

Zaventem, 19 January 2023

**NOTICE TO THE ACCREDITED AUDITORS**  
**NOTICE 2023 / 01**

Dear Members,

On behalf of all Board members and the scientific secretariat, I wish you and your families a prosperous and successful New Year.

Attached, you will find the annual attention points letter, informing the accredited auditors of some highlights or key issues that might have an impact on the audit procedures as of 31 December 2022.

The NBB, the FSMA and the different IRAIF/IREFI working groups, supported by the scientific secretariat, have contributed to this letter, by providing and drafting the enclosed attention points.

These attention points have been compiled in the context of the current regulatory framework of cooperation of the accredited auditors to the prudential supervision by the FSMA and the NBB.

The first Capita Selecta session of the year 2023 will take place on 16 January 2023 and is organized in close cooperation with the NBB. Some topics included in the attention points letter will be discussed in detail. The slides of this training will be available on the ICCI portal (Past events (icci.be)).

The IRAIF/IREFI working group dealing with the model reports is currently finalizing the templates for the prudential reporting as of 31 December 2022 to the NBB and the FSMA. The updated versions will be released as soon as practically possible.

Should you have any questions regarding this document, please do not hesitate to contact me, any member of the Board of the IRAIF/IREFI or Veerle Sablon.

Yours sincerely,

Olivier Macq  
President

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## **INTRODUCTION**

The attention items presented in *italics* have been provided by the supervisory authorities (National Bank of Belgium (NBB) or the FSMA) and include their expectations with regard to the auditor's specific attention points in the context of the year-end 2022 audits and the reporting thereon. The NBB has requested the accredited auditors to explicitly comment on certain elements in their reports. These elements are mentioned clearly in the text.

The other attention points have been identified by the respective working groups of the IRAIF/IREFI and consist of items for information of the accredited auditors. Some of these items relate to topics that were already discussed in a previous attention points letter. The accredited auditors will use their professional judgment and decide, based on facts and circumstances, whether these attention points need to be explicitly addressed in the reports to the prudential authorities.

### **1. ATTENTION MATTERS APPLICABLE TO ALL FINANCIAL INSTITUTIONS**

#### **1.1. HOT TOPICS, ESMA EXPECTATIONS**

The European Securities and Markets Authority (ESMA) issued per 28 October 2022 its statement with the European common enforcement priorities for the 2022 annual financial reports.

The following hot topics are addressed:

Climate-related matters:

- Particular attention should be paid to the consistent treatment of climate-related matters across the annual financial report, ensuring a balanced emphasis on climate-related matters in the management report and the non-financial information as well as in the disclosures of the financial statements covering the risks and opportunities arising from climate matters.
- With respect to the impairment of non-financial assets, ESMA reminds that climate-related matters should be taken into account in applying IAS 36. It is to be expected that these will impact the recoverable amount of cash-generating units and the cash-flow projections in the medium and long-term. It is also noted that clear descriptions of the climate-related assumptions made in the sensitivity analysis need to be disclosed.
- Climate-related matters, such as reductions of carbon emissions, may give rise to legal or constructive obligations and thus the application of IAS 37.
- The financial institutions should be aware of the general expectation towards increased transparency on climate-related matters. As such, sufficient attention should be paid to the disclosures on transition plans, the use of metrics (KPIs) and targets and, finally, the descriptions on the double materiality.
- Finally, ESMA reminds that, in the context of NFRD, the non-financial undertakings are required to disclose not only the taxonomy eligibility of their economic activities for financial year 2022, but also the taxonomy alignment. It also highlights the importance of accompanying contextual information in this respect. Financial undertakings are reminded of the obligation on taxonomy alignment reporting in 2024.

Russia's invasion of Ukraine:

- ESMA notes that most messages included in the previous statement on Ukraine, issued in May 2022, remain relevant. Generally, it appears that the risk remains at the highest level, with political event risk, surging inflation and jumps in market volatility negatively impacting the outlook.
- More specifically, attention needs to be paid to the funds and investors with exposures to Russian assets, the prices of commodities and related derivatives, the market expectations of even higher interest rates, the cyber risk and the value of crypto assets.

- Moreover, the significant challenges to business activities, the high degree of uncertainty on the expected development of those activities and the associated knock-on effects on the economic and financial system, at both European and international level, are still applicable at year-end.
- In addition, the following attention points need to be taken into consideration: (i) the presentation of the impacts of Russia's invasion in the financial statements, (ii) the loss of control, joint control or the ability to exercise significant influence, (iii) discontinued operations, and (iv) the impairment of non-financial assets.

