6 Period 1971-1989 – the single-track reporting approach continues, but starts to be questioned

6.1 Introduction
The previous chapters show that, until the end of the 1960s, the financial and prudential reporting developments in all three countries presented in this dissertation occurred independently of each other. They also show that the developments in one country influenced, but not directly impacted those in another country. Furthermore, there were almost no European or international developments or events influencing or impacting national developments. For these reasons, the previous chapters present the financial and prudential reporting developments on a more or less standalone basis.

In the period described in this chapter, the world of financial reporting requirements changed fundamentally. In contrast, in the area of prudential reporting developments the changes with a direct impact on the reporting practices were much more limited, at least in Europe.

The main drivers for the changes were:

- The adoption of revised Dutch legislation on the annual accounts in 1970;
- The activities of the European Commission, resulting in financial and prudential reporting directives, which subsequently had to be implemented in national legislation;
- The establishment of independent international and national accounting standard setters, where, in particular, the pronouncements of the IASC started to influence those issued in the Netherlands;
- In particular in the US, a further decoupling of financial and prudential reporting requirements for insurers; and
- The international expansion of the companies reviewed in this dissertation, accompanied by secondary listings on foreign stock exchanges.¹ This resulted in an increased focus of these companies on international comparability of their financial statements and on the need to keep the access to national and international capital markets open.

As is described in this chapter, all these developments resulted in an increased focus on the decision usefulness of the financial statements of the non-supervised holding companies for their capital investors, and a diminishing (but still existing) influence of prudential reporting requirements on these financial statements. On the other hand, the financial reporting practices of the Dutch insurance subsidiaries and the parent companies continued to be heavily impacted by the prudential reporting requirements: the insurers initially applied a type 3 single-track reporting approach, which was, from the mid-1980s onwards, replaced by a type 4 approach, and the parent companies applied a type 12 approach.²

To better present the findings, analysis, and summary and conclusions of the third of the five time slots included in this dissertation, and to answer the four remaining research questions, I have decided to adopt in this chapter a different structure than applied before.

¹ See chapter 3.
² For an overview of the type of approaches, see table 2.1 in section 2.5.
As usual, it starts with a description of the general developments impacting the Dutch insurance industry, presenting the developments of the Dutch population and economy, the social security system, the tax system for companies, and the insurance industry itself, to provide the context of the developments. This description is followed by brief overviews of the activities of the European Commission and other European organisations in respect of financial and prudential reporting developments, and of initiatives on a global level, in particular the establishment of the IASC.

Subsequently I have integrated the descriptions of the international and European reporting developments in those occurring in the Netherlands, to better analyse and present the relationships. Given the more prominent role of financial reporting developments in this period, the Dutch financial reporting developments, including the related European directives, are described first. This section is followed by a combined overview of the financial and prudential reporting developments in the US, since it was in particular in this country that the international expansion of the three groups occurred, resulting, near the end of the period, in a listing of AEGON at the NYSE. Subsequently, a combined overview of the reporting developments in the UK is presented, since, as becomes clearer in the next chapter, it was this country that took the lead (again) in improving the financial statements of insurance companies.³

The next section focuses on the Dutch prudential reporting developments, including the creation of European insurance supervisory directives.

In the penultimate section of the chapter, a description and analysis of the actual reporting practices is presented, linking these practices to the financial and prudential reporting developments described before and comparing them to findings on the practices in the Dutch insurance industry in general. The section shows that an internationally operating insurer was, near the end of the period, potentially subject to a large number of – sometimes conflicting – reporting requirements, as was illustrated by the German top auditor Hans Havermann in his dissertation when describing the reporting environment of a fictitious global German company listed at the NYSE:⁴ at the end of the 1970s, it had to comply with or take into account the requirements of the following reporting regimes: the German legislation on annual accounts, the German tax regulations, the EEC directives as far as not (yet) implemented in national legislation, the IASC standards, the recommendations of the UEC, the guidelines of the OECD and the UN, and the requirements of the SEC, i.e. in total eight regimes.⁵

The chapter ends with a summary and overview of conclusions.

The main Dutch and European developments are presented in the next figure.

³ See section 7.5.3.3.
⁴ The first actual listing of a German company (the ‘Daimler-Benz Corporation’) occurred only in the 1990s. See Radebaugh et al. (1995).
6.2 General developments impacting the Dutch insurance industry

6.2.1 Introduction
This section presents the description of the general developments impacting the Dutch insurance industry, focusing on the society and economy, the social security system, the tax system for companies and the insurance industry itself. It shows that the growth continued, but also that the existing social security system started to become unsustainable. Finally, it presents the beginning of a new wave of mergers and concentrations.

6.2.2 Developments in the Dutch society and economy, the social security system and the tax system for companies
The statistics show that, in the period 1970-1989, the Dutch population continued to grow from almost 13.0 million in 1970 to about 14.9 million in 1990. At the same time, GNP per capita increased from almost NLG 9,500 in 1970 to about NLG 34,700 in 1990 (an average nominal growth rate of 13.3%). However, also the general price level rose steeply by almost 160% in these two decades. Taking this into account, the annual average real growth rate of GNP per capita was 11.4%.

These growth rates do not confirm statements that the short period of stagnation in the early 1970s, related to the first global oil crisis in 1973, resulted in a great recession in the early 1980s. Economic growth continued, albeit slower as before.

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6 See table A8.1.
However, the stagnation did create problems with respect to the social security system. It was used more and more, making it almost uncontrollable and too expensive. As a result, the government took the initiative to slim the system, and began, in the 1980s, to privatise parts of the system, starting in the area of health insurance. As is described in the next chapter, this trend continued in the 1990s and later. In turn, it created opportunities for the private insurance sector to provide additional coverage, to compensate for the deteriorated social security system. The following important acts were introduced:

- The ‘Algemene arbeidsongeschiktheidswet’ (henceforth, the ‘general disablement benefits act’), adopted at the end of 1975. It provided benefits to all disabled Dutch inhabitants under the age of 65;
- The ‘Wet op de toegang tot ziektekostenverzekeringen’ (henceforth, the ‘act on the access to health insurance’), adopted in 1986. It amended the existing compulsory health insurance act, and introduced a number of important changes for private health insurers as well as health insurance funds. For this reason, it is described later in this chapter when discussing the prudential reporting developments in the Netherlands; and
- A new unemployment act, adopted near the end of 1986. It replaced the existing act. Concurrently, the general disablement benefits act, the disablement insurance act, and the sickness benefits act, all described previously, were amended.

Regarding the Dutch tax regime applicable to insurance companies, its structure remained fundamentally unchanged. However, in 1988 the government announced its intention to decrease the maximum level of the fiscal equalisation reserve for insurers, which was realised in 1990 and is described in the next chapter.

6.2.3 Development of the Dutch insurance industry

After the wave of mergers in the 1960s, six insurance groups dominated the Dutch market, with a combined market share of 78% in life insurance and 41% in non-life insurance business in the beginning of the period described in this chapter. In life insurance business, the Nationale-Nederlanden was by far the largest with a share of 26%. The AMEV, the Ennia and the AGO all had around 10%. In non-life insurance business, the Nationale-Nederlanden had a market share of 28%, the AMEV and the Ennia each 6%, and the AGO 4%.

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9 See section 7.2.2.
10 Minister van Justitie (1975b), Staatsblad 1975, nr. 674.
11 Minister van Justitie (1986h), Staatsblad 1986, nr. 124.
12 See section 5.2.3.
14 Minister van Justitie (1986l), Staatsblad 1986, nr. 566.
15 See section 5.2.3.
16 See section 5.2.3.
17 Minister van Justitie (1986m), Staatsblad 1986, nr. 567.
18 See section 7.2.2.
21 Gales and Langenhuyzen (1998c), calculated by myself from the tables on pages 990 and 1011.
In the 1970s, the merger activities came to a temporary halt, but a new wave started in the 1980s by the creation of AEGON in 1983, and the acquisition of the AMFAS (including the RVS), by the Nationale-Nederlanden in the same year. Because of this transaction, the market share of the Nationale-Nederlanden in that year increased to almost 33%.

These changes in the market were also influenced by the development of new distribution channels, in particular the entrance of direct writers, which sold insurance products directly to customers without the interaction of insurance intermediaries, and banks, which started to operate as distributors of insurance products. Combined with the relaxation of the structural policy, described later in this chapter when presenting the Dutch prudential reporting developments, this resulted, at the end of the period, in the creation of the financial conglomerates AMEV/VSB and ING. However, the 1980s also showed an increasing awareness of the consumer organisations of the high profitability of life insurance business, resulting in pressure to increase the profit shares of policyholders. As a result, these shares showed, measured as a percentage of the profit before such participation, an increase from 23.5% in 1959 to 66.5% in 1984.

During the period, the number of traditional domestic life insurance companies (joint stock companies and mutual insurance companies) remained rather stable at 60. At the same time, the number of funeral funds continued to decrease, until, in 1985, only 10 remained. In 1990, these funds as well as tontine companies were not counted separately anymore in the statistics provided by the Insurance Chamber, bringing the total number of domestic supervised life insurance organisations on 85. The total assets of the life insurers increased from almost NLG 23 billion in 1970 to NLG 193 billion in 1990. As before, private loans continued to be the main investment category, followed by loans guaranteed by mortgages, and, at the end of the period, securities. Total equity augmented from about NLG 1.6 billion in 1970 to NLG 12.2 billion in 1990, with the gross technical provisions increasing from NLG 19.5 billion to almost NLG 156 billion. The premium income moved from NLG 2.4 billion in 1970 to almost NLG 18.5 billion in 1990, with the net profit increasing from NLG 266 million to NLG 1,525 million in 1990. These amounts show that the average annual nominal growth of life insurance premium income was 33.5%, which was well over the increase of GNP per capita of 13.3%.

The number of supervised domestic non-life insurers gradually decreased from 315 in 1970 to 246 in 1990. Total assets moved from NLG 3.6 billion in 1970 to NLG 33.3 billion in 1990, with debt securities and private loans consistently being the main investment categories.

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22 See section 3.2.5.
23 See section 3.4.4.
26 See sections 3.3.3 and 3.4.5.
29 See table A8.12.
30 See table A8.27.
31 See table A8.28.
32 See tables A8.30 to A8.32.
33 See table A8.17.
34 See table A8.34.
The amount of equity of the supervised domestic non-life insurers increased from NLG 1.2 billion to NLG 9.0 billion, and the gross technical provisions moved from NLG 1.9 billion to NLG 20.2 billion. At the same time, gross premium income developed from NLG 3.2 billion in 1970 to NLG 18.3 billion, and net profit increased from NLG 100 million to NLG 854 million. The premium income showed an average annual nominal growth of 23.6%, again much above the increase of GNP per capita. The growth of premium income and net profit occurred in all classes of business.

6.2.4 Summary and conclusions
The description in this section shows that the trend of the previous period continued: the economy increased considerably, as did the insurance industry. However, at the same time it became clear in the early 1970s that the ongoing expansion of the Dutch social security system was not sustainable, resulting in the privatisation, in the 1980s, of parts of the health insurance system. The period also shows an increasing level of concentration in the insurance industry, with a few important mergers in 1983, but also the occurrence of new distribution channels (including the banking channel), and a relaxation of the structural policy at the end of the period, which resulted in the creation of the financial conglomerates AMEV/VSB and ING. Concerning the tax system applicable to companies, no fundamental changes occurred, although one was announced near the end of the period.

6.3 The activities of European and global organisations in respect of reporting developments

6.3.1 Introduction
This section describes the activities of the EEC after its initial steps, following the establishment in 1957, to create a common market, in particular on the adoption of several accounting directives, which determined, to a certain extent, the structure and the contents of (consolidated) financial statements in the EEC. In these activities, the EEC received strong technical support from the European auditing profession. The section also provides an overview of the activities in respect of prudential reporting requirements.

This is followed by a description of the establishment and activities of the IASC, created in 1973 by a number of auditing organisations to formulate international accounting standards, and the strategy adopted to obtain acceptance for such standards. On a global level, this was the most important event in the period, with fundamental consequences for the future financial reporting developments. On the European level, an important event occurred at the end of the period, when the European auditors’ association FEE expressed an unexpected and unconditional support for the IASC, thus providing a significant contribution to the debate on the future of the European financial reporting standards.

6.3.2 Reporting developments at the European level

6.3.2.1 Developments in the EEC
In the period 1971-1989, the EEC gradually developed itself into a more integrated and expanded market, by the entrance of new member states, the conclusion of new treaties, and the first steps to the introduction of a common currency.

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35 See table A8.35.
36 See tables A8.38 to A8.47.
37 See section 5.3.1.2.2.
The first new members Denmark, Ireland, and the UK joined the EEC on 1 January 1973. Greece became the tenth member on 1 January 1981, followed by Spain and Portugal on 1 January 1986. Soon after, in February 1986, the members signed a new treaty, the ‘Single European act’. It resulted in several amendments of the existing treaties, which included measures designed to gradually achieve the internal market at 31 December 1992. The internal market comprised a space without internal barriers ensuring the free movements of goods, persons, services and capital.

Next to these developments, several steps were taken to create, in the longer term, a common currency, called the ‘European unit of account’. Regarding insurance business, it was introduced in 1973 in the first non-life insurance directive, described later in this chapter when presenting the Dutch prudential reporting developments. Its value was set at about 0.89 grams of fine gold. In 1976, the unit was defined as the sum of specific amounts in the currencies of the member states: for example, at the time of adopting the directive, the Dutch guilder was multiplied by 0.286. The value was updated and published daily, and the conversion value in national currency to be adopted in the implementation of the non-life insurance directive should, as from 31 December of each year, be that of the last day of the preceding month of October. The first life insurance directive of 1979, also described later in the same section, included a reference to the unit of account as well, but this was overruled in 1980 by a regulation which replaced, in all Community legal instruments, the European unit of account by the ‘ECU’. As before, the ECU was based on a weighted average of the currencies of the member states. In 1994, this regulation was replaced, irrevocably fixing the definition of the ECU.

On the level of the European Commission, the most important developments in respect of financial reporting were the adoption, in 1978, of directive 78/660/EEC on the annual accounts, and, in 1983, of directive 83/349/EEC on the consolidated accounts. They focused on the protection of shareholders and third parties. These developments are presented later in this chapter, when describing their implementation in the Dutch legislation. A third accounting directive, adopted in 1986, concerned the annual accounts of banks. Since it was implemented in the Netherlands only in 1993, its history and contents are described in the next chapter. The same applies to a directive on the annual accounts of insurance companies, the development of which started in the period described in this chapter, but which was finalised in 1991. Next to these directives defining the contents of the financial statements, the European Commission issued a number of other directives including financial reporting requirements.

These were the listing requirements, focusing on companies which were or intended to be listed on one or more stock exchanges in the EEC and were, therefore, dealing with (potential) external investors. They are described in the section presenting the Dutch financial reporting developments.

The European Commission also adopted a number of directives regarding prudential reporting requirements for insurance companies. This concerned the first non-life insurance directive of 1973, the co-insurance directive of 1978, and the first life insurance directive of 1979.

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38 European Commission (2010).
40 European Commission (1980c).
42 See section 7.4.2.1.
43 See section 7.4.2.2.
All these directives are presented later in the section discussing their implementation in the Dutch insurance supervisory legislation. In addition, the European Commission published the second non-life insurance directive and the first directives on the supervision of banks, which were, however, implemented in the Netherlands only in the early 1990s; for this reason, they are described in the next chapter.\textsuperscript{44}

\section*{6.3.2.2 The activities of the Union Européenne des Experts Comptables Economiques et Financiers/Groupe d’Études des Experts Comptables de la C.E.E./Fédération des Experts Comptables Européens}

Another European organisation of importance in respect of the reporting developments was the Groupe d’Etudes, which was actively involved in the development of the European accounting directives. This was in particular through its ‘Study group on company law’, chaired by the German auditor Elmendorff.\textsuperscript{45} As is described later when presenting the implementation of the directives in the Dutch legislation, this group prepared, at the request of the European Commission, the first drafts for the fourth and seventh directives.\textsuperscript{46}

In 1987, the UEC and the Groupe d’Etudes were replaced by the FEE. Although plans for this merger were already drawn up late December 1984,\textsuperscript{47} it was only implemented in January 1987.\textsuperscript{48} The objectives of the new organisation were the harmonisation and enhancement of the auditing profession throughout Europe.\textsuperscript{49}

A most important event in respect of the future European financial reporting developments occurred at the end of the period. During a meeting early April 1989 of the IASC in Brussels, the newly elected Dutch FEE chairman and auditor Hermann Nordemann delivered a speech with unexpected contents.\textsuperscript{50} For the first time in its existence, the FEE took a position on the sensitive issue of international accounting harmonisation and its use in Europe. According to Nordemann, the world was urgently waiting for such harmonisation in response to the increasing globalisation of the capital markets (which argument was, in my view, a clear signal of the recognition of an increased focus on (potential) external investors) and the need for comparable information, and the FEE believed that the IASC was the organisation that could achieve this goal. For this reason, he continued, the FEE announced its unqualified support for the IASC work for use in Europe. Only global standards would be able to achieve European harmonisation as well, since the accounting directives had not achieved such a goal and were, in certain important areas, incomplete.

