cases where a preceding decision of the NBB is required (e.g. in case of amount exceeding the maximum amount as specified in the RD or in case the SCR ratio with or without transitional measures falls below 100%).

At the date of this report it remains unclear whether this new RD will already affect the allocation of policyholder participation for the financial year 2015.

V. **Main attention points of the FSMA in view of the communication of IREFI related to the 31th of December 2015 audit**

a) Attention points for auditors of ICB's for 2016 activities

In the execution of their activities for (A)ICB, auditors should pay attention to the following attention points:

- Intra-group transactions (conditions, existence of SLAs, etc.): management companies are subsidiaries of credit institutions or at least belong to financial groups. Some of these management companies engage in transactions with other companies of their group, often within the framework of outsourced activities such as IT. It would be interesting to verify the "at arm's length" character of these transactions and whether these transactions are in fact carried out in accordance with the agreements between the parties involved.
- Concerning the internal control reporting:
  - Were the comments made in the past (e.g. within the framework of UCITS IV, EMIR, etc.) taken into account? Are there still open points that require monitoring or action within the company and which were derived from comments formulated by the auditor or by the FSMA with regard to the functioning of the internal control (and not incorporated into the follow-up of an inspection report)?
  - Are statutory and regulatory changes being adequately integrated? The FSMA is thinking more specifically of the more detailed risk management requirements for AIFMs as foreseen in EU-Regulation 231/2013 (the "AIFM Regulation"). Compliance with these requirements was verified by the FSMA within the framework of AIFM authorisation. On top of this verification, it would be interesting to have a confirmation by the auditors that within the management companies concerned the risk management framework was effectively implemented.
- The proper presentation of the solvency requirements in the tables and, in particular:
  - In table 90.19, along with the inclusion of the AUM of the managed UCITS, also the inclusion of the managed AIFS;
  - In table 90.01, in case of absence of a professional liability insurance, include on line 1110 the additional own funds.



b) Attention points for the audits of the institutions of occupational pensions on 31 December 2015

By means of its circular of 5 February 2015<sup>[1]</sup>, the FSMA gave a detailed description of its expectations and requirements concerning the cooperation tasks of accredited auditors appointed by institutions of occupational pensions.

In 2015, the services of the FSMA examined for all the audited institutions of occupational pensions the annual reports of accredited auditors regarding the financial information 2014.

Based upon this examination, it seems appropriate that, within the framework of the 2015 auditwork, the accredited auditors pay particular attention to the following points:

- (1) greater clarity, in the annual reports to the FSMA, concerning the aspects examined by the accredited auditor, in order that one can deduce with certainty from the absence of any finding on a point that said point was indeed verified by the accredited auditor, but simply did not give rise to any particular comment on his part;
- (2) the information in the "P40" reporting (on the governance and on the activities and financial structure of the institutions of occupational pensions) presenting incoherencies vis-à-vis the information at the disposition of the accredited auditor;
- (3) the prudence of the calculation of the technical provisions (continuation of what the accredited auditors did for the audit work 2014);
- (4) the valuation of the unlisted investments;
- (5) the codes of the investments in securities of the institutions of occupational pensions with regard to the circular of the FSMA FSMA\_2015\_02 of 20 January 2015 on the reporting<sup>[2]</sup>.

Finally, it would be useful, in a certain number of cases, to recall that the reports of the auditors must be sent to the FSMA within the deadlines set forth in the circular CBFA 2011\_06 of 14/02/2011 on the cooperative mission of accredited auditors of collective investment undertakings with a variable number of shares.

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<sup>[1]</sup> Circular FSMA\_2015\_05 of 5 February 2015 on the cooperative mission of accredited auditors of institutions of occupational pensions.

<sup>[2]</sup> Circular FSMA\_2015\_02 of 20 January 2015 on the communication of the annual accounts, statistics and documents relating to financial year 2014.

**VI. Main attention points of the NBB in view of the communication of IREFI related to the 31th of December 2015 audit**

a) Transversal

1. Data quality

Based upon recent analysis of the statistic department of the ECB, it appears that the data quality of the FINREP and COREP reporting of supervised credit institutions is not always as optimal as it should be.

The same concern applies regarding the financial reporting of other supervised institutions (more specifically insurance companies).

To that extent, the NBB requests accredited auditors of such institutions to pay special attention at the data quality of the FINREP and COREP financial reports. To be more precise, the accredited auditor should pay special attention on the tests performed by the institutions at the financial statement closing process.