The macroeconomic environment:

- The current macroeconomic environment poses significant challenges to the financial institutions and their operations. The impact of the combination of remaining pandemic-related effects, inflation, increasing interest rates, deterioration of the business climate, the geopolitical risks and uncertainties needs to be assessed and reflected in the financial statements, and requires appropriate disclosures.
- Specific attention is required to the impact of increasing interest rates on the discount rates used in the impairment test of non-financial assets.
- Equally, sufficient attention should be paid to the actuarial assumptions used in the context of employee benefits.
- With respect to financial instruments, ESMA highlights the importance of the disclosures, the ECL models, the sector-specific effects of the rising energy costs and, finally, reclassification of financial assets.

## **1.2. SPECIAL MECHANISMS – UPDATE AND ATTENTION POINTS**

### **1.2.1. Branches of EER credit institutions and EER stockbroking firms**

As mentioned earlier in our notice 2022/06, no annual statement with respect to special mechanisms needed to be issued for branches of EER credit institutions and branches of EER stockbroking firms as per 31 December 2021, due to a missing reference in the « Loi Bancaire/Bankwet ».

In the meantime, the Law of 20 July 2022 on the supervision of stockbroking firms and various provisions rectified this omission for both types of branches and, as a result, an annual statement will need to be issued for these branches in the context of the 31 December 2022 closing.

The working group 'Model reports' is currently drafting the model reports to be issued. These will be shared together with all other model reports for the prudential reporting as at 31 December 2022.

### **1.2.2. Attention points for all financial institutions in scope**

We would like to remind the accredited auditors of circular NBB\_2021\_17 on the fiscal prevention policy of financial institutions. One of the required components of this fiscal prevention policy is the set-up and annual evaluation of an adequate internal control system by the senior management, to be commented upon in a dedicated section of the management's report over internal control.

The accredited auditors are requested to take the above requirements into consideration in their year-end audit procedures and include relevant findings in their reporting to the NBB.

Finally, the accredited auditors are expected to follow-up on the findings and recommendations that they reported prior year in the context of the 2021 annual statements with respect to special mechanisms and to comment on this follow-up in the reports to the prudential authorities.

### **1.3. CSRD, THE NON-FINANCIAL INFORMATION DISCLOSURES REQUIREMENTS**

For your information, the application of the new framework CSRD, that has been adopted by the European Parliament in November 2022, will take place in the following phases:

- Phase I - reporting on FY24 information (to be reported in 2025): companies in scope of NFRD (large PIE's);
- Phase II - reporting on FY25 information (to be reported in 2026): other large companies; and
- Phase III - reporting on FY26 information (to be reported in 2027): listed SME's (with an option to opt out for two years).

It is expected that limited assurance will be required on this reporting. This can, however, be subject to changes based on the transposition of the directive in Belgian law. No specific intervention of the accredited auditors is expected on the situation as of 31 December 2022 in the context of our participation to the prudential supervision.

## **2. CREDIT INSTITUTIONS**

### **2.1. THE IMPACT OF THE CHANGING METRICS ON THE CREDIT INSTITUTIONS**

Taking into account the aftermath of the Covid-19 pandemic, combined with the consequences of the invasion of Ukraine by Russia and the changing macro-economic climate with its inflationary environment, we recommend the accredited auditors to remain highly alert to the risks to which the financial sector is exposed, in particular the credit risk and its measurement in the financial and prudential periodic reporting as of 31 December 2022. The following elements should be considered:

- the governance and the evolutions of the overlays recorded by the institutions to capture the ECL not picked up by the current models, including the evolution of the overlays that were previously recorded to cover the increased expected credit losses in a Covid period;
- any specific measures granted by the financial institutions in the context of the energy price increases and the inflationary pressure in general, and their consequences on the staging; and
- the back-testing exercises conducted by the institutions and the related results, the scenarios used in the expected credit loss and any specific sector approaches that would be applied.

We refer to section 2.3 below for the NBB's attention points and reporting requirements in respect of the above.

### **2.2. COUNTERCYCLICAL CAPITAL BUFFER (4Q 2022 – 1Q 2023)**

*In its press release dated 16 December 2022, the NBB communicated that it has decided to maintain the Countercyclical Capital Buffer (CCyB) rate at 0% for the 4th quarter 2022 and the 1st quarter 2023. On the one-hand, the NBB counts on the credit institutions to use their ample available capital resources to support the Belgian economy in the current challenging times. On the other-hand, as economic and financial conditions have tightened significantly amidst vulnerabilities accumulated during the long period of low interest rates, the probability of a more significant materialization of losses on loans remains high. It is true that the, mostly backward-looking, asset quality indicators do not (yet) point to an increase in loans repayment problems. However, credit institutions should look ahead and base their credit risk provisions on sufficiently conservative assessments of potentially stressful economic scenario and use their current strong capital position to proactively raise loan loss provisions where necessary. The capital resources that remain available pursuant to the decision of the NBB not to re-activate the CCyB should thus be used to do so.*