Furthermore, Nordemann stated, the European accounting standard setting process was influenced by political considerations and took an extravagant amount of time. If harmonisation should be achieved, it was clear that a faster moving organisation should take the lead. For this reason, the FEE was a strong supporter of international accounting standards, under the condition that there would be a strong European input in the preparation of such standards, to achieve that the specific needs and characteristics of European financial reporting would be ensured.

\textsuperscript{44} See section 7.6.3 and 7.6.2.1, respectively.
\textsuperscript{45} For this reason, this group is often referred to as the ‘Elmendorff committee’.
\textsuperscript{46} According to Camfferman and Zeff (2007), p. 39, the work on these two directives already started in 1965.
\textsuperscript{47} International Accounting Bulletin (1985).
\textsuperscript{48} Camfferman and Zeff (2007), p. 57.
\textsuperscript{49} Swindon (1986a).
\textsuperscript{50} Accountancy & Bedrijfskunde (1989).
The speech of Nordemann was not well received by the staff of the European Commission. The senior official Karel Van Hulle, at the time responsible for the harmonisation of accounting standards, expressed very critical views in an interview very soon after the event.\(^{51}\) In his view, the statements were not supported by the FEE as a whole, and reflected an ongoing crisis in this organisation resulting from a battle between the Anglo-Saxons and the others. Later that year, Van Hulle provided another reaction.\(^{52}\) He referred to certain voices raised in Europe to halt European harmonisation in favour of a wider non-defined international harmonisation. He wondered how agreements could be achieved on a global basis when this was not even possible in Europe, as a result of the richness of cultural differences. In his view, it was important to obtain common European views first, in order to strengthen the position Europe wanted to play in the international field, i.e. the IASC. It should, however, be kept in mind that the vast majority of companies operating in the EEC did not participate in the international capital markets. It was Europe’s responsibility to take care of these companies as well.

The debate on the future of harmonisation of accounting standards within the EEC, started by Nordemann, led to the first pan-European conference on this topic in January 1990, discussed in a next chapter,\(^{53}\) and resulted, ultimately, in fundamental changes in the financial reporting environment of European listed companies.

### 6.3.3 Reporting developments at the global level – The establishment and activities of the IASC, the UN, the OECD and the IOSCO

The origin, history, development and activities of the IASC during the period 1973-2000 have been described in detail by Camfferman and Zeff in their 2007 publication.\(^ {54}\) Several parts of this section are based on this book. However, since the objective of their publication (to describe the history of the IASC) was different than the objective of this dissertation, I have also studied the development of specific pronouncements from source documents issued by the IASC and its successor the IASB, to identify the issues with relevance for this dissertation. Furthermore, the period covered in their publication ends in 2000, while the period covered by this dissertation runs up to 2005. For these reasons, I have used the book as a starting point and amended/expanded it where necessary. In this chapter, the period 1973-1989 is covered, presenting the standards relevant for this dissertation when describing their impact on the Dutch accounting standards. The standards issued in the remaining years, as far as relevant, are included in subsequent chapters.

An overview of all standard setting documents issued by the IASC and the IASB is included in annex 12. This annex also shows whether, when and how they have been incorporated in the pronouncements of the Dutch accounting standard setters.

As is explained in the previous chapter, the idea of international harmonisation of accounting principles was very much alive in the world of auditing bodies during the late 1950s and the 1960s.\(^ {55}\) Discussions on the topic continued in the early 1970s, which resulted, in 1973, in an agreement to establish the IASC.\(^ {56}\)

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\(^{51}\) Timmerman (1989).

\(^{52}\) Van Hulle (1989).

\(^{53}\) See section 8.3.3.2.

\(^{54}\) Camfferman and Zeff (2007).

\(^{55}\) See section 5.3.1.4.

The organised auditing professions in Australia, Canada, France, Germany, Japan, Mexico, the Netherlands, the UK and the Republic of Ireland, and the US were the first members of the IASC. They agreed.

a. “To establish and maintain an ‘International Accounting Standards Committee’... whose function will be to formulate and publish in the public interest, basic standards to be observed in the presentation of audited accounts and financial statements and to promote their worldwide acceptance and observance.

b. To support the standards promulgated by the committee.

c. To use their best endeavours:

   i. To ensure that published accounts comply with these standards or that there is disclosure of the extent to which they do not and to persuade governments, the authorities controlling securities markets and the industrial and business community that published accounts should comply with these standards.

   ii. To ensure that auditors satisfy themselves that the accounts comply with these standards. If the accounts do not comply with these standards the audit report should either reflect to the disclosure of non-compliance in the accounts, or should state the extent to which they do not comply.

   iii. To ensure that, as soon as practicable, appropriate action is taken in respect of auditors whose audit reports do not meet the requirements of ii. above.

d. To seek to secure similar general acceptance and observance of these standards internationally.”

On compliance with the standards issued by the IASC, it was decided in October 1977 to change the 1973 agreement to state that “in the event of non-disclosure in the financial statements reference to non-compliance is to be made in the audit report.” The reference to a disclosure of non-compliance in the financial statements was dropped. In October 1982, the agreement was changed again. The best endeavours obligation, reproduced in the ‘Preface to statements of International Accounting Standards’, became that of the member bodies of the ‘International Federation of Accountants’ (henceforth, the ‘IFAC’): they were charged “to ensure that published financial statements comply with International Accounting Standards in all material respects and disclose the fact of such compliance.” Non-compliance no longer had to be disclosed.

The establishment of the IASC occurred at a time when the UN also started activities in the area of financial reporting requirements. In 1974, it recommended the development of an international standard for company reporting, geared in particular to the information needs of governments. And in 1977, it presented lists of minimum financial and non-financial information to be presented in general purpose reports and stated that all group companies should be consolidated.

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60 See section 5.3.1.4.
However, the disaggregation of certain consolidated information by geographical area and by line of business should, according to the UN, also be required. Finally, a non-consolidated statement of source and application of funds should be mandatory.

Next to the UN, also the OECD produced several reports to improve financial reporting. This started in 1976, with the publication of a declaration on international investment and multinational companies. It included recommendations regarding the disclosure of information on the structure of the company, the sales and the operating results per geographical segment, and the accounting policies, including those on consolidation. A next step occurred in April 1985, when the OECD organised a forum concerning the harmonisation of accounting standards. This resulted in a publication in 1986. It focused on the interests and needs of the preparers and users of financial statements, and on the main approaches applied by a number of national and international standard setting bodies. And in 1987, the OECD published the results of a survey on consolidation policies, as part of its efforts to improve the comparability of consolidated financial statements. It called for the disclosure of the methods used for consolidation, and mentioned a number of areas for further harmonisation, such as the use of uniform valuation methods for items in the consolidated accounts, and the exclusion of companies from consolidation. One year later, in 1988, the OECD published another survey, this time on the operating results of insurance companies. The survey showed a wide divergence of disclosure and accounting practices, as a result of a lack of a common definition of operating results and of common rules for valuing assets and liabilities, and the fact that national practices varied widely with regard to the disclosure of elements comprising the operating results. Such divergence was sometimes even present within the same country.

The IASC strategy for the 1970s and most of the 1980s was to eliminate practices that were widely regarded as unacceptable without trying to choose between practices that were seen as valid alternatives or that were firmly enshrined in the more advanced accounting environments. At that stage, the objective was to limit the diversity and to make it transparent, but not to impose uniformity. One reason why the pre-1987 standards had to include options was because at least three quarters of the IASC delegations had to vote in favour of the publication of a standard. Including options was a way to secure sufficient votes.

But a more fundamental reason was simply that, at the time, options as such were acceptable, as it was in a large number of national GAAPs. So when the IASC began to eliminate options after 1987, it was not because the voting arrangements had been altered. It was because the views on the acceptability of options had changed, partly under the pressure of the ‘International Organisation of Securities Commissions’ (henceforth, the ‘IOSCO’, described hereafter) and its leading member the US SEC.

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63 See section 5.3.1.4.
64 OECD (1979).
65 OECD (1985).
66 OECD (1986).
70 Ibid, p. 142-143 and p. 269-270.
71 For my definition of ‘GAAP’, see section 2.7.
The IASC decision to start removing options was taken in March 1987 and resulted in the so-called ‘comparability project’, which, under the influence of the IOSCO, increased, in my view, the focus of the IASC on the information needs of investors, and which dominated the IASC’s agenda until the end of 1993. Since this project was only completed in that year, this focus did not yet influence, in my view, the financial reporting developments in the Netherlands and the UK.

This IASC development was supported by a resolution adopted at a conference held by the IOSCO in November 1988. The IOSCO was created in 1983 as the global successor of the ‘Interamerican Conference of Securities Commissions and Similar Organisations’, created in 1974. In 1983, its name changed into the ‘International Organisation of Securities Commissions and Similar Entities’, and in 1987 into the IOSCO. The group initially consisted of 11 securities regulators from North and South America, until, in 1984, the first non-American organisations joined. At present, the IOSCO’s main activities focus on the supervision of securities markets, including financial reporting requirements applicable to listed companies, i.e. the reporting to investors.

In the 1988 conference, the following resolution was adopted: “IOSCO encourages the IASC to improve International Accounting Standards and pursue its project to eliminate accounting alternatives and to ensure that its standards are sufficiently detailed and complete, contain adequate disclosure requirements, and are prepared with a visible commitment to the needs of users of financial statements.” Less than a week after the conference, the SEC went on record to support the movement towards international accounting standards. Around the same time, the US ‘Financial Accounting Standards Board’ (henceforth, the ‘FASB’), described later in this chapter when presenting the US reporting developments, began attending the IASC meetings as a guest.

The process to develop a new IAS was described by F. Krens, a Rotterdam professor in business economics: 

- First, a steering committee developed a ‘Point outline’;
- Based on the comments from the Board, it produced a ‘Draft statement of principles’, which was published for comments;
- After consideration of the comments received, the steering committee submitted a ‘Final statement of principles’ to the Board;
- Based on the approval of this document, the committee subsequently developed an ‘Exposure draft’ (henceforth, an ‘ED’), which, after inclusion of the comments of the Board, was made available for public comments; and
- Finally, the steering committee, taking account of the comments received, developed a draft standard, which, after Board approval, was published as a new IAS.

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72 For a discussion of this project, see section 7.3.3.1.  
74 IOSCO (2010).  
75 Camfferman and Zeff (2007), p. 303. According to Benson (1976) and Volten (1978), the ‘International Federation of Stock Exchanges’ had recommended its constituent members already in October 1974 to include in their listing requirements a reference to compliance with IAS. This was confirmed by the secretary-general of the federation in a report included in the 1986 OECD publication on the harmonisation of accounting standards (OECD (1986), p. 35-36).  
77 Ibid, p. 228.  
In the period reviewed in this chapter, the IASC issued 29 final standards. Together with the related discussion papers and exposure drafts, they are listed in annex 12. About half of the standards were relevant for insurance companies. They covered a variety of topics, but for the purpose of this dissertation the most important ones concerned: the disclosure of accounting policies (IAS 1), consolidated financial statements (IAS 3, succeeded by IAS 27), the statement of source and application of funds (IAS 7), unusual and prior period items and changes in accounting policies (IAS 8), events after the balance sheet date (IAS 10), income tax (IAS 12), segment reporting (IAS 14), property and equipment (IAS 16), pensions (IAS 19), business combinations (IAS 22), and investments (IAS 25). Furthermore, the IASC adopted, in 1989, a framework for the preparation and presentation of financial statements. The standards and the framework are discussed when presenting the Dutch financial reporting developments, either in the next section, or in the next chapter. In respect of a standard for insurance liabilities, nothing happened, and, as is described later in this dissertation, it would take until 2004 before such a standard was issued.79

6.3.4 Summary and conclusions

This section shows that, compared to the previous period, a number of European and global activities in respect of financial reporting requirements were developed. On the first level, the European Commission adopted, in the interest of investors’ and creditors’ protection, two general accounting directives, focusing on the annual accounts and the consolidated accounts of non-banks and non-insurers, and a directive on the (consolidated) annual accounts of banks. Furthermore, initiatives started to prepare a directive on the (consolidated) annual accounts of insurance companies. In most of these activities, the European auditing profession played an important role by preparing drafts for these legal documents.

On the global level, the most important event occurred, in my view, in 1973 with the establishment of the IASC, with a mission to focus on the public interest and to develop and seek acceptance of international accounting standards. While these standards included, initially, a number of options to accommodate accepted local accounting practices, the IASC, in the second half of the 1980s, started a program to reduce these options to serve the information needs of users (in particular, investors), partially under the pressure from international securities regulators united in the IOSCO. At the end of the period, the IASC had issued 29 final standards, about half of which were relevant for the financial statements of insurance companies. Whether or not the focus of the IASC on the needs of investors created a tension with the interests of prudential supervisors and, because of the incorporation of the IASC pronouncements in Dutch and UK GAAP, directly or indirectly challenged the single-track reporting approach, is discussed later in this chapter and in the subsequent chapters.

For European listed companies, an important event occurred, in my view, at the end of the period, when the European auditors association FEE announced, unexpectedly, its full support for the IASC as the way to respond to the ongoing globalisation of the capital markets and to create international harmonisation of accounting standards. As is shown in the next chapters, this position contributed to a fundamental debate on the future of the European financial reporting environment, followed by the implementation of important changes.

79 See section 8.4.4.7.6.
6.4  Financial reporting developments in the Netherlands and the EEC

6.4.1  Introduction
The period described in this chapter was one in which a large number of important developments in respect of the Dutch financial reporting requirements occurred, ending the period of relative freedom of reporting practices after the adoption of the 1929 commercial code.\textsuperscript{80} The result was that listed and non-listed companies were subject to much stricter and severe requirements than before.

The main drivers behind these developments were the adoption of the 1970 companies’ annual accounts act, effective in 1971, and the acts on the incorporation of the European directives on the annual accounts and the consolidated annual accounts. Although these acts were applicable to insurers, these companies were still allowed (but not required) to designate and publish their prudential returns as the official financial statements, provided that the requirements in the accounting acts were met (a type 3 single-track reporting approach: prudential filters were still absent). Furthermore, insurers were still able, more or less, to determine their own accounting principles for their investments and their technical provisions, the two most important line items in their balance sheets. The same applied to holding companies of insurance groups (a type 12 approach).

Originating from the companies’ annual accounts act, the period also witnessed, in 1970, the establishment of the first private Dutch accounting standard setter, which, until it was succeeded in 1981 by a new organisation, issued seven exposure drafts of ‘considered views’ on financial reporting issues. The first three of these exposure drafts were converted into final pronouncements. Shortly before the new organisation took over, three sets of draft ‘guidelines for the financial statements’, the new title adopted for the accounting standard setting pronouncements, were published. Subsequently, the new standard setter issued a number of additional draft guidelines and made a large number of them final, with more and more incorporation of the standards of the IASC. But although, in my view, these pronouncements were applicable to insurance companies, guidelines on the investments and technical provisions were still lacking at the end of the period reviewed in this chapter.

Other important developments concerned the establishment and activities of a special court dealing with complaints on financial statements, and the beginning of the publication of periodical reviews of financial reporting developments by the auditing profession and others.

Overall, this section shows that financial reporting practices started to become subject to more and more legal and other requirements, which focused on the protection of and information supply to interested outside parties, in particular (potential) investors, instead of on the interests of policyholders and supervisors. Whether or not this created a threat to the single-track reporting approach is discussed later in this chapter when describing and analysing the actual reporting practice. The previous debate about the (non-)acceptability of secret and undisclosed reserves completely disappeared.