2. Templates auditreport

In compliance with the current circular on the cooperation of the accredited auditor regarding to the prudential supervision, the NBB emphasises the importance of more qualitative information of the certified auditor, especially regarding the Solvency II auditreports.

The NBB also expects to receive a copy of all communication of the auditor vis-à-vis the auditcommittee. To enhance the qualitative input of the auditors, the NBB expects the auditors to include additional information on special topics treated during their auditwork, in their audit opinions of the periodic financial statements.

b) Related to credit institutions

Regarding the FINREP –reporting on solo-level, the NBB is concerned not all financial institutions are aware of the change in FINREP reporting. As of the first of January 2016, the FINREP reporting requirements do not only apply on a consolidated level but on a Solo-level. In order to enhance the awareness of the concerned institutions, the NBB has attached an overview of all financial institutions who need to comply with the new FINREP reporting requirements as of the 1th of January 2016 (see attachment 1). By submitting this overview, the NBB wants to enhance the awareness at those institutions to comply with the new FINREP-reporting requirements on Solo-level.

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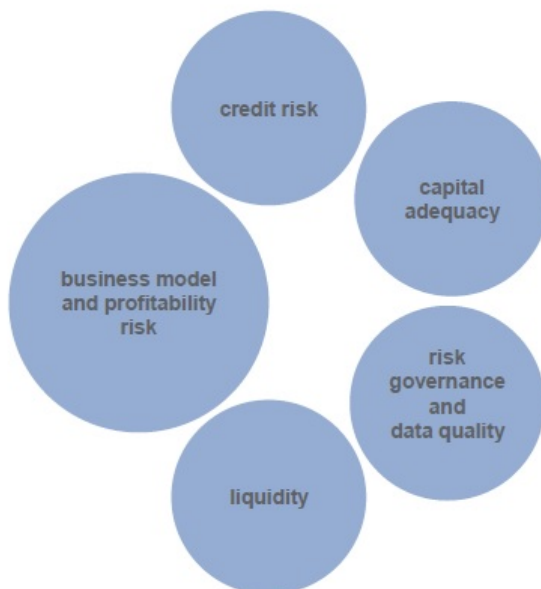
## VII. Attachment 1. Finrep/Solo reporting list provided by the NBB