*In the current macro-financial context still characterized by a high level of uncertainty, the NBB also urges the financial institutions to remain cautious in their decisions regarding dividends and other types of profit distributions and to base these decisions on a conservative forward assessment of their capital and provisioning needs considering the potential macroeconomic developments.*

*The NBB expects the accredited auditors to consider the above matters in their year-end work and to assess the relevant prudent approach for the provisioning of the credit risks and dividend distribution. The relevant findings and related assessment of the accredited auditors will be comprehensively addressed and detailed in their year-end periodic reports.*

### **2.3. IFRS 9 CREDIT RISK**

*In the Attention Points Letter as of 31 December 2021, the NBB required the accredited auditors to report on various aspects discussed in the "IFRS 9 Implementation by EU Institutions Monitoring Report" published by the EBA. In the current macro-economic context and the surrounding uncertainties, the provisioning of credit risk by credit institutions still constitutes an area of focus of the NBB and the ECB. Therefore, the Attention Points and the expectations regarding the accredited auditors as mentioned in 2021 remain fully applicable and subject to explicit reporting for the closing as of 31 December 2022 (including their findings and relevant assessments).*

*As the level of judgement embedded in the IFRS 9 standard leaves open the possibility to use a wide variety of accounting practices, the comparability of the reported figures and the assessment of the prudent application of the standard constitute an issue for the NBB. Among others, the following matters need to be considered and, insofar as relevant, addressed:*

- *the use of collective (or sectorial) SICR assessments which can lead to relevant impacts in terms of transfers to Stage 2 and similarly for SICR overlays.*
- *ECL Models & Overlays – the Covid-19 pandemic pushed the IFRS 9 models outside their boundaries thereby increasing the use of overlays leading to more divergence in terms of impact in the final ECL amount. Given the economic and financial environment, the risk exist that credit institutions will continue to use overlays. Therefore, the NBB recommends the accredited auditors to examine in detail and report comprehensively on the calibration, the calculation methodologies and governance of these overlays for the situation as of 31 December 2022. Going forward, the use of overlays across credit institutions should be subject to continued monitoring, to investigate whether and to what extent these institutions will adjust their ECL models to incorporate the effects of overlays or if some types of overlays will be maintained, despite their expected temporary nature. Furthermore, good governance measures around the application of overlays are crucial.*
- *PD Robustness and Variability & Incorporation of Forward-Looking Information (FLI) - With specific reference to ECL parameters and model inputs, the IFRS 9 12-month PD estimates, and variability are expected to increase in the current macro-economic environment, due to the incorporation of Forward-Looking Information (FLI) and their point in time nature. Accredited auditors will focus on the approaches used by credit institutions for the incorporation of the FLI, which might impact on the severity of the assumptions underlying the scenarios used for the ECL modelling to introduce additional and more pessimistic scenarios or assign a higher probability weight to the original down-ward scenarios.*

*Given the potential significant impacts of the above and for so far these practices are identified within the credit institutions, the NBB expects the accredited auditors inquire on the above matters, evaluate the practices implemented, review the range of application and report their findings (and providing a view on the level of conservatism involved) and recommendations in their periodic report as of year-end 2022. Particular attention needs to be paid on the sufficiency, quality and relevance of the information, the assumptions and methods used by the credit institutions as part of the implementation of IFRS 9 ECL. Further scrutiny shall be granted on the quality of the valuation work on ECL (models and overlays), including an indication of conservatism or prudence.*

#### **2.4. HEDGE EFFECTIVENESS AND ACCOUNTING**

*In the current environment of increasing interest rates and the related impacts on the banking book (IRRBB), the NBB expects the accredited auditors to pay a special attention and appropriately include their own assessment in their reports to the NBB as of 31 December 2022 on the following matters:*

- *Credit institutions have implemented hedging strategies and documented hedging relationships in the context of a low interest rate environment assuming this situation would last over a long(er) period of time (“low for longer”). Considering the recent increases in the interest rate evolution, accredited auditors are expected to carefully analyze the effectiveness of the hedging relationships.*
- *Similar attention should be given to the potential hedging of the TLTRO-III positions which, due to the recent ECB decision of 27 October 2022 to change unilaterally the terms and conditions of the TLTRO-III, might lead to fair value changes affecting the effectiveness of those hedges. The accredited auditors are expected to review and assess the potential impacts of the ECB decision on the TLTRO and to report their findings in the periodic report addressed to the NBB as of 31 December 2022.*

## **2.5. DEROGATION ARTICLE 36BIS**

In addition to the above attention points with respect to hedging, we would like to remind the accredited auditors of the circular NBB\_2021\_20 on the practical rules for the application of the Article 36bis of the Royal Decree of 23 September 1992 on the financial statements of credit institutions. This circular relates to the accounting treatment of forward interest rates transactions (derivatives) as amended by the Royal Decree of 29 August 2021 and provides detailed information on the transitional period and the submission of application files to the NBB.