\textsuperscript{80} See section 5.3.4.2.2.
6.4.2 Legislative developments

6.4.2.1 The 1970 companies' annual accounts act and its subsequent amendments
As is described in the previous chapter, in 1970 a companies’ annual accounts act was adopted, effective as of 1 May 1971. The act was applicable to joint stock companies, cooperative societies, and mutual insurance companies. It defined the annual accounts as the combination of a balance sheet, a profit and loss account, and the notes to these two statements. These accounts should enable interested parties to form a well-founded opinion on the financial position and the result of the reporting company, and, as far as the accounts made this possible, on its solvency and liquidity. The act provided no definition of interested parties, although the explanatory memorandum to the bill noted that the primary parties were the shareholders.

The balance sheet and accompanying notes should provide faithfully and consistently the amount and composition of the financial position at the end of the year. Equally, the profit and loss statement and accompanying notes should present faithfully and consistently the amount and composition of the result for the year. Regarding the valuation principles, the act required that these had to satisfy norms that were considered to be “acceptable in the economic and social climate”, and that they should be disclosed. As is described later in this section, the development of ‘acceptable’ valuation principles was left to the private sector, in this case the ‘Tripartite Overleg’ (the ‘Tripartite Study Group’ or the ‘TO’). Any changes in valuation principles, if material, should be explicitly reported, together with their impact on the result and the financial position.

These general principles for the preparation of financial statements were supported by a set of minimum requirements regarding items to be reported in the balance sheet, the profit and loss account, or in the notes. Overviews of these items are included in annex 9, presenting a comprehensive set of recommended and mandatory layouts, and shown hereafter.

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81 See section 5.3.4.2.6.
82 Minister van Justitie (1970a), Staatsblad 1970, nr. 414.
83 Tweede Kamer (1968), nr. 9595.
<table>
<thead>
<tr>
<th>Assets</th>
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<tr>
<td>Fixed assets</td>
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<tr>
<td>Land and buildings</td>
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<td>Machinery and installations</td>
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<tr>
<td>Sundry fixed assets</td>
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<td>Fixed assets not involved in the production process</td>
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<td>Immaterial assets</td>
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<td>Receivables on participating interests</td>
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<td>Stock</td>
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<td>Semi-finished products</td>
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<td>Work in progress</td>
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<tr>
<td>Finished products</td>
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<tr>
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<td>Instalment debtors</td>
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<tr>
<td>Loans guaranteed by mortgages</td>
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<tr>
<td>Granted credits</td>
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<tr>
<td>Discounted bills of exchange</td>
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<tr>
<td>Current assets</td>
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<tr>
<td>Cash, and bank and giro balances</td>
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<tr>
<td>Securities listed at a Dutch or foreign stock exchange, in so far as they are not participating interests</td>
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<tr>
<td>Other securities, in so far as they are not participating interests</td>
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<tr>
<td>Total</td>
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<table>
<thead>
<tr>
<th>Liabilities</th>
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<tr>
<td>Share premium reserve</td>
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<tr>
<td>Revaluation reserve</td>
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<td>Retained earnings</td>
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<tr>
<td>Long-term liabilities</td>
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<tr>
<td>Debt securities and mortgage bonds</td>
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<tr>
<td>Debts to participating interests</td>
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<tr>
<td>Debts to shareholders</td>
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<tr>
<td>Pension liabilities</td>
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<tr>
<td>Other long-term liabilities</td>
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<tr>
<td>Provisions</td>
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<tr>
<td>Provisions related to assets</td>
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<tr>
<td>Provision for deferred tax</td>
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<tr>
<td>Provisions for pensions</td>
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<tr>
<td>Short-term liabilities</td>
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<tr>
<td>Bank credits</td>
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<tr>
<td>Trade creditors and credits</td>
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<tr>
<td>Pension liabilities</td>
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<tr>
<td>Tax liabilities</td>
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<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: table A9.84.
Table 6.2: Companies’ annual accounts act of 1970 – profit and loss account items

| Information regarding the size of the business |
| Salaries and social charges |
| Depreciation on fixed assets |
| Depreciation on intangible assets |
| Operating result |
| Gains or losses on participating interests |
| Gains or losses on investments |
| Interest income |
| Interest charges |
| Other income and charges |
| Movement in the provision for general banking risks |
| Extraordinary income |
| Extraordinary charges |
| Profit or loss before tax |
| Corporate income tax |

Source: table A9.85.

Some of the required amounts in the profit and loss account had to be segmented in accordance with industry practices. Furthermore, details of the reserves and the movements therein should be disclosed, as well as details on participating interests. For majority interests, this could be in the form of consolidated accounts, combined accounts, or by providing the annual accounts of these interests. The appointment of an auditor was (still) not mandatory.

The act also established a specific court to deal with complaints on annual accounts by other interested parties than the shareholders, although the latter were legally not excluded. This court was the Enterprise Chamber, which was a branch of the Court of Justice at Amsterdam. It could order companies to issue revised financial statements for the past or to implement the decisions of the chamber in future statements. Zeff et al. noted that this approach was unique for the Netherlands and unexampled in other countries. In my view, the establishment of this court, which was accessible to non-shareholders, means that the focus of the act was, in contrast to what had mentioned in the explanatory memorandum to the bill, on more users than just the shareholders.

The act did not change the provisions in the 1929 commercial code defining the companies that were required to publish their balance sheet. In other words, the publication requirements were still limited to public joint stock companies.

The companies’ annual accounts act was also applicable to insurance companies, subject to the life insurance business act 1922 or the non-life insurance business act 1964, but granted them, as an option, an important exemption. Their prudential statements were considered to be the financial statements under the annual accounts act, if, and only if, all information required by this act was included; otherwise, a separate set of financial statements had to be prepared and published. The same applied to consolidated or combined prudential statements of a group of non-life insurance companies if they held the required authorisation issued by the Insurance Chamber.

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84 Zeff et al. (1992), p. 191.
85 See section 5.3.4.2.2.
86 For a description of these acts, see sections 5.4.2.2 and 5.4.2.6, respectively.
The explanatory memorandum to the bill and the parliamentary discussion made it clear that this conditional exemption focused on disclosures: while, on the one hand, much information required by the companies’ annual accounts act was already included in one or more reporting schedules under the insurance supervision acts, there were or could be some disclosure requirements in the companies’ annual accounts act that were not (yet) met. Examples were not provided, but one area where it was, in my view, clear that additional information should be provided was in respect of the disclosure of accounting policies: while this was not a specific requirement under the supervisory models, it was a key disclosure element of the companies’ annual accounts act. If the requirement to include additional information, if necessary, was not met, a set of separate financial statements had to be prepared. This means, in my view, that all disclosure requirements of the companies’ annual accounts act applied, but that they could be met by the inclusion of supplementary information in the prudential returns, on top of what was required under the prudential reporting requirements (since prudential filters did not yet exist, this was a type 3 single-track reporting approach).

Furthermore, as the 1970 act did not exempt insurers from the general requirements regarding the balance sheet and the profit and loss account (“provide faithfully and consistently …”) and the valuation principles (“acceptable in the economic and social climate”), these generic requirements were, in my view, applicable as well. However, the parliamentary documents did not include any discussions on this topic, and a review of the contemporary accounting literature showed no debate either. The annual accounts of the holding companies of insurance groups were not covered by the exemption (it was not even discussed during the development of the act), so they were subject to all requirements applicable to non-insurers.

Overall, it is in my view clear that, from 1971 onwards, the financial reporting requirements started to play a more important role for the reporting practices of Dutch insurers. On the other hand, the act did not include any specific requirements in respect of the accounting policies to be applied. As the remainder of this chapter shows, this meant that, in practice, the prudential reporting requirements were still the dominating factor in determining the financial position and the result of a Dutch insurance company. For this reason, I classify the practice as a type 3 single-track reporting approach.

Regarding the act, the fiscal lawyer Th.S. IJsselmuiden provided some background information, to put it in an international perspective. He noted that the act was more aligned to the Anglo-Saxon (i.e. US/UK) approach than to the continental European system of detailed regulations. The preference for the US approach was understandable, he continued, since the preparers of Dutch financial statements looked at these developments already for a long time. And the structure of the act – some general principles supported by more detailed requirements – could be found in UK legislation, as was, for instance, explained by the 1962 report of the UK Jenkins committee. According to IJsselmuiden, the approach of a faithful presentation was another example of alignment with the Anglo-Saxon system: the UK used “give a true and fair view of the state of affairs”, and the US required the financial statements to “present fairly the financial position”.

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87 IJsselmuiden (1972).
88 See section 5.3.2.6.
However, Ijsselmuiden also noted that the term “acceptable in the economic and social climate” was not identical to ‘generally accepted’. In his view, this was intentional, since, in his opinion, the latter referred to practice only. But the former focused on the purpose of the annual accounts: the norm should be acceptable to achieve this goal. And this, he argued, could only be determined with the help of business-economic theory by the business community, the auditors, and, in last instance, the Enterprise Chamber.

One year after the adoption of the companies’ annual accounts act, the Dutch government resolved a debate that was held in the Netherlands over a long period of time, regarding the requirements to be imposed on private joint stock companies in respect of their financial statements. This had been an issue since the adoption of the 1929 commercial code. Subsequently, it returned in the parliamentary discussions on the companies’ annual account act. However, as is described in the previous chapter, also the first European company law directive provided input to the debate, requiring all joint stock companies to publish financial statements, with an exception for closed joint stock companies established under Dutch legislation. In response to this development, the government initiated the establishment of private joint stock companies by submitting a bill to Parliament on 8 June 1970. This bill was approved by the Second Chamber mid-March 1971. The First Chamber followed at the end of April. The act was published shortly after. It was accompanied by a separate act, amending a number of other acts, and including the private joint stock company in the scope of the companies’ annual accounts act. One of these changes referred to the commercial code, requiring the appointment of an auditor for banks, insurance companies, and certain other companies which met specific requirements. The amendments introduced by both acts were effective as of 29 June 1971.

Subsequently, in 1976, the act on the new civil code, which was already adopted in May 1960 but not yet operational, was made effective. It incorporated, as chapter 6, the companies’ annual accounts act in book 2 of the new civil code. Although the government had proposed that no amendments be made to this act on the occasion of the transfer to the civil code, a new requirement for the financial statements was accepted during the parliamentary debate, requiring companies to disclose their segment results per business line. A parliamentary proposal to also disclose segment information on a geographical basis was rejected. The effective date of the act was set at 26 July of the same year. The full text of book 2 of the new civil code was published shortly after.

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89 See section 5.3.4.2.2.
90 See section 5.3.4.2.6.
91 See section 5.3.1.2.3.
92 Tweede Kamer (1970b), nr. 10689.
95 Minister van Justitie (1971a), Staatsblad 1971, nr. 286.
96 Minister van Justitie (1971b), Staatsblad 1971, nr. 287.
97 Minister van Justitie (1971c), Staatsblad 1971, nr. 363.
98 See section 5.3.4.2.3.
99 Minister van Justitie (1976a), Staatsblad 1976, nr. 228.
100 Minister van Justitie (1976c), Staatsblad 1976, nr. 342.
101 Minister van Justitie (1976e), Staatsblad 1976, nr. 395.
6.4.2.2 The implementation of the EEC fourth directive on the annual accounts

The next step regarding financial reporting requirements occurred in September 1980 with the submission to Parliament of a bill to implement the EEC fourth directive on the annual accounts.\(^{102}\) The creation of this directive is described next.

6.4.2.2.1 An initial draft of the fourth directive

At the request of the European Commission, an initial draft of the fourth directive was prepared by the Elmendorff committee of the Groupe d’Etudes in 1969.\(^{103}\) The proposals were limited to industrial and trading companies. The committee did not consider it as its role to develop new, and probably better, rules for financial reporting. On the contrary, it decided to review the possibility to harmonise existing and developing rules and practices in the member states, and assess whether these were or could be aligned with internationally accepted principles.\(^{104}\) Regarding banks and insurance companies, the committee noted that separate rules were needed, in particular because the proposed formats of the balance sheet and the profit and loss account were not suitable for these industries. However, as the financial statements of banks and insurance companies were scoped out of its mandate, it provided no further comments on these annual accounts.

The basic principles for annual accounts were: they should meet the principles of “Grundsätze ordnungsmässiger Buchführung” (regular and proper accounting), be prepared in a clear and understandable manner, and apply valuation and formatting requirements necessary to properly present the financial position, liquidity position and profitability of the company. The proposed format for the balance sheet included an overview of mandatory line items, and the draft also identified four possible formats for the profit and loss account.

The general valuation principles were:

- Consistent application from one year to another;
- Only profits made at the balance sheet date could be included;
- Account should be taken of all known risks at the balance sheet date; losses becoming apparent between the date of the balance sheet and the date at which the annual accounts were prepared should be included if they occurred in the reporting period;
- Account should be taken of all depreciation, independent of the result for the year;
- Assets and liabilities should be valued separately; and
- The opening balance sheet of each year should correspond to the closing balance sheet for the preceding year.

The proposals also included detailed valuation rules, which, for the assets, could be summarised as ‘cost or lower market value’. Regarding the liabilities, the only available detailed rule concerned provisions, which should be measured at the amount required according to a sensible commercial assessment. Companies should deviate from the detailed valuation rules if this was necessary to meet the principles of regularity and reliability.

\(^{102}\) Tweede Kamer (1980), nr. 16326.

\(^{103}\) Groupe d’Etudes (1969).

\(^{104}\) Elmendorff (1967) described this as “mainly a matter of fixing generally recognised minimum requirements”.

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The member states could allow other valuation rules such as replacement cost or revalued amounts, provided that the general valuation principles were met and the differences with the detailed valuation rules (the ‘cost or lower market value’ principle) were disclosed, separately for the impact on the balance sheet and on the profit and loss account.

The remaining part of the proposal discussed the contents of the notes, the annual report, audit requirements, and publication rules. The document ended with an explanatory memorandum per article of the draft.

Regarding these proposals, the auditor W. van Bruinessen, at the time the chair of the Dutch delegation in the committee, described in 1980 some of the obstacles that had to be overcome.\(^{105}\) The main problems resulted from the fundamental differences between the Dutch and German approach of financial reporting issues.\(^{106}\) While the Dutch approach was generally aligned with the Anglo-Saxon philosophy of a true and fair view, the Germans focused on compliance with legislation and the articles of association of the reporting company. Among others, this made the Dutch advocate full freedom of choice of accounting principles, with the Germans sticking to historical cost accounting, anchored in their legislation. Van Bruinessen noted that, as was usual in an international dialogue, the final result was that the Dutch agreed with the German proposals for mandatory formats for the balance sheet and the profit and loss account, and the Germans concurred with the Dutch proposal to allow both historical cost accounting and current value accounting.

### 6.4.2.2.2 The adoption of the fourth directive

**The first draft**

A first proposal for the directive was published by the European Commission in 1971.\(^{107}\) The directive would complement the first directive 68/151/EEC,\(^ {108}\) which only included requirements on the formal aspects of publication: the fourth directive took care of the material aspects. In line with the recommendations of the Elmendorff committee, the first proposal referred to the principles of regular and proper accounting. Furthermore, it required the accounts to present, as accurately as possible, the net assets, the financial position and the results, within the structure of the valuation and presentation provisions. In addition, while the accounts should comply with basic accounting principles, such principles were not defined. The member states were, pending further coordination, not required (but also not prohibited) to apply the proposals to the financial statements of banks and insurance companies, as the nature of their activities requested special rules, on which further study was necessary. There was no reference to the national prudential reporting requirements for insurers, nor to initiatives at the European level on the introduction of such requirements, as is described later in this chapter when presenting the Dutch prudential reporting developments. For this reason, I can only conclude that a consideration of a single-track reporting approach was, at the time, not at all on the radar screen of the European Commission.

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105 van Bruinessen (1980).
106 This was in line with Nobes’ assessments, see section 2.2.2.
108 See section 5.3.1.2.3.
The first draft was commented on by several parties, including the Dutch NIVRA. Its views, presented in September 1972, were quite negative: there was no reference to the true and fair view requirement for annual accounts, and the proposed valuation principles could stimulate tax-driven accounting. Secondly, the NIVRA rejected the introduction of mandatory layouts, which could undermine understandability and jeopardise the objective of comparability. The first comment was similar to that of the Groupe d’Études: its June 1972 comments on the first draft of the directive recommended replacing the principle of ‘proper and regular accounting’ by ‘true and fair view’. The second main concern of the Groupe referred to the proposed member state options. Although it recognised the need to compromise, it was in favour of passing on such options to the reporting companies, since they were in a better position to judge whether deviations from the detailed requirements were necessary to achieve the true and fair view objective.