Reporting population				Total assets (December 2014)	Threshold	FINREP dataset	1st reference date ECB
<b>SIGNIFICANT INSTITUTIONS (SI)</b>							
Investar		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Argenta Bank- en Verzekeringsgroep		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Argenta Spaarbank NV		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Axa Bank Europe SA		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Banque Degroof SA		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Belfius Banque SA		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Dexia SA		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
KBC Group N.V.		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
KBC Bank N.V. Belgium		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
CBC Banque Belgium		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
The Bank of New York Mellon S.A.		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Hypoteční Banka a.s.	CZ	SOLO	non ssm separate subsidiary	base solo	above	OVER SIMPLIFIED	06/2016
Ceskoslovenská Obchodní Banka a.s. (CR)	CZ	SOLO	non ssm separate subsidiary	base solo	above	OVER SIMPLIFIED	06/2016
<b>LESS SIGNIFICANT INSTITUTIONS (LSI)</b>							
Santander Benelux, S.A./NV		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
BNP-Paribas Fortis SA		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
bpost banque SA		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Crédit professionnel S.A.		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Beobank SA		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Banque Transatlantique Belgium S.A.		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Crédit Mutuel Nord Europe Belgium S.A.		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Société Générale Private Banking N.V.		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Banca Monte Paschi Belgio		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Puilaetco Dewaay Private Bankers S.A.		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
ING Belgium S.A.		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
Record bank S.A.		SOLO	ssm separate subs/parent			SIMPLIFIED	06/2016
ABK Bank CVBA		SOLO	ssm separate subs/parent	conso du groupe	above	OVER SIMPLIFIED	06/2017
Anbang Belgium Holding NV		SOLO	ssm separate subs/parent	conso du groupe	above	OVER SIMPLIFIED	06/2017
Bank J. Van Breda en C° NV		SOLO	ssm separate subs/parent	conso du groupe	above	OVER SIMPLIFIED	06/2017
Banque CPH		SOLO	ssm stand alone	base solo	below	DATA POINTS	06/2017
Banque Delen & de Schaeetzen		SOLO	ssm separate subs/parent	conso du groupe	above	OVER SIMPLIFIED	06/2017
Banque Eni SA		SOLO	ssm separate subs/parent	base solo	below	DATA POINTS	06/2017
Byblos Bank Europe		SOLO	ssm separate subs/parent	base solo	below	DATA POINTS	06/2017
DATEX		SOLO	ssm separate subs/parent	conso du groupe	below	DATA POINTS	06/2017
Centrale Kredietverlening		SOLO	ssm separate subs/parent	conso du groupe	below	DATA POINTS	06/2017
Citibank international Limited	UK	BRANCH	ssm branch of non ssm CI	base solo	below	no reporting	
Crelan SA		SOLO	ssm separate subs/parent	conso du groupe	above	OVER SIMPLIFIED	06/2017
Delta Lloyd Bank SA		SOLO	ssm separate subs/parent	conso du groupe	above	OVER SIMPLIFIED	06/2017
Dierickx, Leys & Cie Effectenbank		SOLO	ssm stand alone	base solo	below	DATA POINTS	06/2017
Euroclear Bank		SOLO	ssm separate subs/parent	conso du groupe	above	OVER SIMPLIFIED	06/2017
Euroclear SA		SOLO	ssm separate subs/parent	conso du groupe	above	OVER SIMPLIFIED	06/2017
Europabank		SOLO	ssm separate subs/parent	conso du groupe	above	OVER SIMPLIFIED	06/2017
FCE Bank plc	UK	BRANCH	ssm branch of non ssm CI	base solo	below	no reporting	
Finaxis		SOLO	ssm separate subs/parent	conso du groupe	above	OVER SIMPLIFIED	06/2017
Hoist Finance	SE	BRANCH	ssm branch of non ssm CI	base solo	below	no reporting	
HSBC Bank plc	UK	BRANCH	ssm branch of non ssm CI	base solo	below	no reporting	
ICICI Bank UK plc	UK	BRANCH	ssm branch of non ssm CI	base solo	below	no reporting	
J.P. Morgan Europe Ltd	UK	BRANCH	ssm branch of non ssm CI	base solo	below	no reporting	
J.P. Morgan International Bank Limited	UK	BRANCH	ssm branch of non ssm CI	base solo	above	SIMPLIFIED	06/2017
Keytrade Bank S.A.		SOLO	ssm separate subs/parent	conso du groupe	above	OVER SIMPLIFIED	06/2017
MeDirect Bank SA		SOLO	ssm stand alone	base solo	below	DATA POINTS	06/2017
Optima Bank NV		SOLO	ssm separate subs/parent	conso du groupe	below	DATA POINTS	06/2017
Optima Group NV		SOLO	ssm separate subs/parent	conso du groupe	below	DATA POINTS	06/2017
Shizouka Bank (Europe) SA		SOLO	ssm separate subs/parent	base solo	below	DATA POINTS	06/2017
The Royal Bank of Scotland Plc	UK	BRANCH	ssm branch of non ssm CI	base solo	below	no reporting	
United Taiwan Bank SA		SOLO	ssm separate subs/parent	base solo	below	DATA POINTS	06/2017
van de Put & C°, Effectenbank – Banque de titres		SOLO	ssm stand alone	base solo	below	DATA POINTS	06/2017
VDK Spaarbank		SOLO	ssm stand alone	base solo	above	SIMPLIFIED	06/2017

## ECB Banking Supervision: SSM priorities 2016

The supervisory priorities for 2016 of the Single Supervisory Mechanism (SSM) set out focus areas for supervision in 2016. They build on an assessment of the key risks faced by banks under ECB supervision and take into account relevant developments in the economic, regulatory and supervisory environment.

The key risks SSM banks are confronted with have been identified in cooperation with the national competent authorities, leveraging on the input from the Joint Supervisory Teams, ECB macroprudential and microprudential analyses as well as reports by external bodies. Among the key risks identified, business model and profitability risk is ranked the highest, followed by other key risks, the importance of which varies across SSM countries: credit risk and heightened levels of non-performing loans; reversal of the search for yield; conduct and governance risk; sovereign risk; geopolitical risk and growing vulnerabilities in emerging economies; IT and cybercrime risk; and banks' ability to meet upcoming regulatory capital requirements.



To ensure that banks address these key risks effectively, the SSM has adopted five high-level priorities to guide its supervision throughout 2016. These are (i) business model and profitability risk, (ii) credit risk, (iii) capital adequacy, (iv) risk governance and data quality, and (v) liquidity. For each of these priorities, a number of supervisory initiatives will be carried out. In some cases, their full implementation spans more than one year.