In the context of the above, the management committee of the credit institution is expected to assess periodically (at least half-yearly) the transactions concerned and the associated risks, considering the risk and volatility of the positions, and to document this assessment in its annual report on internal control. In the same report, the status of the conditions imposed by the NBB need to be equally addressed.

Accredited auditors are expected to perform follow-up procedures and explicitly report on the application files by inquiring the credit institutions' senior management about (i) the status of the conditions imposed by the NBB, (ii) the status of the recommendations issued by the accredited auditor, (iii) the analysis of the effectiveness testing and (iv) any other points for which the NBB requested a follow-up by the accredited auditor.

## **2.6. SECTORAL SYSTEMIC RISK BUFFER FOR IRB BELGIAN RESIDENTIAL REAL ESTATE EXPOSURES**

Through the Royal Decree of 21 February 2022, the NBB introduced as from 1 May 2022 a new macroprudential measure for retail exposures of banks using the IRB approach on Belgian residential real estate, replacing an earlier measure introduced in 2018 that expired on 30 April 2022.

The macroprudential measure imposes the constitution of a CET1-capital buffer in the form of a sectoral systemic risks buffer for Belgian residential real estate exposures of banks that use internal models for the computation of risk-weighted exposures (IRB banks). The targeted exposures are the same as the ones targeted by the previous measure applied until 30 April 2022, according to article 458 CRR (retail exposures secured by residential real estate located in Belgium, exposures partially or fully secured by mortgage mandates, covering both defaulted and non-defaulted loans).

This sectoral systemic risk buffer is computed by multiplying the risk-weighted assets (RWAs) related to the abovementioned relevant exposures by 9%. Contrarily to the previous article 458 CRR measure, this measure does not result in an increase of the RWAs but in the constitution of a specific CET1-capital buffer, called (sectoral) systemic risk buffer. Reporting Banks are required to report the amount of this sectoral systemic risk buffer in COREP Table C04.00, row 0780 and count it as part of the Combined Buffer Requirement (COREP Table C04.00, row 0740), starting with the reporting cycle of June 2022.

We recommend the auditors of IRB banks to take this new macroprudential measure into consideration when performing their year-end audit procedures on the prudential reporting.

## **2.7. ANNUAL TAX ON CREDIT INSTITUTIONS**

### **2.7.1. Ruling of the Belgian Constitutional Court on the retroactive application**

On 3 August 2016, the Belgian government introduced a new single annual tax on credit institutions, aiming at bringing simplification by replacing several bank levies that existed at that time. For the transitional year 2016 (i.e. assessment year 2016) the tax was calculated on the outstanding amount of liabilities to customers per 31 December 2015. As a transitional measure and to avoid double taxation for this transitional year 2016, the bank levies that were already paid with respect to assessment year 2016 (i.e. the annual subscription tax, the loan-to deposit tax and financial stability contribution) could be set-off against the new annual levy.



Several credit institutions sought repayment of the new annual tax paid in 2016 with the Belgian treasury, arguing that the retroactive application of the Law of 3 August 2016 that introduced the new single tax on credit institutions was not justified. After repayment being denied, they brought an action against the Belgian State before the court, because of a deemed incompatibility with the Belgian constitution and principle of non-retroactivity of (tax) laws. The Courts of first instance handling the cases raised several preliminary questions to the Belgian Constitutional Court.

On 27 October 2022 the Belgian Constitutional Court issued a ruling on the (deemed) retroactive application of the single annual tax on credit institutions for one of those claimant banks. In its ruling, the Court considers that several provisions of the Law of 3 August 2016 are retroactive, because applicable to a taxable event that had been definitively completed at the time the Law entered into force on 21 August 2016, given that the new tax already became legally due on 1 January 2016 based on the situation as per 31 December 2015. Moreover, although general public interest may require that a tax measure has retroactive effect, in this case neither the parliamentary preparations, nor the explanatory memoranda accompanying the Law reasonably explain or justify why a retroactive application would be necessary to achieve the Law's objectives or a general public interest.

Based on the above, the Court ruled that the retroactive application of certain provisions within the Law of 3 August 2016 is not justified and incompatible with the principles of equality and non-discrimination as well as the general principle of non-retroactivity. The most important message from the ruling of the Constitutional Court is that the retroactive application of the single annual tax on credit institutions for assessment year 2016 cannot be upheld.

It is important to note that the Court has only issued a ruling with respect to the retroactive application of the annual tax on credit institutions for 2016. No ruling was made on the application of the tax as from assessment year 2017 onwards. Therefore, the annual tax on credit institutions still stands today and a potential refund may only be claimed for the transitional period in which the single levy was applied retroactively (assessment year 2016). Also, after the responses of the Court to the preliminary questions, it is now still up to the referring Court of first instance to make a final judgment. On the cases of the other claimant banks, the Courts might be expected to follow the ruling.