The second draft

The proposed requirements were amended in a revised draft, issued in 1974. According to the explanatory memorandum, the changes were made at the request of both the European Parliament and the Economic and Social Committee: there was no direct link to the entrance of the new member states. The original reference to the principles of regular and proper accounting was considered redundant after the introduction of the principle of the true and fair view, since the first necessarily implied that the second should be observed. Furthermore, basic valuation principles were now included, being going concern, consistency, prudence, and the accruals principle. The proposed possible exemption for banks and insurers was maintained, and, again, nothing was said about the upcoming prudential directives.

The revised draft was received much more positively than the first draft in the Netherlands. Burgert noted that the directive was improved considerably. In particular, the introduction of the true and fair view principle was applauded. He also supported the increased emphasis on the basic valuation principles, although some improvements in the detailed valuation provisions were still desirable. These views were shared by the NIVRA in its comments published early 1975. It also supported the proposal to require deferred tax to be deducted from the revaluation reserve and considered it an improvement compared to the first draft.

Other comments were more critical. For instance, G.J. Kramer noted that the proposals would not result in uniformly prepared annual accounts, but only, to a certain extent, in comparable accounts. This was caused by the balance between liberty and uniformity, as evidenced by the existence of options for companies and for the member states.

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109 NIVRA (1972).
110 Groupe d’Études (1972).
112 However, Turley (1983) pointed at the fact that the single most significant event in the EEC between the first and second draft directive was its enlargement in 1973. In his view, this was the decisive factor for the introduction of the ‘true and fair view’ and of the basic principles. This analysis was shared by Zeff et al. (1992), p. 294.
113 Burgert (1974).
114 NIVRA (1975a).
115 This approach was aligned with the recommendations of the CAB, presented in the previous chapter (see section 5.3.4.3.1). However, this requirement was not included in the final directive.
116 Kramer (1975).
Kramer’s comments were shared by Turley, who explained that two more conceptual areas were, in his view, not considered at all: the principles that should be applied, and the fundamental objective of producing accounts, including the identification of the users and the purposes of such accounts. These areas were, as was shown by a number of studies, strongly related to the economic, social, political, and fiscal environment of a country. Just the simple fact that the directive included over 50 options and alternatives already showed, Turley argued, that the differences in such an environment between the member states could not be accommodated in the directive. As a result, he concluded that the directive would offer only limited harmonisation.

The final directive
The final directive 78/660/EEC was adopted in 1978. Its defined objective was to protect the interests of shareholders and third parties (i.e. a wider group than just investors). The member states should amend their national legislation before the end of July 1980, with an effective date 18 months later. For the Netherlands, the scope of the directive encompassed the joint stock company and the private joint stock company. However, as was proposed in the draft directive, the member states were not required (but they were allowed) to apply the directive to banks or insurance companies, although references to the prudential reporting requirements were still absent. As is described later in this chapter, both the Netherlands and the UK used the available member state option to exempt these industries from the provisions of the fourth directive.

The basic underlying principle was that the annual accounts (comprising the balance sheet, the profit and loss account and the notes on the accounts) should give a true and fair view of the company’s assets, liabilities, financial position and profit or loss. Where the application of the provisions of the directive was not sufficient to achieve this, additional information had to be given. However, where in exceptional cases the application of a provision of the directive was incompatible with the true and fair view, that provision should be departed from, which fact and its financial impact should be disclosed. This was the so-called ‘true and fair override’, included at the specific request of the Danish, Dutch and UK delegations.

The directive introduced mandatory models for the balance sheet and the profit and loss account, presented in annex 9. They should, in principle, be consistently applied from one year to the next, and comparative amounts should be included. Subdivisions and additional items could be added provided their contents were not already covered in the layouts. The member states should prescribe one or all of the models; in the latter case, they could allow companies to choose between them. The directive also allowed the member states to provide relief for small and medium-sized companies which met certain quantitative conditions.

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117 Turley (1983). A review of the successive drafts shows, however, that his comment about the identification of the users was not valid: the objective of the directive was consistently worded as “protecting the interests of shareholders and third parties”.

118 See also section 2.2.2.

119 European Commission (1978b).

120 Van Hulle (1997).

The directive introduced specific definitions for some balance sheet items, for instance for provisions: these were intended to cover losses or debts the nature of which was clearly defined and which, at the balance sheet date, were either likely to be incurred, or certain to be incurred but uncertain as to amount or as to the date on which they would arise. They could not be used to adjust the values of assets. This requirement was included to prevent the creation of secret reserves.

In respect of the profit and loss account, which should show expenses by nature or by function, the directive introduced a definition of extraordinary items: these were income and charges that arose otherwise than in the course of the company’s ordinary activities.

Another part of the directive focused on the valuation rules. The general measurement basis for fixed and current assets was the purchase price or production cost. However, the member states could permit or require in respect of all companies or any classes of companies the application of the replacement value or another revaluation approach, if certain conditions were met, to be defined by these member states. The resulting valuation differences should be included in a revaluation reserve; the treatment of this item for tax purposes should be explained. The movements in this revaluation reserve should be disclosed, it should be reduced for amounts that were no longer necessary, only realised amounts could be transferred to the profit and loss account, and unrealised gains were not available for distribution. Furthermore, the difference between revalued amounts and amounts under the historical cost principle should be disclosed. Finally, goodwill should be written off within five years, unless this period was extended by a member state to the useful life of the goodwill. And provisions should not exceed the sums which were necessary to fulfil the obligations.

Regarding disclosures, the directives required a breakdown of the net revenue by categories of activity and into geographical markets in so far as these categories and markets differed substantially from one another.

To ensure appropriate implementation and interpretation, a ‘Contact Committee’, composed of representatives of the member states, was created to assist the European Commission.

6.4.2.2.3 The Dutch implementation of the fourth directive
As this directive is described immediately before, this section focuses only on the specific issues in respect of its implementation in the Netherlands and the resulting changes in the civil code.

The approach of the government was described in the explanatory memorandum to the bill submitted in September 1980:122

- While the principle of true and fair view was maintained, the directive forced the introduction of much more detailed requirements than included in chapter 6 of book 2 of the civil code, including the ‘true and fair override’;
- The directive was implemented in the most flexible way as was allowed (using the member state options), preserving what had already been achieved in Dutch legislation; and
- The bill did not include any other elements than those required by the directive.

122 Tweede Kamer (1980a), nr. 16326.
The bill announced that the formats for the balance sheet and the profit and loss account would be introduced by an Administrative Decree. The bill itself identified the individual items in those statements, in accordance with the directive, which could be included in the balance sheet or the profit and loss account themselves, or in the notes.

Participating interests were allowed to be measured at equity value, which had to be calculated using the accounting principles of the parent company. An interest of more than 50% was called a ‘subsidiary’. For segment information, the bill proposed a disclosure of the revenue by industry and by geographical area: the existing requirement to provide the operating result by industry was not carried forward. The overriding approach for the accounting principles was that they should continue to comply with norms that were considered to be “acceptable in the economic and social climate”.

On this topic, the explanatory memorandum referred to the pronouncements of the TO, although it noted that they could not be considered as having binding force. Furthermore, the memorandum referred to the rulings of the Enterprise Chamber and the activities of the IASC. The bill also introduced the choice between measuring assets and liabilities at cost or at current value. However, current value was required when the insight in the financial statements was significantly harmed by measuring an asset at a lower value than this current value. Further rules regarding the application and calculation of current values could be included in an Administrative Decree.

Applying the member state option in the fourth directive, the bill noted that for insurance companies, if they were subject to the life or non-life insurance business acts, the detailed requirements on the contents of the balance sheet and the profit and loss accounts were not applicable. Furthermore, these companies could, as an option, value their investments and technical provisions in accordance with principles which “voor de bedrijfstak als aanvaardbaar worden beschouwd” (“were considered acceptable in the industry”), even if they deviated from the generally required accounting principles. The explanatory memorandum noted that the intention of this provision was to maintain the existing status quo under which insurance companies could designate their prudential returns as their financial statements (if all necessary additional information was included), awaiting the development of a European directive on the annual accounts of insurance companies. The possible level of freedom was expected to be limited by the requirement on “acceptable in the industry” and the supervision of the Insurance Chamber. In other words, the government decided to explicitly maintain a type 3 single-track reporting approach. Whether or not the Insurance Chamber used its supervisory powers in this respect, is discussed later in this chapter when describing the Dutch prudential reporting developments.

Finally, the bill proposed that companies carrying on insurance business which were not subject to the insurance business acts (e.g., life insurers not paying out monetary amounts or certain exempted non-life insurers) were allowed to apply the provision for insurance companies, if the required insight would thus be served. In the parliamentary discussions, the government explained this proposal meant that holding companies of insurance groups could, as an option, also apply the exemption for supervised insurers, and prepare their consolidated financial statements under the models of the insurance supervision acts. This legal possibility was completely new: it had not been included in the 1970 companies’ annual accounts act, and – according to the parliamentary documents – not even been considered at the time.

123 See sections 5.4.2.2 and 5.4.2.6.
The proposal meant that, in practice, holding companies were allowed (but not required) to apply the mandatory models under the prudential reporting requirements in their consolidated financial statements, and/or adopt the same accounting principles as their supervised Dutch insurance subsidiaries, despite the fact that the holding companies were not supervised themselves. In other words, they were free to apply any of the types 9-12 of the single-track reporting approaches.

The debate in Parliament, in which several times reference was made to comments and opinions of the ‘Raad voor de Jaarverslaggeving’ (the ‘Council on Annual reporting’, henceforth, the ‘RJ’), described later in this section, focused mainly on two issues: the revised segmentation requirements, and the provisions regarding current value measurement. Concerning the first topic, several parties wanted to maintain the requirement to disclose segmented operating results, on top of the new segmentation of revenues. The government continued to decline this wish, noting that the larger and international companies were already expected to provide such information voluntarily in accordance with the guidelines of the IASC, the OECD and the UN. In respect of the valuation requirements, many parties noted that the government, apparently, proposed to make current value accounting the norm in the financial statements, and disagreed with this approach. The government responded that this was not the intention: as was required by the directive, cost and current value were considered to be on an equal footing. Subsequently, changes in the bill were introduced to clarify this principle. Furthermore, the norms that were considered to be “acceptable in the economic and social climate” were moved to the section presenting the general requirements on the financial statements, to emphasise that such norms included more than valuation principles. Regarding the valuation of participating interests, the proposals in the bill were amended, stating that, although the equity value was still calculated using the accounting principles of the parent company, all assets and liabilities of a newly acquired subsidiary had to be measured at their current values at the initial recognition (i.e. at the acquisition date).

The final bill was adopted by the Second Chamber on 21 June 1983. Without much debate, the First Chamber concurred on 6 December 1983. The final act was published shortly after. The act was introduced as chapter 8 in book 2 of the civil code and repealed chapter 6, which included the provisions of the former companies’ annual accounts act. It ruled that the new provisions were effective for insurance companies and banks for their 1985 financial statements. For other companies, the act was effective for their 1984 financial statements.

The act was accompanied by two Administrative Decrees. The first was the ‘Besluit waardering activa’ (the ‘Decree on the valuation of assets’). Since investments of an insurance company were exempted from the general provisions of the act, this Decree had only limited value for insurers and was, effectively, only applicable to tangible fixed assets as far as they were not held as investments. The second Decree was the ‘Besluit modellen jaarrekening’ (the ‘Decree on the models for annual accounts’). It implemented the models of the fourth directive.

126 Minister van Justitie (1983b), Staatsblad 1983, nr. 663.
127 Minister van Justitie (1983c), Staatsblad 1983, nr. 664.
129 Minister van Justitie (1983e), Staatsblad 1983, nr. 666.
130 These models are presented in tables A9.19 to A9.26.
The Decree on the models for annual accounts did, however, also introduce some other changes, which were intended to preserve requirements which were previously included in chapter 6 of book 2 of the civil code. To illustrate these changes, annex 9 presents one model for the balance sheet and one for the profit and loss account, to enable the reader to assess the differences between the layouts under the 1983 models and those under the 1970 companies' annual accounts act. The comparison shows that, in general, the level of details in both the balance sheet and the profit and loss account increased. The 1983 models are reproduced below.

Table 6.3: Decree on the models for annual accounts of 1983 – model B – balance sheet – assets

<table>
<thead>
<tr>
<th>Assets</th>
<th>Fixed assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>I  Intangible assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1  Formation expenses</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2  Cost of research and development</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3  Concessions and licences</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4  Trademarks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5  Goodwill</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6  Payments on account on intangible assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>II  Tangible assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1  Land and buildings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2  Plant and machinery</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3  Other fixtures and fittings, tools and equipment</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4  Payments on account and tangible assets in course of construction</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5  Fixed assets not involved in the business operations</td>
<td></td>
</tr>
<tr>
<td></td>
<td>III  Financial assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1  Shares in affiliated undertakings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2  Loans to affiliated undertakings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3  Participating interests</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4  Loans to undertakings with which the company is linked by virtue of participating interests</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5  Investments held as fixed assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6  Other loans</td>
<td></td>
</tr>
<tr>
<td></td>
<td>B  Current assets</td>
<td></td>
</tr>
<tr>
<td></td>
<td>I  Stocks</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1  Raw materials and consumables</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2  Work in progress</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3  Finished goods and goods for resale</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4  Payments on account on stock</td>
<td></td>
</tr>
<tr>
<td></td>
<td>II  Debtors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1  Trade debtors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2  Amounts owed by affiliated undertakings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>3  Amounts owed by undertakings with which the company is linked by virtue of participating interests</td>
<td></td>
</tr>
<tr>
<td></td>
<td>4  Other debtors</td>
<td></td>
</tr>
<tr>
<td></td>
<td>5  Subscribed capital called but not paid</td>
<td></td>
</tr>
<tr>
<td></td>
<td>6  Prepayments and accrued income</td>
<td></td>
</tr>
<tr>
<td></td>
<td>III  Investments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>1  Shares in affiliated undertakings</td>
<td></td>
</tr>
<tr>
<td></td>
<td>2  Other investments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>IV  Cash at bank and in hand</td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.86.
Table 6.4: Decree on the models for annual accounts of 1983 – model B – balance sheet – liabilities

<table>
<thead>
<tr>
<th>Liabilities</th>
<th>A Capital and reserves</th>
<th>B Provision for liabilities and charges</th>
<th>C Long-term liabilities</th>
<th>D Short-term liabilities</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>I</td>
<td>Subscribed capital</td>
<td>1 Provisions for pensions and similar obligations</td>
<td>1 Convertible debenture loans and sundry loans</td>
<td>1 Convertible debenture loans and sundry loans</td>
<td></td>
</tr>
<tr>
<td>II</td>
<td>Share premium account</td>
<td>2 Provision for tax</td>
<td>2 Other debenture loans and sundry loans</td>
<td>2 Other debenture loans and sundry loans</td>
<td></td>
</tr>
<tr>
<td>III</td>
<td>Revaluation reserve</td>
<td>3 Other provisions</td>
<td>3 Amounts owed to credit institutions</td>
<td>3 Amounts owed to credit institutions</td>
<td></td>
</tr>
<tr>
<td>IV</td>
<td>Legal and statutory reserves</td>
<td></td>
<td>4 Payments received on account on orders</td>
<td>4 Payments received on account on orders</td>
<td></td>
</tr>
<tr>
<td>V</td>
<td>Profit or loss brought forward</td>
<td></td>
<td>5 Trade creditors</td>
<td>5 Trade creditors</td>
<td></td>
</tr>
<tr>
<td>VI</td>
<td>Profit or loss for the financial year</td>
<td></td>
<td>6 Bill of exchange payable</td>
<td>6 Bill of exchange payable</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>7 Amounts owed to affiliated undertakings</td>
<td>7 Amounts owed to affiliated undertakings</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>8 Amounts owed to undertakings with which the company is linked by virtue of participating interests</td>
<td>8 Amounts owed to undertakings with which the company is linked by virtue of participating interests</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>9 Tax and social security</td>
<td>9 Tax and social security</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>10 Pension creditors</td>
<td>10 Pension creditors</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>11 Other creditors</td>
<td>11 Other creditors</td>
<td></td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>12 Accruals and deferred income</td>
<td>12 Accruals and deferred income</td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.87.
Soon after its publication, the models of the profit and loss account were slightly simplified.\textsuperscript{131} Because of the exemption for insurers (including their holding companies), these models were not applicable to them.