The aforementioned risks, as well as the supervisory priorities, should not be seen as an exhaustive list. Differing supervisory activities may be required at bank level, taking into account credit institutions' specific risk profiles. Nonetheless, the priorities are an essential tool to coordinate supervisory actions across banks in an appropriately harmonised, proportionate and efficient way, thereby contributing to a level playing field and a stronger supervisory impact.

### Business model and profitability risk

The key risk that stands out relates to banks' business models and profitability. Both are being challenged by the high level of asset impairments and the protracted period of low interest rates. In 2016, building on previous work around banks'





Supervisory action:  
Thematic review of  
banks' profitability drivers

business models and on profitability analyses, the SSM is launching a thematic review of banks' profitability drivers at firm level and across business models. The analysis of profitability drivers will facilitate the identification of banks with structurally low profitability. In this context, an area of supervisory focus will be examining whether profitability is achieved through, among other things, a weakening of credit standards, greater reliance on short-term funding, or an increase in risk exposures not commensurate with the bank's stated risk appetite.



Supervisory action:  
Task force on NPLs  
Thematic review of IFRS 9

### Credit risk

Elevated levels of non-performing loans (NPLs) deserve heightened supervisory attention. The deterioration in the credit quality of loans to corporates and/or households as well as in credit standards is a source of concern in a number of SSM countries, particularly in ones hit hard by the crisis. A task force on NPLs is reviewing the situation of institutions with high levels of NPLs and will propose follow-up actions. In addition, exposure concentrations in areas such as real estate will be subject to greater supervisory scrutiny. Another credit-related topic is the implementation of "IFRS 9 – Financial Instruments" (International Financial Reporting Standards). A thematic review will assess the potential impact of IFRS 9 on banks' provisioning practices and how banks are preparing for its introduction.



Supervisory action:  
Review of quality & consistency  
of banks' ICAAP  
Review of banks'  
internal models

### Capital adequacy

Capital adequacy remains a high priority for the SSM in 2016. Focal points are the quality and consistency of banks' Internal Capital Adequacy Assessment Processes (ICAAP), including banks' internal stress-testing capacities, and the conduct of supervisory stress tests such as the EU-wide stress test coordinated by the European Banking Authority. Further pivotal elements of supervision in 2016 are the follow-up on the quality and composition of banks' capital (also in relation to the ongoing efforts to harmonise options and national discretions) as well as the examination of banks' preparedness for new regulatory standards such as total loss-absorbing capacity (TLAC) and the minimum requirement for own funds and eligible liabilities (MREL), the application of which will result in minimum requirements for "bail-inable" capital instruments. In addition, a targeted review of banks' internal models will be carried out over several years.

### Risk governance and data quality

Banks' risk governance will be assessed against the background of low profitability and resulting search-for-yield behaviour, paired with cheap and ample funding provided by central banks. Moreover, experience from the financial crisis has shown that banks' management boards did not always have at their disposal the risk information required to make sound business and risk management decisions. A



Supervisory action:

Clarify supervisory expectations to banks' boards

Thematic review of compliance with BCBS principles

priority for the SSM is to clearly articulate supervisory expectations vis-à-vis banks in that respect. Banks' boards are expected to require and receive adequate risk information, so that they can thoroughly judge whether business decisions entail risk levels that are in line with the bank's defined risk appetite standards and limits. Data quality and firm-wide risk aggregation capabilities are an essential precondition for sound, risk-based decision-making and therefore for proper risk governance. In this context, the SSM will carry out a thematic review of banks' compliance with the Basel Committee on Banking Supervision's principles for effective risk data aggregation and risk reporting. This review will also reinforce the follow-up actions to the SSM's 2015 thematic review of risk governance and risk appetite. Finally, ensuring data quality and security necessitates state-of-the-art IT infrastructure. Therefore, IT risks will form part of the analysis.

### Liquidity



Supervisory action:

Dialogue on ILAAP

The 2015 Supervisory Review and Evaluation Process revealed that a number of banks do not yet fully meet supervisory expectations regarding the sound management of liquidity risks. The SSM will therefore focus on the reliability of banks' Internal Liquidity Adequacy Assessment Processes (ILAAP). Banks' progress in implementing and maintaining sound frameworks for managing liquidity and funding risk, both in a going concern situation and under stressed circumstances, will be scrutinised.

### Countries participating in the Single Supervisory Mechanism

- Single Supervisory Mechanism
- European Union