In the context of the above, the accredited auditors are expected to discuss with senior management the analysis of this ruling on their situation.

### **2.7.2. Limitation of tax deduction to 20%**

Applicable as from 1 January 2023 onwards (income year 2023, assessment year 2024), the deductibility of the annual taxes will be limited to 20% to taxes due. In addition, it will not be possible anymore to deduct the DBI / RDT of the year from the disallowed part. For the 2022 financial statements, this will affect the assessment of the deferred tax asset (and goodwill) balances.

### **3. INSURANCE SECTOR**

#### **3.1. THE IMPACT OF THE INFLATION RATE ON THE INSURANCE SECTOR**

The current macroeconomic environment and the changing metrics pose significant challenges to the insurance sector and their operations. One such metric is inflation, which has been increasing significantly during the last year, reaching 9.2% in December 2022 in the Eurozone.

A higher inflation rate will most likely result in increased costs for insurance undertakings, notably with respect to the claims compensation in Property & Casualty insurance (mainly the products with a long-tailed compensation pattern) but also to the expenses for the production of both Life and Non-life products. Insurance undertakings should assess the impact of high inflation on the carrying amount of claims provisions in the context of the statutory, IFRS and Solvency II framework. A specific line of business that is directly (but not solely) impacted is workmen's compensation and the related indexation provision (as defined by article 34 sexies §9 of the Royal Decree of 17 November 1994 related to the annual accounts of insurance undertakings).

Increases of yields on 10 year government bonds and even higher increases of yields on corporate bonds have resulted in negative corrections on the values of bonds on the secondary market. Higher interest rates and fear for imminent recession have also led to sharp corrections on stock markets. Apart from impacts on the valuation of bond and equity portfolios, rising interest rates will most probably also impact the valuation of other investment categories on the balance sheet of insurance undertakings, like (mortgage) loans and real estate. Moreover, a slowdown of the economy increases the risk of higher impairments.

Based on their professional judgment, accredited auditors should address the impacts of the increased inflation and interest rates to which the insurance undertakings are exposed in the context of the year-end audit.

#### **3.2. UNDERTAKING SPECIFIC PARAMETERS (USP)**

The accredited auditors are reminded of the issuance on 22 December 2020 of the circular NBB\_2020\_040 on the use of Undertaking Specific Parameters. This circular provides information on the NBB's guidelines for the use of Undertaking Specific Parameters (USP) in the calculation of the Solvency Capital Requirement.

When calculating the Solvency Capital Requirement, undertakings may replace a subset of parameters (standard parameters) within the standard formula by parameters specific to them, if the standard formula does not provide an appropriate representation of their underlying risks. This should help to promote sound risk management within insurance and reinsurance undertakings.

The circular provides further specification on the data quality criteria that should be taken into account during the process of calculating undertaking specific parameters and group-specific parameters.

As stated in the circular, accredited auditors are expected to explicitly address the verification of the USP parameters in their reporting with respect to Solvency II and comment specifically the key findings in their reporting per year-end. The model report will include a dedicated section on this topic, covering the procedure performed by the accredited auditor and the related findings.

#### **3.3. FLOODS OF JULY 2021 - UPDATE**

As mentioned in previous communications, protocols have been entered into by Assuralia, the insurance companies and the different Regions to formally agree on the financial compensations in favor of the insured victims of the floods of 14 to 16 July 2021.

By means of these protocols, the large insurers are committed to raise the limit of their own intervention to the double of the amount required by law. The Regions will then cover the costs exceeding the intervention limit of the insurance companies. These costs, however, are prefunded by the insurance companies.

The modalities of the reimbursement of this prefinancing are described in the respective addendum documents, including the agreed-upon procedures to be performed by the accredited auditor on the reimbursement schedule prepared by the insurance company. We refer to our notice 2022 / 08 for more detailed information with respect to these procedures.

The reimbursement request, prepared by the insurance company and accompanied by the auditor's AUP report, can be submitted to the respective Regions each year, starting from:

- The year 2022 for the Flemish Region and the Brussels-Capital Region;
- The year 2022 for the small insurers prefinancing the Walloon Region; and
- The year 2024 for the large insurers prefinancing the Walloon Region.

Reimbursement requests, including the auditor's report, need to be submitted to the respective Regions by 31 March of the year. Incomplete applications will be returned for completion to the insurance company, to allow the effective reimbursement before 1 August (Flemish Region and Brussels-Capital Region) or 1 September (Walloon Region) of the same year.