My review of the accounting literature has revealed no articles about any insurance industry initiatives to fill in the term “acceptable in the industry” in respect of the accounting principles for the investments and the technical provisions, although during the debate in Parliament reference was made to a letter submitted by the Association of Insurers.\textsuperscript{132}

\begin{table}[h]
\centering
\begin{tabular}{|l|}
\hline
\textbf{Charges} \\
\hline
Cost of sales \\
Distribution costs \\
Administrative expenses \\
Total expenses \\
\hline
Operating charges \\
Loss on participating interests \\
Value decreases in respect of financial assets and of investments held as current assets \\
Interest payable and similar charges \\
\hline
Financial charges \\
Tax on profit or loss on ordinary activities \\
Profit or loss on ordinary activities after tax \\
Profit or loss on ordinary activities before tax \\
\hline
Tax on profit or loss on ordinary activities \\
\hline
Extraordinary charges \\
Tax on extraordinary profit or loss \\
Extraordinary profit or loss after tax \\
Extraordinary profit or loss before tax \\
\hline
Tax on extraordinary profit or loss \\
Profit after tax \\
\hline
\hline
\textbf{Income} \\
\hline
Net turnover \\
Other operating income \\
\hline
Operating income \\
Income from financial fixed assets \\
Other interest receivable and similar income \\
Profit on participating interests \\
Value increases in respect of financial assets and of investments held as current assets \\
\hline
Financial income \\
Tax on profit or loss on ordinary activities \\
Profit or loss on ordinary activities after tax \\
Profit or loss on ordinary activities before tax \\
\hline
Tax on profit or loss on ordinary activities \\
\hline
Extraordinary income \\
Tax on extraordinary profit or loss \\
Extraordinary profit or loss after tax \\
Extraordinary profit or loss before tax \\
\hline
Tax on extraordinary profit or loss \\
Loss after tax \\
\hline
Total \\
\hline
\end{tabular}
\caption{Decree on the models for annual accounts of 1983 – model H – profit and loss account}
\end{table}

\textsuperscript{131} Minister van Justitie (1985a), Staatsblad 1985, nr. 261.
\textsuperscript{132} Tweede Kamer (1980a), nr. 16326, nr. 7.
This lack of literature is, in my view, somewhat surprising, as the history described in the previous chapters shows that in earlier decades the industry had always been heavily involved in the legal discussions and developments regarding financial and prudential reporting requirements affecting their activities. Therefore, I find it hard to believe that the industry did not take any action in this important area. On the contrary, I consider it highly likely that initiatives were employed in the Association of Insurers to determine the acceptable principles and promote the acceptance and practical application of these principles by the members of the association. I have found some indications for such insurance industry activities in the 1988 court case on the 1986 annual accounts of AEGON, described when discussing their accounting policies for investments. In its defence, the company made reference to a large number of insurers applying the same methodology as itself, and to an upcoming change of accounting principles by the AMEV in its 1988 accounts, which were not yet prepared at the time of the court case. Without industry consultations, it seems highly unlikely that AEGON, a main competitor of the AMEV, would be familiar with a change in accounting policies in financial statements that had not yet been issued.

Such industry activities would explain the disappearance, or, at the very least, the reduction of a number of differences in the accounting principles for investments from 1985 onwards, as is described later when presenting the findings of a comprehensive review of the accounting practices by Dutch insurers and the accounting principles applied by the companies reviewed in this dissertation. I have, however, not been able to find further evidence for my presumption. This might be available in the archives of the Association of Insurers, which were, unfortunately, not accessible on conditions that I considered necessary for independent academic research.

6.4.2.3 The implementation of the EEC seventh directive on the consolidated accounts and other amendments of the civil code

6.4.2.3.1 An initial draft of the seventh directive

An initial draft of this directive was, again, prepared by the Elmendorff committee of the Groupe d’Etudes at the request of the European Commission. The first discussions took place in 1967. They continued in 1968 and 1970, until in the last meeting of the committee, on 30 April 1970, an agreement was reached on the text of a draft amendment to the 1969 draft of the fourth directive. The approach was the same as for the fourth directive: a focus on the harmonisation of the member state rules and practices, complemented by a review of international developments, and not on developing new ideas. The draft included only seven articles, building on the proposals for the fourth directive.

The most important article dealt with consolidation. It stated that this was mandatory if a company had “einheitliche Leitung” (management control) over another company. The consolidation scope should include all companies in which the parent company held more than 50% of the capital. However, in case of a participation of less than 50%, consolidation was also required if the parent company could exercise decisive influence.

133 Beckman and Harmsen (2008), part 9, p. 9.11-01 – 9.11.42.
135 According to the auditor W. Voors (1968), at the time legislation concerning group accounts existed in only three European countries (Germany, Sweden, and the UK), although the publication of such accounts, in addition to the statutory accounts, on a voluntary basis was considered good practice in several other countries, in particular in the Netherlands.
Consolidation was not required for non-material subsidiaries. Furthermore, consolidation was prohibited if it negatively influenced the basic principles for consolidated financial statements, which were similar to those in the fourth directive; in such a case, the annual accounts of non-consolidated subsidiaries should be included in the notes. The draft did not specify when this negative influence would occur, and limited itself to the statement that this could only be determined in relation to the combined economic activities of a group. This wording can, in my view, be understood as a (vague) reference to diversified groups and diverging activities of a subsidiary, which was included in the final seventh directive. Under the Elmendorff proposal, the proposed fourth directive would also be applicable to consolidated accounts. However, differences arising on the first consolidation and the book value and profit of loss from non-consolidated subsidiaries should be shown separately. Specific valuation rules were not included.

6.4.2.3.2 The adoption of the seventh directive

This draft of the Elmendorff committee formed the basis for a first proposal issued by the European Commission in 1976. This draft was very heavily criticised by Burgert. In particular, he rejected the apparent requirement, in case of business combinations, to apply the purchase method, including the capitalisation of goodwill, and the prohibition of the pooling of interests method.

The European Commission issued a revised proposal in 1978, which was subsequently converted into the final directive 83/349/EEC, published in 1983. The changes between the revised proposal and the final directive were discussed by the lawyer and auditor P.A. Wessel, who provided background information on the final deliberations in the Council. In particular, he pointed at the differences in experience with consolidated accounts between, on the one hand, the UK, Ireland and the Netherlands, and, on the other hand, the other member states. This resulted in difficult technical discussions, partly caused by the different philosophies regarding the objectives of and approaches to financial reporting in general, but also in a firm and unmovable position by the Anglo-Saxon member states, which were not prepared to accept a directive that was different from their national requirements. Consequently, the directive had, in his view, become a mixture of Anglo-Saxon common law and continental civil law elements. This was particularly demonstrated by the careful avoidance of a definition of a group. Instead, the directive included a detailed description of cases in which consolidation was required, allowed or prohibited, supported by a number of member state options. The resulting patchwork of provisions, covering horizontal as well as vertical groups, was an attempt to combine the legalistic approach prevailing in some member states with the economic approach preferred by others.

138 For an explanation of these methods, see section 5.3.3.7. It should, however, be noted that none of these terms explicitly appeared in the European Commission proposal, nor in the draft of the Elmendorff committee.
139 European Commission (1978c).
141 Wessel (1983).
142 The analysis of Wessel was shared by the professor in law C.W.A. Timmermans, who stated that, in his view, harmonisation of the consolidation scope was not achieved at all. See Timmermans (1984).
In the final seventh directive, the scope of Dutch legal forms was similar to that of the fourth directive. National law should be amended before 1 January 1988 and the directive should be effective for consolidated accounts for the financial year beginning or after 1 January 1990. However, as long as there were no financial reporting directives for banks and insurance companies, the member states could (but were not required to) exempt these financial institutions from the layouts, the valuation rules, and the requirements on the notes. In other words, the status quo in the fourth directive was maintained.

The directive required the preparation of consolidated accounts if the parent company:

- Had a majority of the shareholders’ voting rights in a subsidiary;
- Had the right to appoint or remove a majority of the members of the administrative, management of supervisory body of a subsidiary and was a shareholder in that subsidiary;
- Had the right to exercise a dominant influence over a subsidiary of which it was a shareholder, pursuant to a contract or a provision in its articles of association; or
- Was a shareholder in a company, and:
  - A majority of the members of the administrative, management or supervisory bodies of that subsidiary had been appointed solely as a result of the exercise of its voting rights; or
  - Controlled alone, pursuant to an agreement with other shareholders of that subsidiary, a majority of shareholders’ voting rights in that subsidiary.

The directive included a number of exemptions to the consolidation requirements. For the purpose of this dissertation, the most important dealt with diversified groups: where the activities of a subsidiary were so different that their inclusion would distort the required true and fair view, the company should be excluded from the consolidation. In such cases, the exception should be disclosed and the subsidiary annual accounts should be attached to the consolidated accounts. On the other hand, the directive gave the member states the option to require consolidation for groups which were managed on a unified basis pursuant to a contract or provisions in the articles of association, or in which the administrative, management or supervisory bodies consisted for the major part of the same persons during the financial year and until the consolidated accounts were drawn up (the so-called ‘consortium accounting approach’). As is described in the next chapter, this option was especially relevant for Fortis.

In the preparation of consolidated accounts, the requirements of the fourth directive, including the true and fair view, the ‘override’, the models, and the valuation principles, were fully applicable. This included valuing similar assets and liabilities on a consistent basis. The directive also included pronouncements regarding the accounting for business combinations: the assets and liabilities of an acquired subsidiary should be included in the consolidation on the basis of the book values as at the date the subsidiaries were acquired. Any differences with the acquisition price should, as far as possible, be allocated to the assets and liabilities which had values above or below their book values.

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143 Kölschbach explained that the European Commission, in 1991, held the view that consolidation of banking and insurance activities was prohibited, based on this article in the directive. According to Kölschbach, this view was revised in 1996: see Kölschbach (1999), p. 118-119. It was, however, as is described in section 7.4.6, only in 1998 that this revised view was included in an official publication of the European Commission.

144 See section 7.7.4.3.
Any remaining difference should be treated as goodwill under the fourth directive, although the member states could permit the item to be charged directly to the reserves. Regarding the 1977 comments made by Burgert, it is, in my view, clear that, although the final directive did not use any of these terms, the text presented above shows it was the intention that that the pooling method was not allowed: the value of assets and liabilities had to be adjusted if they were above or below their book values, and goodwill had to be recognised. The directive, however, did not clarify how the price of issued shares in case of a business combination should be determined. As a result, it is not fully clear how the acquisition price of acquired participating interests should be calculated; if such price equalled the book value of the net assets, effectively pooling accounting was still applied.

6.4.2.3.3 The Dutch implementation of the seventh directive
The bill to implement the seventh directive was submitted to Parliament in December 1986.\textsuperscript{145}

However, one year earlier another amendment had already been made to book 2 of the civil code, as part of an act to introduce a new regulation regarding the capital of a private joint stock company.\textsuperscript{146} This concerned the introduction of an article, enabling the Minister of Justice to designate certain regulations in respect of financial statements as equivalent to those included in the seventh directive. The parliamentary history of the act showed that this provision was only introduced in September 1984 and, in itself, unrelated to the topic of the act.\textsuperscript{147} Its intention was to resolve some problems in practice, which resulted from the first-time application of the consolidation requirements introduced at the end of 1983, when the fourth directive was implemented in Dutch legislation. Pre-empting the implementation of the seventh directive, the government announced in an Administrative Decree its intention to already allow the use of certain foreign GAAPs in preparing Dutch financial statements, referring, in particular, to US GAAP.\textsuperscript{148} However, in practice only IAS was considered equivalent. The amendment was effective as of 20 January 1986.\textsuperscript{149}

Camfferman and Zeff described that the European Commission was not pleased with this approach.\textsuperscript{150} By 1986, it was not yet prepared to recognise the IASC as a body of equal standing. The European Commission put considerable pressure on the Dutch government, including the threat of legal action. The Dutch government therefore rescinded the Decree in 1988, citing as the main reason that virtually all of the differences between the seventh directive and the IASC’s standards on consolidation had been eliminated, so that there was no need for an additional interpretation.

The 1986 bill to implement the seventh directive introduced new definitions for subsidiaries and participating interests, focusing on voting rights and the right to appoint or dismiss members of the managing or supervisory board of a company, instead of on legal ownership of shares. However, the bill was not expected to result in significant changes in practice. The article in the seventh directive concerning unified management was implemented in a somewhat different way than in the directive itself: the bill proposed, referring to the ‘Koninklijke/Shell group’, that in case of two holding companies, they were allowed to exclude their financial statements from the consolidation scope.

\textsuperscript{145} Tweede Kamer (1986b), nr. 19813.
\textsuperscript{146} Minister van Justitie (1985c), Staatsblad 1985, nr. 656.
\textsuperscript{147} Tweede Kamer (1908b), nr. 35.
\textsuperscript{148} Minister van Justitie (1986a), Staatsblad 1986, nr. 3.
\textsuperscript{149} Camfferman and Zeff (2007), p. 174.
Although the bill did not raise much debate in Parliament, during the course of the parliamentary discussion the government changed its mind regarding the consolidation of companies active in different industries. Initially, the bill did not include any exemptions from the requirement to consolidate such group companies, but it was decided later to keep close to the provisions of the seventh directive, and a prohibition to consolidate diverging activities was introduced, if such a consolidation would be in contradiction with the general principle of sufficient insight. Although it was not clarified why this was the case, the government mentioned as examples banks and insurance companies which were subsidiaries of companies in other industries. Regarding business combinations, the requirement to measure all assets and liabilities at current value at initial recognition of the participating interest was not anymore included. However, according to Klaassen and the auditor E. Eeftink, the parliamentary discussions – although unclear and not specific – indicated that there had been no intention to actually change the old requirements.  

The bill was approved by the Second Chamber at the end of June 1988. Without debate, the First Chamber followed early November of the same year. The final act was published shortly after, to become effective immediately. The requirements were applicable to the reporting years commencing at or after 1 January 1990; however, early application was allowed.

In the period reviewed in this chapter, two other amendments to the civil code were introduced. The first occurred mid-1988, when, as the result of the introduction of an act on large cooperative societies and mutual insurance companies, the provisions regarding the financial statements were moved from chapter 8 to chapter 9. The second was submitted by the government in May 1988, and concerned some simplifications and clarifications of the financial reporting requirements. The bill proposed to enable companies with international activities to report in another currency than Dutch guilders. This included ECUs. During the parliamentary debate, an amendment was proposed to also enable such companies to prepare their financial statements in accordance with the norms acceptable in another member state, if they met the Dutch general requirement of sufficient insight. Although the government did not support such an amendment, based on its assessment that the general requirement would, in practice, almost never be met, the Second Chamber approved the amendment and, subsequently, the revised bill early May 1989. The proposals were approved by the First Chamber mid-December 1989. The act was published early January 1990. It was effective as of 1 March of that year.

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151 Klaassen and Eeftink (1994).
154 Minister van Justitie (1988c), Staatsblad 1988, nr. 517.
155 Minister van Justitie (1988b), Staatsblad 1988, nr. 305.
156 Tweede Kamer (1988a), nr. 20556.
159 Minister van Justitie (1989c), Staatsblad 1990, nr. 1.
160 Minister van Justitie (1990a), Staatsblad 1990. nr. 63.
6.4.3 The establishment and activities of the Dutch standard accounting standard setters TO/RJ

6.4.3.1 The formation and procedures of the TO, its position towards the IASC, and the conversion into the RJ

As is described in the previous chapter, during the parliamentary debate on the bill for the companies’ accounts act at the end of the 1960s, the government called upon the business community, jointly with the auditors’ organisations, to take stock of the accounting principles applied in practice, and to assess whether or not they met the requirements of the act.\textsuperscript{161}

The initiative to follow up this request was taken by the NIVRA.\textsuperscript{162} It met, in February 1969, with representatives of the ‘Raad van Nederlandse Werkgeversfederaties’ (the ‘Council of Dutch Employers federations’) to discuss the procedures to establish the requested ‘norms’ for financial reporting. At this meeting, it was agreed that the preparatory work would be done by the CAJ, the accounting advisory committee within the NIVRA. The draft of the CAJ would be jointly discussed, and any result would have the status of a “deskundig advies” (knowledgeable advice). At this first meeting, the NIVRA also reported that it had made an initial contact with the ‘Overlegorgaan Vakcentrales’ (the ‘Consultative council of Trade unions’) on the developments. According to the NIVRA, consideration should be given to their potential involvement as one of the users of financial statements. However, it soon became clear that the employers did not support this suggestion, as they believed that the term ‘organised business’, as used by the government, was not intended to involve the employees. Furthermore, it appeared that, mid-1969, the trade unions were interested in the developments, but preferred to be involved from a distance, giving an opinion only on the final outcome of the deliberations. Therefore, at the start of the process, there was only a bipartite group. This changed in June 1971, when the unions indicated that they wanted to become members of the group, which was accepted, and the bipartite group became the TO.