Finally, it is to be noted that in the protocol with the Walloon Region, new negotiations on the cost allocation are anticipated in case the total amount of the financial compensations would exceed EUR 1.700 million. As the financial interventions effectively exceed this limit, new negotiations have been initiated in the second half of 2022. We understand that these negotiations have resulted in an agreement, that is currently in the process of being formalized between the parties. We will keep you informed of this agreement when available.

#### **3.4. CIRCULAR NBB 2022\_27 – UPDATE VALUATION DT AND ADJUSTMENT FOR LAC DT**

*Circular NBB\_2020\_03 of 26 February 2020 on the impact of deferred taxes was applied for the first time to the solvency position as of 31 December 2020. The many methodological questions it raised and the differences in interpretation and implementation between insurance companies led the NBB to carry out a cross-sectional analysis on the topic.*

*As a result of this analysis, it was necessary to clarify certain concepts and principles contained in Article 207 of the Delegated Regulation 2015/35. After consultation with stakeholders, the NBB published circular NBB\_2022\_27 on the valuation of deferred tax assets (DTA) and the adjustment for the loss-absorbing capacity of deferred taxes (LAC DT) on 2 November 2022, replacing the previous circular NBB\_2020\_03.*

*Furthermore, to consider the complexity of the subject, Circular NBB\_2022\_27 introduces a proportional approach by distinguishing between, on the one hand, so-called 'significant insurance companies' and/or companies for which the impact of the LAC DT adjustment is material and, on the other hand, companies for which the impact of the LAC DT is more limited.*

*For 'significant insurance undertakings', the simplifications that prevailed in the past and that allowed the automatic netting of deferred tax assets and liabilities in the Solvency II balance sheet, as well as the justification of the LAC DT by the deferred tax liability, are replaced by a more elaborated approach.*

*This circular NBB\_2022\_27 will enter into force for the first time to the SCR calculation as of 31 December 2023.*

In the context of the publication of circular NBB\_2022\_27, no intervention is required of the accredited auditors on the situation as per 31 December 2022. However, we would like to remind that circular NBB\_2020\_03 of 26 February 2020 on the impact of deferred taxes and LAC DT on Solvency II is still applicable as of 31 December 2022. As a result, the provisions in this circular need to be taken into consideration by the accredited auditors when performing their year-end audit procedures on the prudential reporting as of 31 December 2022.

### **3.5. COMMUNICATION NBB 2022 26 ON THE TASKS OF THE ACTUARIAL FUNCTION AND THE DOCUMENTATION REQUIREMENTS FOR TECHNICAL PROVISIONS**

*On 2 November 2022, the NBB published the communication NBB\_2022-26 on the tasks of the actuarial function and the documentation requirements for technical provisions. The regulation in force stipulates a set of prudential requirements relating to the documentation of these technical provisions and to the tasks under the responsibility of the actuarial function. However, checks carried out by the NBB have revealed that some of these prudential requirements were not always met. Therefore, relevant points of the regulation are reminded, and the minimum expectations of the NBB described in more detail.*

*In this communication, the NBB stresses the comprehensive and systematic nature of the documentation and supporting evidence of technical provisions, more specifically as regards the choices made in the context of the quantification of technical provisions: assumptions, expert judgement, calculation methods and use of data. The NBB also sets out its expectations for the work of the actuarial function: a report presenting a real added value in terms of control, a genuine ownership of the function, the effective implementation of adequately documented quantitative work and the formulation of precise and firm recommendations arising directly from the work carried out by the actuarial function.*

*Accredited auditors are invited to take the above communication into consideration while performing their year-end audit procedures and to report, based on their professional judgement, relevant attention points to the NBB.*

### **3.6. UPDATE OF THE CIRCULARS ON THE VALUATION OF TECHNICAL PROVISIONS (NBB 2022 25) AND CONTRACT BOUNDARIES (NBB 2022 24)**

*In the framework of its analysis within the Solvency II review, EIOPA identified a series of divergent practices concerning the valuation of the technical provisions and the identification of contract boundaries. These divergences did not in themselves require a change in the existing legislation, but rather called for the clarification of its interpretation on certain key areas, such as the projection of expenses within the valuation of the “best estimate”, the parts which must be modeled therein according to a stochastic valuation, the unbundling of an insurance contract or the assessment of the discernible effect on the economics of a contract of a financial guarantee or a cover.*

*EIOPA's two final reports published in April 2022, concerning the amendments to its guidelines on the valuation of technical provisions and on the contract boundaries, are thus part of a desire to further harmonize the existing prudential framework on the elements mentioned above. In the months following this publication, the NBB updated its own circulars relating to these guidelines and consulted the stakeholders on these changes during the Summer of 2022. The consultation resulted in further small clarifications, however no new elements or alternative interpretations were introduced. The updated circulars, published in October 2022, implements at Belgian level the clarifications provided by EIOPA and also fully complies with them.*

*Although these two circulars enter into force as of 1 January 2023, the accredited auditors are invited to discuss with the insurance undertakings' management how they will address these new guidelines as from 2023 and to report relevant attention points, if any, in their periodic reporting as of 31 December 2022.*

### **3.7. OVERVIEW OF OTHER CIRCULARS ISSUED IN 2022**

In 2022, two other circulars have been issued by the NBB relating to the insurance undertakings. We shortly highlight the key messages.

The NBB issued on 23 March 2022 a circular setting out the NBB's expectations concerning the liquidity risk management (NBB\_2022\_08) framework the (re)insurance undertakings and groups should have in place. The areas addressed in the circular include:

- the development and maintenance of proper policies, systems, controls, and processes with respect to liquidity risk management;
- the identification of material liquidity risk drivers or sources;
- the use of indicators for proper monitoring liquidity risk drivers/sources;
- the design and realization of forward-looking (prospective) scenario analyses and stress testing scenarios;
- contingency planning; and
- the preparation (and submission to the NBB) of a liquidity risk management report.

The liquidity risk management report aims to document the adequacy of the management of the liquidity risks, in normal circumstances as well as in crisis situations. In light of that, the NBB expects the report to contain, amongst others, the liquidity risk appetite, the risk limits set by management, the liquidity position of the undertaking, the strategies and process put in place to manage the liquidity risk, etc. The liquidity risk management report is to be updated regularly and submitted to the NBB, at least once a year (for significant companies) or every 3 years (for non-significant companies).

The dispositions in this circular come into force as from 2023 onwards.

The new circular NBB\_2022\_09 related to Own Risk and Solvency Assessment (ORSA) presents the transposition of the EIOPA guidelines relating to the ORSA, together with some clarifications and good practices. A specific chapter is devoted to good practices in terms of stress tests and sensitivity and scenario analyses.

#### **4. INSTITUTIONS OF OCCUPATIONAL RETIREMENT PROVISION (IORP'S)**

##### **4.1. THE IMPACT OF THE CHANGING METRICS ON THE SECTOR OF THE PENSION FUNDS**

*The FSMA expects accredited auditors to continue devoting particular attention to the prudence of the calculation of the technical provisions, and especially to the discount rate(s) used and the calculation methods applied (ABO plus buffer, PBO plus buffer, ...).*

*Irrespective of increasing interest rates, the FSMA draws the attention on the volatility of financial markets and the reverse yield curve. In this context, the FSMA expects IORP's to remain cautious when modifying discount rates.*

*In the same context, the FSMA expects IORP's to follow their financial situation closely and measure the impact on their coverage ratios. The FSMA refers to the annex of the FSMA Regulation on reporting (Règlement de la FSMA du 30/09/19 relatif au reporting régulier des IRP - Reglement van de FSMA van 30/09/19 betreffende de regelmatige rapportering door de IBP's) which imposes immediate reporting of deficits of the short-term technical provisions and reporting by 28 February of deficits of the long-term technical provisions.*

*The FSMA wishes, furthermore, to draw the attention of accredited auditors to the following points:*

- *the valuation of unlisted investments;*
- *the codification of the investments according to the reporting instructions;*
- *the verification of the total market value of the List of Assets reporting with the balance sheet total; and*
- *any infringements of the social legislation on supplementary pensions (signal function in the social legislation on occupational pensions, cf. article 51 of the Law of 28 April 2003).*

*Accredited auditors are requested to consider the above points in their year-end audit procedures and to include relevant findings, if any, in their reporting to the FSMA.*

##### **4.2. PERMANENT LEARNING 1 DECEMBER 2022**

The slides of the Permanent Learning with respect to the IORP's, organized on 1 December 2022, have been communicated electronically to all participants. Should you not have received these slides, do not hesitate to contact our scientific secretariat.

## **5. REGULATED REAL ESTATE INVESTMENT COMPANIES (GVV – SIR)**

### **5.1. ATTENTION POINTS WITH RESPECT TO COVID-19, THE AFTERMATH**

In some sectors, real estate investment companies quote at significant discounts to net asset value in the aftermath of the Covid-19 pandemic. Already as at 30 June 2022, the FSMA drew attention to changed habits after Covid-19 (e.g. teleworking, new hybrid working models) and the changing economic climate (e.g. rising interest rates and inflation) and the impact of these on the valuation of real estate.

In view of the continued relevance of these observations at year-end, the accredited auditors are expected to give due consideration to the impact of Covid-19 and the changing economic climate in the context of their year-end audit and to report relevant findings to the FSMA.

### **5.2. PERMANENT LEARNING 27 OCTOBER 2022**

The slides of the Permanent Learning with respect to the SIR's, organized on 27 October 2022, have been communicated electronically to all participants. Should you not have received these slides, do not hesitate to contact our scientific secretariat.