Regarding procedures, it was agreed that:

- The pronouncements of the TO would be labelled as ‘beschouwingen’ (considered views), since they had the status of an advice, not of a rule;
- Before issuing a final document, the TO would first issue an exposure draft, inviting public comments; and
- No document would be issued before all three delegations had given their approval. This was the reason that the adopted positions represented a rather large degree of flexibility of practice.\textsuperscript{163}

When I compare these procedures with those of the IASC, described earlier in this chapter, the similarities are that, in a sense, the IASC standards could also be considered as advices (as they did not have any legal force in a country) and the IASC also issued exposure drafts before adopting final standards. However, an important difference was that the IASC decided by a qualified majority, where the TO required the approval of all three delegations.

\textsuperscript{161} See section 5.3.4.2.6.
\textsuperscript{162} Zeff et al. (1992), p. 188-202.
\textsuperscript{163} Ibid, p. 29.
The TO was also involved in commenting on other financial reporting developments. For instance, it worked systematically jointly with the NIVRA in providing comments on exposure drafts issued by the IASC. Furthermore, it provided comments to the government concerning the implementation of the fourth directive. But the main activities of the TO focused on the developments of its considered views, described later in this section.

The relationship between the standards issued by the IASC and the considered views of the TO was already discussed as early as July 1973, when the TO concluded that the establishment of the IASC had no particular influence on its own activities. The topic returned at the end of 1974, when a proposal was discussed to insert the IASC standards in the loose-leaf publication series of the TO. However, since the employers delegation feared that such a policy might lead to confusion between the pronouncements of the TO and those of the IASC, this proposal was rejected.

The issue came back in 1977, when a suggestion was made to strengthen the considered views by including, by the use of bold-facing, so-called ‘stellige uitspraken’ (affirmative pronouncements) as well as references to the IASC standards and a description of any differences. This resulted in a decision to rewrite the existing documents, to provide a clear distinction between the affirmative and purely advisory pronouncements. The decision also included that a new name would be adopted, being the ‘Richtlijnen voor de jaarrekening’ (the ‘Guidelines on the annual accounts’, henceforth, the ‘RJs’). To address concerns that these guidelines would be perceived more as rules, it was subsequently decided mid-1979 that all rewritten pronouncements would again be issued as exposure drafts under the name ‘Ontwerp-richtlijnen’ (the ‘Draft guidelines’, henceforth, the ‘ORJs’) to attract public comments.

Regarding the IASC activities, the auditor H. Volten described that the TO issued comment letters on all exposure drafts issued by the IASC. At the request of the NIVRA, it assessed the acceptability of IAS 1 to IAS 6 and declared in September 1977 that financial statements which complied with Dutch law and the considered views were also compliant with these international standards. Furthermore, it committed itself to take IAS into consideration when producing new or revised considered views. This is shown in annex 12, which presents the standard setting documents issued by the IASC and the IASB, and the related (draft) pronouncements of the TO and the RJ. According to the CAJ, the application of IAS did not create any problems for Dutch companies in the 1970s.

The final step on the revision of the activities of the TO occurred on 18 September 1981, when the ‘Stichting voor de Jaarverslaggeving’ (the ‘Foundation on Annual reporting’) was established. Its goal was to enhance the quality of external reporting in the Netherlands. To achieve this objective, it created the independent RJ. This council was composed of the three delegations, previously forming the TO. Its statements would be called the ‘Richtlijnen voor de jaarverslaggeving’ (the ‘Guidelines for annual reporting’, henceforth, also called ‘RJ’), indicating the expansion of activities from financial statements to financial reporting.

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164 Ibid, p. 223.
166 Ibid, p. 242-244.
The last meeting of the TO took place on 9 December 1981, followed by the first meeting of the RJ on 8 January 1982. The CAJ continued to be the preparatory committee for the pronouncements.\footnote{CAJ-Bestuur, 1984.}

Mid-1983, the trade unions informed the Foundation that they could no longer participate as official members in the RJ, and had started looking for individuals that could replace them, not as representatives but as ‘trusted persons’.\footnote{Ibid, June 1983.} The trade union members stepped down early 1984.\footnote{Ibid, October 1983.} It became then clear that the move was for budgetary reasons.\footnote{CAJ-Notulen, 23 February 1984.} Because it was impossible to find the trusted persons, a change in the constitution of the Foundation was effected at the end of 1985.\footnote{CAJ-Bestuur, December 1985.} As a result, on 1 January 1986 the trade unions rejoined and the RJ included a users’ delegation again.

### 6.4.3.2 The considered views of the TO and the related IAS

In the period 1971-1979, the TO issued seven exposure drafts of considered views, the first three of which were converted into final pronouncements.

In this chapter, the description of the pronouncements of the TO and its successor the RJ are presented in a chronological order. My main reason for this approach is that it enables me to show that, in my view, the Dutch process of setting accounting standards by the private sector was, in the beginning, one that can be characterised as a codification of existing practices rather than the creation of an evolutionary environment. It also presents the first cautious steps to incorporate the pronouncements of the IASC, carefully avoiding taking clear and strict positions on controversial topics. Since, at the end of the period described in this chapter, the role, approach and activities of the RJ had been more or less stabilised, the subsequent chapters present the pronouncements organised by topic.\footnote{See sections 7.4.3.3 and 8.4.3.2.}

#### The first edition of final considered views

The first edition was published in May 1974.\footnote{TO (1979a).} It was based on an exposure draft, which was issued mid-December 1971,\footnote{TO (1971).} the contents of which were adopted without substantive changes. The starting point of the discussions in the CAJ on this exposure draft was the Grady report, published in 1965 by the US APB,\footnote{See section 5.3.3.6.} to assess whether the identified basic concepts, objectives and principles in this report could form the basis for the Dutch inventory of topics to be considered.\footnote{CAJ-Notulen, 13 January 1970.}

Section I.a, the introduction to the publication, clarified that the pronouncements of the TO focused on all parties which had an interest in the financial statements of a particular company (not just the shareholders), could not be interpreted as rules, and that the considered views were not generally applicable: there could always be circumstances where they did not fit a specific situation, and there were accounting principles in practice that were not discussed. In the latter case, this did not mean that these principles should be considered to be unacceptable.
This comment on the status of the pronouncements of the TO demonstrated the wish of the employers’ delegation to preserve as much freedom as possible. The introduction subsequently listed the topics under consideration, and noted that the financial statements of life and non-life insurance companies were not (yet) covered, because the existence of specific legislation for these companies created some specific issues. There was no clarification which legislation was referred to, but since the only existing legislation concerned the prudential reporting requirements, there can, in my view, be no doubt that these acts were the topics of the reference. Whether or not this meant that the TO considered these requirements suitable or inappropriate for financial reporting purposes is, one could argue, impossible to say, since the TO did not provide further explanations on the exemption. On the other hand, one could state that the TO implicitly supported the approach, since it did not reject it. In this debate, I consider myself to be in the first camp and am not able to form a definitive view on this issue.

However, since the exemption focused on the financial statements of insurers and not on specific elements therein, one could argue, I presume, that none of the pronouncements of the TO – and of its successor the RJ – were applicable to these financial statements. This would, in my view, be a too literal interpretation of the official text. As is described in chapter 2, the main items that made insurers differ from non-insurers were the layouts of the balance sheet and the profit and loss account, the investments and the technical provisions. Furthermore, as is described earlier in this section, the companies’ annual accounts act, which laid the foundation for the establishment of the TO, was applicable to insurers. I have, however, not been able to retrieve any papers from the archives and libraries discussing this topic. So it is impossible to say whether or not my analysis was shared or rejected. Based on the arguments presented above, my view is that all pronouncements dealing with other topics were equally applicable to the financial statements of insurance companies. Whether or not this was the case in practice, is discussed later in this chapter when presenting the findings in respect of the annual accounts of the insurers reviewed in this dissertation. But based on this position, the subsequent parts of this section present an overview of those publications issued by the TO/RJ that are, in my view, relevant for insurers and within the scope of this dissertation.

The first edition of the considered views also presented the general principles underlying the pronouncements of the TO:

- The purpose was, in accordance with the companies’ annual accounts act, to identify what was acceptable, and not to express any preferences;
- The views were based on the assumption of going concern and the application of the matching principle for income and charges;
- Profit equalisation or income-smoothing was not acceptable, since this was in conflict with the legal requirement to enable a true and fair view of the results of the year. This required the allocation of income and expenses to the years they were related to;
- A considerable change in value, compared to cost, should result in a revaluation in the balance sheet or a disclosure in the notes; and
- The balance sheet should be considered from an economic, not a legal point of view.

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181 Zeff et al. (1992), p. 216.
182 TO (1971).
183 See section 2.8.
184 TO (1979a).
The general approach of the TO was not always supported in the literature. Krens and J. Bulte, a professor in management accounting, criticised, when commenting on the exposure draft, the large amount of freedom left to the companies, and preferred recommendations, or even guidelines, instead of advices.\(^{185}\) Furthermore, they observed a fragmented approach, under which the TO would only focus on accounting principles frequently applied in practice, and not develop new ones. These views were fully shared by the professor in business economics J. Bouma, who took the criticism even one step further by observing an “enormous methodological weakness”, since the pronouncements were not based on any fundamental accounting theories.\(^{186}\)

The first set of considered views also included discussions on the accounting treatment of participating interests and long-term investments.\(^{187}\) Regarding the first topic, section II.a.4 expressed a preference for the preparation of consolidated accounts in case of majority shareholdings, which – generally – included the principle of harmonised accounting principles within the group. Minority interest should be a separate item in the balance sheet (not part of equity) and in the profit and loss account. The TO also advocated the application of the “intrinsieke waardemethode” (intrinsic value method) in the non-consolidated balance sheet of the parent company, resulting in similar amounts of equity in the consolidated and the non-consolidated accounts. A similar preference was expressed in respect of the profit and loss account. The intrinsic value was “the sum of the assets of the subsidiary minus the sum of the liabilities, in which all components are valued according to the valuation system in use by the parent company”.

The TO mentioned that this considered view did not yet include any pronouncements regarding the acquisition and disposal of subsidiaries. It limited itself to the statement that if goodwill was recognised in the balance sheet, it should be included in the intangible assets.

Because of its pronouncements on consolidation, it was not necessary for the TO to amend its considered views when it assessed the discussions on this topic in IAS 3 ‘Consolidated financial statements’. This standard was approved in March 1976,\(^{188}\) and based on exposure draft E3, issued in November 1974,\(^{189}\) which was in turn partly based on a publication issued by the AISG in 1972 on the topic.\(^{190}\) It required, as a general rule, the consolidation of all subsidiaries, which were, directly or indirectly, companies controlled by the parent company. In contrast to the considered views of the TO, the focus was not on the size of the shareholding. And under IAS 3, subsidiaries were excluded when their business was so dissimilar to those of the other companies within the group that the presentation of separate subsidiary financial statements would provide better information; such a limitation was not discussed by the TO.\(^{191}\) Furthermore, under IAS 3 tax payable on the distribution of undistributed profits of subsidiaries was accrued if it was reasonable to assume that any part would eventually be distributed and would result in a tax liability, which created another difference with the position of the TO. Although business mergers and combinations, as well as goodwill, were not dealt with in IAS 3, the standard did include some statements on these topics.

\(^{185}\) Krens and Bulte (1972).
\(^{186}\) Bouma (1972).
\(^{187}\) TO (1979a).
\(^{188}\) IASC (1976b).
\(^{189}\) IASC (1974b).
\(^{190}\) AISG (1972b).
\(^{191}\) This topic was discussed on the European and Dutch levels only in the 1980s, related to the adoption and incorporation of the seventh directive.
Unless in case of mergers or the application of pooling of interests method, the cost of a business combination should be allocated to the acquired subsidiary’s individual identifiable assets and liabilities at the date of acquisition on the basis of their values.\textsuperscript{192} Any difference between these cost and the share in individual assets and liabilities was shown and appropriately described. The results from operations of newly acquired subsidiaries were recognised only from the date of acquisition. Similarly, the results of disposed subsidiaries were only included until the date of disposal.

In respect of long-term investments, the TO discussion in section II.a.4 was limited to debt instruments and shares, and included a description of actual practices, without taking a position on the (non-)acceptability of existing systems. However, the TO did not think that any deferred tax liabilities related to revaluations should be taken into account.

**The second edition of final considered views**

The second set of final considered views was published in May 1976.\textsuperscript{193} It was, without significant changes, based on an exposure draft published in February 1973.\textsuperscript{194} It discussed, among others, movements in equity, and provisions.

Regarding the first topic, section III.a.1 noted that, next to amounts resulting from transactions with shareholders, also amounts which, according to the applicable accounting principles, did not belong in the profit and loss account, should be reported directly in equity. The profit and loss account should include income and charges resulting from ordinary activities, and other income and charges which did not result from these operations, but occurred rather frequently. However, there were also a number of items that could be reported directly in equity, if they were of an incidental nature and represented a large amount. In general, this concerned items outside the scope of the ordinary activities of the company or outside the influence of its management. Examples were financial reorganisations, uninsurable capital depletions, nationalisations and similar events, and adjustments of deferred tax provisions resulting from changes in tax rates. Additionally, large losses from legal or tax disputes and one-off improvements in pension schemes could be charged to equity.

Zeff et al. noted that, during the development of the exposure draft, the TO had looked at the US APB 9,\textsuperscript{195} but that it had decided not to follow the ‘all-inclusive’ approach adopted in this pronouncement.\textsuperscript{196} In respect of provisions, the considered view in section III.b emphasised that they related to specific, identified risks, which were present at the balance sheet date. In case they were related to assets, they were generally deducted from these items in the balance sheet.

The TO presented an overview of methods to determine the provisions, but expressed no opinions. The document provided no view concerning the discounting of provisions.

Regarding the second exposure draft, Bouma repeated, now jointly with the professor in business economics D.W. Feenstra, his earlier comments on the lack of an underlying fundamental accounting theory and the freedom available under the proposals.\textsuperscript{197} Examples concerned the absence of criteria on the creation of provisions, but in particular the mixed approach on movements in equity.

\begin{footnotesize}
\textsuperscript{192} E3 used the term ‘fair values’, but this was not carried over to the final standard.
\textsuperscript{193} TO (1979a).
\textsuperscript{194} TO (1973).
\textsuperscript{195} See section 5.3.3.7.
\textsuperscript{196} Zeff et al. (1992), p. 218.
\textsuperscript{197} Bouma and Feenstra (1973).
\end{footnotesize}
According to Bouma and Feenstra, this mixed approach was neither an application of the ‘all-inclusive’ concept of income (which they favoured) nor a strict application of the ‘current operating’ concept of income. Similar views were expressed by Bulte and Krens.\(^{198}\)

**The third edition of final considered views**

This edition was issued in February 1979. \(^{199}\) It was based on an exposure draft, issued in June 1975,\(^ {200}\) but included some changes compared to the proposals.

The first topic, discussed in section I.b.1, focused on the materiality concept underlying the preparation of financial statements. According to the companies’ annual accounts act, there was no need to report relatively insignificant amounts. The act, however, provided no definition to assess such insignificance. The considered views provided guidance, presenting thresholds based on total assets, revenues, operating result, result after tax, equity, or the amount of individual line items in the balance sheet.

Another topic concerned the acceptable principles for profit determination, in which respect section IV.a.1 noted that there were still diverging views in theory and practice. For this reason, it did not make a choice between a system based on historical cost and one based on current values. Instead, it required the presentation of both amounts.

Furthermore, section IV.b.1 presented some definitions in respect of the profit and loss account:

- The operating result should comprise income and charges from the actual business activities of the company, or, if this was not the case, if they were considered normal for the company;
- All other income and charges should be classified as ‘other’;
- Extraordinary income and charges resulted from activities or events which were incidental in nature, and also either outside the scope of those activities or events which were characteristic for the company, or outside the scope of influence of its management; and
- Income and charges resulting from the ordinary activities, but substantially larger in amount than usual, should not be classified as extraordinary, but should, possibly, be mentioned separately in the profit and loss account.

With these considered views, the TO incorporated most of the provisions of IAS 1 and IAS 5.