## **6. UNDERTAKINGS FOR COLLECTIVE INVESTMENT (UCI)**

### **6.1. PERMANENT LEARNING 27 OCTOBER 2022**

The slides of the Permanent Learning with respect to the UCI's, organized on 27 October 2022, have been communicated electronically to all participants. Should you not have received these slides, do not hesitate to contact our scientific secretariat.



| <u>ACRONYMS</u> |   |
|-----------------|---|
| AICB            | Alternative Undertakings for Collective Investments                             |
| AIFMD           | Alternative Investment Fund Managers Directive                                  |
| AML/CTF         | Anti-Money Laundering Legislation   |
| APM             | Alternative Performance Measures  |
| BE GAAP         | Belgian Generally Accepted Accounting Principles                                |
| CET1            | Common Equity Tier 1  |
| CIS             | Collective Investment Schemes   |
| CIU             | Collective Investment Undertakings  |
| COREP           | Common Reporting  |
| CRD             | Capital Requirements Directive  |
| CRR             | Capital Requirements Regulation   |
| DTA             | Deferred Tax Assets   |
| DTL             | Deferred Tax Liabilities  |
| EAD             | Exposure at Default   |
| EBA             | European Banking Authority  |
| ECB             | European Central Bank   |
| ECL             | Expected Credit Loss  |
| EER/EEE         | <b>NL:</b> Europese Economische Ruimte<br><b>FR:</b> Espace Economique Européen |
| EIOPA           | European Insurance and Occupational Pensions Authority                          |
| ESG             | Economic Scenario Generator   |
| FINREP          | Financial Reporting (templates requested by the ECB)                            |
| FSMA            | Financial Services and Markets Authority  |
| GDPR            | General Data Protection Regulation  |

|       |  |
|-------|--|
| GVV   | Gereguleerde Vastgoed Vennootschap             |
| ICAAP | Internal Capital Adequacy Assessment Processes |

|             |  |
|-------------|--|
| ICB         | NL: Instelling voor Collectieve Belegging Undertakings for Collective Investment (UCI)   |
| IFRIC       | IFRS Interpretation Committee  |
| IFRS        | International Financial Reporting Standards  |
| ILAAP       | Internal Liquidity Adequacy Assessment Processes   |
| IORP        | Institutions for Occupational Retirement Provision   |
| IPC         | Irrevocable Payment Committee  |
| IRAIF/IREFI | <b>FR</b> : Institut des Réviseurs Agréés pour les Institutions Financières<br><b>NL</b> : Instituut van de Revisoren Erkend voor de Financiële Instellingen |
| IRB         | Internal Ratings Based   |
| IRRBB       | Interest Rate Risk in the Banking Book   |
| LAC DT      | Loss Absorbing Capacity of Deferred Taxes  |
| LGD         | Loss Given Default   |
| LPC/WAP     | Law of 28 April 2003 on Supplementary Pensions   |
| LSI         | Less Significant Institution   |
| LTRO        | Long-Term Refinancing Operation  |
| MiFID       | Markets in Financial Instruments Directive (2014/65/EU)  |
| MMF         | Money Market Funds   |
| NAV         | Net Asset Value  |
| NBB         | National Bank of Belgium   |
| NFRD        | Non-Financial Reporting Directive  |
| NPL         | Non-Performing Loans   |
| OPC         | <b>FR</b> : Organisme de Placement Collectif   |

|       |   |
|-------|---|
|       | Undertakings for Collective Investment (UCI)                      |
| ORA   | Own-Risk Assessment   |
| P2G   | Pillar 2 Guidance   |
| PD    | Probability of Default  |
| PSD   | Payment Services Directive  |
| QRT   | Quantitative Reporting Templates                                  |
| REIT  | Real Estate Investment Trust (see also GVV and SIR)               |
| RICS  | Royal Institute of Chartered Surveyors                            |
| RSR   | Regulatory Supervisory Report                                     |
| RWA   | Risk Weighted Asset   |
| SFCR  | Solvency and Financial Condition Report                           |
| SI    | Significant Institution   |
| SICR  | Significant Increase in Credit Risk                               |
| SIR   | Société Immobilière Réglementée                                   |
| SME   | small and medium-sized enterprises                                |
| SPPI  | Solely Payment of Principal and Interest                          |
| SRB   | Single Resolution Board   |
| SREP  | Supervisory Review and Evaluation Process                         |
| SRF   | Single Resolution Fund  |
| SSM   | Single Supervisory Mechanism                                      |
| TCWG  | Those Charged With Governance                                     |
| TLTRO | Targeted Longer-Term Refinancing Operations                       |
| TRIM  | Targeted Review of Internal Models                                |
| UCI   | Undertakings for Collective Investment                            |
| UCITS | Undertakings for Collective Investment in Transferable Securities |