IAS 1 ‘Disclosure of accounting policies’ was approved in November 1974,\(^ {201}\) and based on exposure draft E1, issued in January 1974.\(^ {202}\) It provided a definition of the contents of the financial statements, the overall principles underlying its preparation, the role of prudence (which did not, however, justify the creation of secret or undisclosed reserves), the concept of substance over form (focusing on the substance and financial reality of transactions and events, and not merely on their legal form), and the principle of materiality (which was linked to appropriate evaluations or decisions).

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\(^{198}\) Bulte and Krens (1973).

\(^{199}\) TO (1979a).

\(^{200}\) TO (1975a).

\(^{201}\) IASC (1974c).

\(^{202}\) IASC (1974a).
Furthermore, under IAS 1 significant accounting policies should be disclosed, but disclosures could not rectify a wrong or inappropriate treatment.\textsuperscript{203} And the impact of changes in these policies, if material, had to be disclosed as well. All these elements were already included in Dutch legislation on the annual accounts, described earlier in this section. Finally, IAS 1 defined the primary users of the financial statements as shareholders, creditors (present and potential) and employees, but also identified other important users such as suppliers, customers, trade unions, financial analysts, statisticians, economists, tax and regulatory authorities, and the public at large.

IAS 5 ‘Information to be disclosed in financial statements’ was approved in July 1976.\textsuperscript{204} It was based on exposure draft ES, published in April 1975.\textsuperscript{205} The standard set out certain minimum disclosures for industrial and commercial companies, stating that different layouts and groupings might be appropriate for financial and insurance companies. It presented details for a number of categories of assets and liabilities, and specific disclosures for the profit and loss account.

Section II.a.4 of the considered views expanded the earlier pronouncements regarding long-term investments, focusing on land and buildings.\textsuperscript{206} For these assets, the TO considered as acceptable only a system based on cost minus depreciation, or on appraisal value minus depreciation. It also approved two systems to report realised gains and losses: they could be either included in the profit and loss account, or retained in the revaluation reserve.

Furthermore, section III.b.1 included a description of existing pension schemes and a discussion of financing schemes. Unfunded unconditional benefits had to be recognised in the balance sheet, including future past-service charges, measured on an actuarial basis (i.e. taking mortality rates and discounting into account); conditional or intended benefits were recommended to be recognised, but could also be only disclosed in the notes. The exposure draft provided an overview of applied accounting practices for the related liabilities: the TO refrained from providing tentative views on such practices.

\textit{The subsequent pronouncements of the TO}

Until 1979, the TO issued four other exposure drafts: in December 1975,\textsuperscript{207} in December 1976,\textsuperscript{208} in February 1979,\textsuperscript{209} and in September 1979.\textsuperscript{210} The included pronouncements were all replaced by draft guidelines of the RJ, issued in January or December 1984, as is described hereafter. As is noted in the beginning of the description of the establishment and the activities of the TO/RJ, all draft and final pronouncements of these Dutch accounting standard setters are presented in annex 12.

\begin{footnotesize}
\textsuperscript{203} Camfferman and Zeff (2007, p. 94) explained that the Dutch delegate was behind this clause, which was at the time an unresolved debate in the Netherlands on this topic. See RJ 2.81.1, discussed later in this section.
\textsuperscript{204} IASC (1976c).
\textsuperscript{205} IASC (1975).
\textsuperscript{206} TO (1979a).
\textsuperscript{207} TO (1975b).
\textsuperscript{208} TO (1976).
\textsuperscript{209} Zeff et al. (1992), p. 258.
\textsuperscript{210} TO (1979b).
\end{footnotesize}
6.4.3.3 The draft guidelines for the financial statements of the TO

As is noted earlier in this section, it was decided mid-1979 to reissue, in the form of draft guidelines for the financial statements, all final and exposure drafts of considered views.

The first release was issued in June 1980.\textsuperscript{211} It included a preface, the draft guidelines, the previously issued (draft) considered views, and several annexes containing the relevant legislation and an overview of the IASC standards which had already been addressed in the draft guidelines. The preface noted that the draft guidelines also incorporated the rulings of the Enterprise Chamber and the Supreme Court in so far they could be considered to be of a generic nature. But more importantly, the preface clearly defined the status of the guidelines. It explained that the term ‘considered views’ suggested too much freedom, and that the TO expected that the guidelines, once final, would be applied by the preparers in all financial statements “as if they had a binding character”. Non-compliance with an affirmative pronouncement should occur only when the legally required insight in the financial position and result would be non-insignificantly improved, in which case the reason for the deviation and its impact – if possibly, quantified – should be disclosed.

The TO also expected auditors to report deviations from the final guidelines in their reports.

The second release was issued in January 1981,\textsuperscript{212} and the third and last in June 1981.\textsuperscript{213} None of the releases, which included the four outstanding exposure drafts of considered views issued before the end of 1979, was made final by the TO. This occurred under the regime of the RJ, discussed next.

6.4.3.4 The guidelines for the financial statements of the RJ and the related IAS

The first release of January 1984

The first release including final guidelines was published in January 1984.\textsuperscript{214} Among others, it included the treatment of accounting changes (RJ 1.06). This was a topic included in the exposure draft issued in December 1975 by the TO, in which the TO made a distinction between changes in the accounting principles and presentation of items in the annual accounts (including reclassifications), the criteria for preparing consolidated financial statements, and the methods and/or factors to make estimates. The general approach regarding such changes was based on the companies’ annual accounts act and implied that changes were allowed only when the new system provided a better insight in the financial position and the result of the company. However, the first application of a system was not considered to be an accounting change. The impact of a change in accounting principles should be reported as a visible adjustment to equity at the beginning of the year. To make subsequent financial statements comparable, the TO expressed a preference to adjust comparative amounts. However, a change in the methods and/or factors to make estimates should be included, as a separate item, in the profit and loss account, with no changes in comparatives.

\textsuperscript{211}TO (1980).
\textsuperscript{212}TO (1981a).
\textsuperscript{213}TO (1981b).
\textsuperscript{214}RJ (2007).
The final guideline RJ 1.06 on accounting changes was based on the second release of draft guidelines issued by the TO in January 1981. In general, the previously issued draft considered views were maintained, but it was now noted that an accounting change had to be applied when the new principle would result in a considerable improvement of the insight in the financial statements. In other words, the previous approach that an accounting change was allowed in this case was transformed into a requirement.

With this first release, the guidelines were fully aligned with IAS 1 and IAS 5, and incorporated the relevant parts of IAS 8 ‘Unusual and prior period items and changes in accounting policies’. The IASC approved this standard in October 1977. It followed exposure draft E8, approved in July 1976. The topics discussed in this standard were also covered in a publication issued in July 1974 by the AISG, which had, however, not taken any position on the appropriate accounting treatment and had limited itself to a discussion of the issues and a description of accounting policies in the three countries covered. The parts of IAS 8 that were not covered by the January 1984 release were incorporated in the guidelines in December 1984 and December 1989, discussed hereafter.

Another final guideline concerned tangible fixed assets (RJ 2.02). It determined that such assets, which included a company’s own office building, should be measured either as historical cost less depreciation less impairment losses, or at a revalued amount. In case of the use of revalued amounts, an increase should be credited directly to a revaluation reserve. The guideline aligned the Dutch accounting standards with IAS 16 ‘Accounting for property, plant and equipment’, approved in October 1981. The standard was based on exposure draft E18, which was approved in March 1980.

The remaining final guidelines concerned, among others, liabilities (RJ 2.51), the definition of provisions (RJ 2.53.1), pension obligations (RJ 2.53.3), and the function and structure of the financial statements (RJ 2.81.1).

RJ 2.51 and RJ 2.53.1 incorporated parts of IAS 10 ‘Contingencies and events occurring after the balance sheet date’, approved in June 1978. It was based on exposure draft E10, approved in March 1977. The standard was not applicable to liabilities of life insurance companies arising from policies issued, obligations under retirement benefit plans, and taxes on income. Under IAS 10, contingent losses, the ultimate outcome of which would be confirmed only on the occurrence or non-occurrence of one or more uncertain future events, should be accrued if this outcome was probable, and a reliable estimate of the resulting loss could be made. Amounts accrued for general or unspecified business risks were not justified as provisions for contingencies. Contingent gains should not be recognised.

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215 TO (1981a).
216 IASC (1977d).
218 AISG (1974).
219 IASC (1981c).
220 IASC (1980).
221 IASC (1978).
222 IASC (1977a).
223 Since the first exclusion focused on life insurance companies only, liabilities arising from policies issued by non-life companies were subject to this standard.
Events occurring after the balance sheet date were split in two types: those that provided further evidence of conditions that existed at the balance sheet date, and those that were indicative of conditions that arose subsequent to the balance sheet date. Assets and liabilities should be adjusted for events of the first type, but not for the second type. Dividends related to the period covered in the financial statements that were proposed or declared after the balance sheet date but before approval of the financial statements should be either adjusted (in the balance sheet) or disclosed.

RJ 2.53.3 regarding pension obligation made the 1984 draft of the TO final, without significant changes.

RJ 2.81.1 was, without significant changes, based on the fifth exposure draft of considered views, issued by the TO in December 1976 (section I.b.3), reissued as a draft guideline of the TO in January 1981 (ORJ 2.16), and concerned the relationship between the primary statements in the annual accounts (the balance sheet and the profit and loss account) and the notes. The guideline expressed a clear preference for the situation in which the primary statements were self-sufficient and the notes provided further details, clarifications and non-monetary data. However, compliant with IAS 1, it was not considered acceptable that the notes rectified the primary statements. The tentative view expressed by the TO in the draft guideline I.b.4 in favour of the application of current values in the balance sheet and the profit and loss account, with profit determination based on historical cost disclosed in the notes, was not included in the final guideline.

The first release also included a number of draft guidelines, the finalisation of which is presented later in this section or in the next chapter.

Lastly, the publication included, in an annex, the statement that it was the intention of the RJ to incorporate IAS in the guidelines, and provided an overview on the progress made in this respect.

**The second release of December 1984**
This second release included a final introduction to the guidelines (RJ 1.01), explained its objectives and starting points (RJ 1.02), and the terminology necessary to properly present all issues related to equity (RJ 2.41.1). Furthermore, it introduced a number of limited amendments to existing guidelines as consequential amendments of the adoption of these final guidelines.

The release also included draft guidelines that are discussed in the next chapter when presenting the final guidelines for these topics.

**The subsequent releases until December 1989**
The subsequent five releases of the RJ introduced no topics relevant for this dissertation or only minor amendments to existing (draft) guidelines. However, the eight release, which was published in August 1989, did present some relevant pronouncements.

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224 TO (1976).
225 TO (1981a).
226 See section 7.4.3.3.
228 See section 7.4.3.3.
One part of this eight release introduced a number of amendments in respect of accounting changes in RJ 1.06. The cumulative effect of such changes should, preferably, be accounted for in equity at the beginning of the financial year in which the changes occurred. Furthermore, if such an effect was reported in the profit and loss account, it should be classified as an extraordinary gain or loss. Finally, comparative figures had to be adjusted. These amendments created further alignment with IAS 8.

As usual, the release also included several draft guidelines described in the next chapter.\(^{230}\)

Regarding the incorporation of IAS, the RJ noted that mid-1988 the standards IAS 1 to IAS 24, with the exception of IAS 22 ‘Accounting for business combinations’ (approved in June 1983), had been dealt with, insofar as they were considered to be acceptable for the Dutch practice (with IAS 19 ‘Accounting for retirement benefits in the financial statements of employers’, approved in June 1982, as a notable example of a standards which was considered to be not acceptable, although this standard was not mentioned by the RJ itself).\(^{231}\)

The remaining differences were classified as “small”.

**No guidelines for the financial statements of insurance companies**

Regarding insurance companies, it was clear to the CAJ, from the start of its activities for the TO, that there were special financial reporting issues for banks and life insurers because of the nature of their activities: it decided already in January 1970 to create special working groups for these industries.\(^{232}\) One year later, a non-life insurance working group was added.\(^{233}\)

It became known soon that the Dutch insurance industry was not enthusiastic about the discussions in the CAJ regarding their financial reporting practices: it wanted to keep its full freedom in this area, referring to the UK situation, and did not support the inventory and assessment of acceptable accounting principles by the CAJ.\(^{234}\) In particular, the organisation of life insurers NVBL initially did not want to participate in any activities of the TO, as it feared an expansion of supervision.\(^{235}\) Given the description of the earlier activities of the insurance industry to influence the prudential reporting and other developments,\(^{236}\) I consider it highly likely that the industry wanted to continue its approach of keeping control of its own reporting practices, without too much interference from other parties. As, however, I have not been granted access to the archives of the Association of Insurers, I am not able to verify or contradict this assumption. However, early 1975 the NVBL indicated that, without revealing the reason for its changed position, it was now willing to participate in a study of the CAJ.\(^{237}\)

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\(^{230}\) See section 7.4.3.3.

\(^{231}\) RJ (1988).

\(^{232}\) CAJ-Notulen, 13 January 1970.

\(^{233}\) Ibid, 17 August 1971.

\(^{234}\) Ibid, 31 August 1971.

\(^{235}\) Ibid, 12 December 1972 and 26 June 1973. For further information on the NVBL, see section 4.4.3.4.

\(^{236}\) See, in particular, section 4.4.3, but, as an example, also section 5.2.4.

\(^{237}\) Ibid, 8 January 1975.
The resistance of the industry to participate in the TO activities was shared by the Insurance Chamber. Its position in 1971 was that what it had approved should be considered acceptable for the preparation of the prudential returns. Since the legislator explicitly allowed a type 3 single-track reporting approach, this statement was in my view, however, indirectly also applicable to the financial statements. This was confirmed in 1973, when the chairman of the Insurance Chamber made it clear that he did not support an inventory and assessment of acceptable accounting principles. Therefore, the chamber did not want to cooperate with the CAJ.

However, it became clear in 1980 that the TO had been requesting the CAJ already for a long time the development of considered views for life and non-life insurers, as their financial statements were not yet covered by any existing pronouncements, and the CAJ started the development of a draft guideline. An official draft was discussed by the RJ in the beginning of 1987. In this meeting, the RJ expressed concerns in respect of the application of the net premium method and the fixed discount rate of 4% to determine the technical provisions of life insurers, the treatment of the fiscal equalisation reserve, and the flexibility to account for investments. As a result, it requested the CAJ to perform additional work, and a final draft guideline was only adopted in the 1990s.

### 6.4.4 The rulings of the Enterprise Chamber

A full overview of the rulings on financial statements of the Enterprise Chamber was provided in a publication jointly edited by the lawyer and accounting professor H. Beckman and the lawyer C.M. Harmsen. They noted that the first ruling was issued in 1977 under the regime of the companies’ annual accounts act. During the period reviewed in this chapter, the chamber issued about 20 rulings on financial statements, several of which were of a generic character.

In its first rulings, the Enterprise Chamber made no reference to the considered views of the TO. According to the attorney-general of the Supreme Court in November 1978, this was not necessary, because it was not required by law, the considered views were minimalistic, and they were not undisputed. However, this situation started to change shortly thereafter, when the president of the chamber stated publicly that his court considered the IASC standards to have an equal status to those of the TO. In a case before the Supreme Court in 1980, the attorney-general referred to both the considered views and IAS as valuable sources of reference. And this court subsequently ruled that the Enterprise Chamber should have discussed the considered views because these views determined what was “acceptable in the economic and social climate.”

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242 See section 7.4.3.4.
243 Beckman and Harmsen (2008), parts 1 and 9.
244 Ibid, part 9, p. 9.01-9.04.
246 Beckman and Harmsen (2008), part 1, p. 1.01-35.
247 Zeff et al. (1992), p. 252.
248 Beckman and Harmsen (2008), part 1, p. 1.07-32.
249 Ibid, part 1, p. 1.07-47.
The Enterprise Chamber referred to the considered views and IAS for the first time in 1980.\textsuperscript{250} Subsequently, this occurred in several other cases, in which the considered views were substituted by the guidelines on financial reporting.

During the period reviewed in this chapter, the Enterprise Chamber issued three rulings on the financial statements of insurance companies. Two cases concerned AEGON, which are discussed when presenting the actual reporting practices of this company later in this chapter. The other concerned the adequacy of the disclosure of the 1983 solvency position of a life insurance subsidiary of ‘Centraal Beheer’.\textsuperscript{251} After having heard both the auditor of the company and the Insurance Chamber, who were able to prove that the disclosure was in accordance with the existing and forthcoming legal requirements, the Enterprise Chamber rejected the complaint.

6.4.5 The role of the auditing profession and the stock exchange

6.4.5.1 The role of the auditing profession

Soon after the adoption of the companies’ annual accounts act, the NIVRA decided to carry out a periodical review of actual reporting practices. This resulted in a series of publications called the ‘Onderzoek jaarverslagen’ (the ‘Examination of financial reports’). The focus was on listed industrial and trading companies: financial institutions were not included. However, since the examination revealed a number of generic issues, not specifically related to such institutions, the results are relevant for a proper understanding of financial reporting developments, and presented later in the section describing the reporting developments in practice.

After, as is described earlier in this section, the TO choose, in November 1974, not to publish the standards issued by the IASC, the NIVRA decided to do this itself, as a member body of the IASC.\textsuperscript{252} From January 1975 onwards, it included the exposure drafts and standards in De Accountant, and, in 1977, it started sending the documents to all its members, accompanied by a schedule showing the differences between these pronouncements and those of the TO.

Mid-June 1976 the NIVRA announced a three-step approach to meet its obligations as a member body of the IASC.\textsuperscript{253} For each standard, it would:

- Work with its members to achieve its acceptance in the economic and social climate;
- Declare it ‘generally accepted’ when the TO, the Amsterdam Stock Exchange or the Enterprise Chamber had adopted the standard, or it was frequently applied in practice. In such cases, auditors would be expected to note any non-compliance in their report; and
- Bring auditors for its disciplinary board in case they did not comply with this procedure.

However, in the mid-1980s the NIVRA had begun to see the IASC as less interesting and relevant. Translations were no longer prepared in the light of “decreased interest, reflected by a sharp decline in the number of reactions from individual members, firms and companies accounting staff.”\textsuperscript{254}

\textsuperscript{250} Ibid, part 1, p. 1.09-47.
\textsuperscript{252} Zeff et al. (1992), p. 223-224.
\textsuperscript{253} Ibid, p. 241-242.
The debate on the status of the guidelines of the TO/RJ restarted in 1982, when the NIVRA issued a discussion paper on the meaning of these guidelines for the auditors’ report. It noted that, although the pronouncements had a great material and moral authority and served as authoritative guidance for the Enterprise Chamber, they were subservient to legislation and to jurisprudence of the courts. As such, they had no force of law and were not of a binding nature. For these reasons, the NIVRA felt that it could not force auditors to state any deviations from the guidelines in their reports. However, affirmative pronouncements should be taken into account in auditing financial statements. The document finalised by stating that a separate position regarding IAS had been made redundant because of the intentions of the RJ to incorporate these statements, when considered acceptable, in their own pronouncements as much as possible. The draft opinion in the discussion paper was never made definitive and it was subsequently repealed. The debate on the status of the RJ was revitalised in 1985, when the ‘Board of Appeal’ of the NIVRA, in a disciplinary ruling, stated that an auditor had to test financial statements on compliance with the guidelines of the RJ. However, according to a number of authors, this still did not imply that the pronouncements now had a binding status, although they were characterised as an important source of authoritative literature for preparers and auditors.

Overall, there was, in my view, not a lot of pressure on preparers or auditors to ensure full compliance with the pronouncements of the TO or RJ, at the time. And because of the absence of detailed legal requirements before and after the adoption of the EC accounting directives, it was also, in my opinion, highly unlikely that the level of non-compliance was such that qualified or adverse audit opinions would have to be issued.

6.4.5.2 The role of the stock exchange

On 1 August 1978, the ‘Fondsenreglement’ (the ‘Listing and issuing rules’) of the Stock Exchange Association was amended, now requiring that financial statements should comply with IAS to the extent that these standards had been ‘accepted’ by the NIVRA. In response, the NIVRA clarified that it would do so only after such an acceptance had been stated by the TO. By July 1983, when the Stock Exchange rescinded this requirement, the NIVRA had not formally accepted any of the IASC’s standards. In fact, the NIVRA never did.

Near the end of 1983, the government approved the revised listing and issuing rules of the Stock Exchange Association. This was necessary, since the revision implemented three European directives regarding listing requirements. The first directive 79/279/EEC was issued in 1979, and identified the admission requirements. It required the member states to establish national competent authorities empowered to take decisions in respect of listing requirements and listed companies. Furthermore, it required issuers to make their annual accounts, consolidated annual reports (if prepared), and annual reports available to the public, i.e. the investors.

255 NIVRA (1982).
256 van der Grinten (1986).
258 Zeff et al. (1992), p. 251-252.
260 Minister van Financiën (1983), Staatscourant 1983, nr. 213.
261 European Commission (1979b).
If these accounts and reports did not comply with the provisions of the fourth directive and if they did not give a true and fair view of the company’s assets and liabilities, financial position and profit or loss, more detailed and/or additional information should be provided.

Directive 80/390/EEC, issued one year later, presented the listing particulars (the information sheet describing the securities and the issuer) for (new) issuers.\textsuperscript{262} Regarding the annual accounts, it repeated the requirements included in the first listing directive 79/279/EEC. However, the listing particulars should also include a table reporting the source and application of funds for the past three years. The third directive 82/121/EEG focused on interim information.\textsuperscript{263}

The implementation of these directives through amendments of the listing and issuing rules followed the approach adopted by the government in 1947 of giving the Stock Exchange Association the authority to determine the listing and issuing rules, as is described in the previous chapter.\textsuperscript{264} However, since directives had to be implemented by the governments of the member states, it was legally not possible to leave this completely to a private organisation. To resolve the issue, it was decided that all changes in the rules had to be approved by the government, to ensure ongoing compliance with the directives.

The listing and issuing requirements of the Stock Exchange Association were, indirectly, supported by the government through the adoption, near the end of 1985, of the ‘Wet effectenhandel’ (the ‘act on securities trading’).\textsuperscript{265} According to this act, securities could not be offered to non-professional persons or organisations, unless they were (being) listed, or the prospectus met the requirements included in an Administrative Decree. This was the ‘Besluit effectenhandel’ (the ‘Decree on securities trading’), issued in April 1986.\textsuperscript{266} Apart from presenting the requirements in respect of a prospectus, it specifically noted that the act focused on non-listed securities and that the rules and regulations of the Stock Exchange Association were not impacted. The act and the Decree were effective as of 1 May 1986.\textsuperscript{267} The act replaced the 1914 exchange act.\textsuperscript{268}

6.4.6 Comments and debate on the reporting developments in practice

6.4.6.1 The periodical surveys of practice
As is noted earlier in this section, starting with the reporting year 1971 the NIVRA published the results of a periodical overview of actual reporting practices by listed non-financial companies. During the period reviewed in this chapter, also another series of publications regarding actual accounting practices started. These focused on specific topics in the financial statements, using the same group of listed companies, i.e. excluding financial institutions. The title was: ‘Jaar in – jaar uit: verslag van een empirisch onderzoek naar jaarrapporten’ (‘Year in – year out: report on empirical research on annual reports’). Observations in these two publication series, as far as relevant for this dissertation, are provided hereafter, complemented with other comments published in the accounting literature.

\textsuperscript{262} European Commission (1980a).
\textsuperscript{263} European Commission (1982).
\textsuperscript{264} See section 5.3.4.3.2.
\textsuperscript{265} Minister van Justitie (1985b), Staatsblad 1985, nr. 570.
\textsuperscript{266} Minister van Justitie (1986i), Staatsblad 1986, nr. 164.
\textsuperscript{267} Minister van Justitie (1986j), Staatsblad 1986, nr. 165.
\textsuperscript{268} See section 4.3.3.3.2.
The first results of the NIVRA survey were published at the end of 1973 and focused on 1971, the first reporting year under the companies’ annual accounts act. The report revealed that there was a large variety in accounting principles, and that the provisions of the act were interpreted differently. Furthermore, the following observations were provided:

- Comparative figures were not provided in a relatively large number of cases;
- The impact of accounting policy changes on the annual result was often not disclosed;
- The consolidation scope and principles were not always clear;
- Differences in equity and/or result between consolidated and non-consolidated accounts were explained in only a limited number of cases. Furthermore, in case consolidated accounts were provided, sometimes a non-consolidated balance sheet was missing, and often a non-consolidated profit and loss account was not presented; and
- Accounting principles for and movements in provisions were often lacking.

The next edition of the NIVRA report was published in August 1975, discussing the 1973 accounts. Although the report noted improvements in comparison with 1971, in particular in respect of the disclosure of accounting policies, there were still a number of comments made:

- Although comparative figures were now provided in almost all cases, retrospective amendments resulting from changes in accounting policies were not always disclosed;
- The comments regarding differences in equity and results, and provisions were still applicable. Concerning the non-consolidated profit and loss account, the examination even revealed an increasing number of companies that did not provide it; and
- Information about non-consolidated participating interests was mostly incomplete.

The subsequent NIVRA publication, issued in February 1977, concerned the year 1975. No significant improvements were noted, although – apart from the ongoing lack of information on provisions and insufficient disclosures in respect of non-consolidated participating interests – most previous comments were not repeated. The following new observations were provided:

- Segment information was only provided in a limited number of cases;
- Some movements in reserves were noted, that did not meet the requirements of the considered views of the TO, presented earlier in this section;
- In almost half of the examined accounts, insufficient information was provided concerning deferred tax provisions; and, on the other hand,
- A statement of source and application of funds was provided more frequently.

In November 1978, the NIVRA published the results of the examination of the 1977 financial statements. Further improvements were noted, but still not all companies provided the necessary information regarding provisions and non-consolidated participating interests. Also, movements in reserves did not always meet the requirements set by the TO. Additionally, the report noted:

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269 NIVRA (1973).
270 NIVRA (1975b).
• In about 25% of the cases, deferred tax liabilities were discounted, which was in conflict with the recommendations of the TO; and

• About half of the companies having adjusted their accounting policies did not provide an appropriate motivation for this change, despite the pronouncements of the TO.

The series continued in March 1981 with the NIVRA publication of the examination of the 1979 accounts. Further improvements were noted in respect of the statement of source and application of funds, segment information, the motivation of accounting policy changes (partly as a result of a ruling of the Enterprise Chamber on this topic), and information on non-consolidated participating interests, although on none of these topics full compliance was observed. Regarding provisions, the information was still considered to be inadequate, and on this topic special reference was made to the discounting of deferred tax liabilities and to information regarding pension liabilities.

The results of the NIVRA examination for 1981 were published in June 1983. Compared to the previous review, no significant changes were noted, with some improvements in respect of the motivation of accounting policy changes, information regarding provisions (although not for deferred tax and pension liabilities), and data regarding non-consolidated participating interests. However, segment information regarding product groups decreased in quality, although in respect of geographical areas more information was provided.

The next NIVRA report, published in December 1985, covered the year 1984, which was the first year that reporting under the new financial reporting legislation, described earlier in this section, was mandatory. The report noted that the new act and related models resulted in considerably improved information in a number of areas, in particular regarding segment information. Accounting principles were, generally, not amended. Furthermore, discounting of deferred tax provisions occurred less frequently. Concerning pension liabilities, recognition of past-service liabilities was still an area for improvement. The auditor L.G. van der Tas noted that most companies reported the provision for deferred tax separately in 1984. On the other hand, half of the 110 reviewed companies disclosed nothing on the impact of the decrease in the corporate income tax rate in that year.

In respect of accounting for goodwill in the mid-1980s, the auditor R. van der Wal observed that, of over 130 companies listed at the Amsterdam Stock Exchange, about 60 had such items in their 1984 or 1985 financial statements. Of this number, about 25% capitalised and amortised the goodwill, while more than half charged it directly to the reserves. The remainder of the companies applied another system.

The one but last NIVRA report concerning the period reviewed in this chapter was published in December 1987, presenting the results of the examination of the 1986 accounts. It noted that there had been no significant changes, with improvements in some more detailed areas, such as accounting policy changes and provisions for deferred tax, with past-service liabilities still a concern.

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276 van der Tas (1986).
277 van der Wal (1987).
Regarding goodwill accounting, the economists J.H.N. Kapteijn et al. reported that, in 1985 and 1986, about half of the over 130 companies they reviewed did not report their accounting policies. About one-third charged goodwill directly to the reserves, and the remainder capitalised and amortised it. Over these years, Hoogendoorn and G. van Wijngaarden presented another finding. They noted that about half of the companies presented extraordinary gains and losses in the profit and loss account, on average more than two items per reporting year. These items showed a great variety in nature, but the majority concerned reorganisation expenses, gains and losses on sales of tangible fixed assets, and gains and losses on sales of participating interests. At the same time, more than half of the companies presented items directly in the reserves, in particular foreign currency differences and goodwill. In respect of provisions, the economists J. Dijksma et al. found that over 90% of the reviewed companies reported provisions for deferred tax, generally measured on an undiscounted basis, and pensions. Of these companies, about 25% measured the last on an undiscounted basis, which was not in line with the guidelines of the RJ.

The last NIVRA report covered the year 1988, and was issued in December 1989. No significant changes were observed, apart from the fact that a limited number of companies had used the opportunity to early adopt the new legal provisions regarding consolidated financial statements. Furthermore, the accounts showed a large increase of non-consolidated participating interests measured at intrinsic value, pre-empting a new requirement in this respect. The treatment of a decrease in the tax rate in 1988 was examined by the auditors E. van de Gaar and van der Tas. They noted that 13 out of 111 companies reported the impact in reserves, 14 in the profit and loss account, 16 through a combination of both methods, and that 68 companies had not reported any effect at all.

The results of these studies show, in my view, that full compliance with the guidelines of the TO/RJ did not occur and that this was, apparently, accepted in practice: only in a very small number of cases, a ruling of the Enterprise Chamber was requested.

6.4.6.2 Studies on accounting policy choices and changes

The accounting literature discussing developments in the period also showed several publications in respect of accounting policy choices and changes therein. This started in May 1987, when the auditor F. van der Wel presented the results of his survey on more than 500 financial statements of listed companies, covering the years 1978-1982. He identified changes in accounting principles in about 40% of the annual accounts, about one-third of which were material. In over half of the cases, the reasons for the change were disclosed. But the most extensive research on this topic was carried out by Hoogendoorn. His dissertation covered the financial statements of 138 listed companies over the period 1977-1986, including four insurers. On average, he noted that almost 30% of the financial statements included accounting policy changes, and that the financial statements of insurers showed the largest number of changes (on average, five changes per company over the period of ten years).

279 Kapteijn et al. (1989).
281 Dijksma et al. (1989).
283 van de Gaar and van der Tas (1991).
284 van der Wel (1987b).
Hoogendoorn reported that the most frequently changed policies concerned foreign currency results and tangible fixed assets, followed by participating interests, tax and inventories, government grants, goodwill and provisions. For all categories, the impact was material. If there was an impact, it was mostly adjusted on a retrospective basis in the reserves, although a number of companies reported it in the profit and loss account. The first method was dominant in the years 1977-1979 and 1983-1986, while the second method prevailed in the interim years. If the impact was included in the profit and loss account, it was mostly presented as an extraordinary item. The findings in respect of disclosure of the nature and reason for the changes were aligned with those of van der Wel. Finally, the survey findings revealed that about 70% of the changes resulted in a positive impact on future profits.

6.4.7 Summary and conclusions
This section shows that the period 1970-1989 was one in which a number of major developments occurred in respect of the Dutch financial reporting requirements. After years of political silence following the adoption of the 1929 commercial code, the Dutch government introduced, partly forced by the adoption of European directives, a number of successive acts providing – compared to the past – much stricter and severe financial reporting requirements for listed and non-listed companies.

It started with the adoption of the companies’ annual accounts act in 1970, which introduced the notion of ‘faithful representation’ and defined a number of minimum items for the balance sheet and the profit and loss account. It did, however, not provide defined detailed valuation rules for the financial statements, but stated that they had to “satisfy norms that were considered acceptable in the economic and social climate”. The determination of these norms was left to the private sector and picked up by the TO, described later in this summary. The act was applicable to supervised insurance companies but granted them an important exception: the prudential returns were considered to be the financial statements, if, and only if, all information required by the companies’ annual accounts act was included (a type 3 single-track reporting approach). If this requirement was not met, separate financial statements, next to the prudential returns, had to be prepared. This meant, in my view, that all requirements of the companies’ annual accounts act applied, but that they could be met in an alternative way.

The next important step occurred in 1983, when the fourth EEC directive on the annual accounts was incorporated in the companies’ annual account act, which was, in the meantime, included, as a separate chapter, in book 2 of the new civil code. This fourth directive was adopted in 1978 and focused on the protection of shareholders and third parties, i.e. a wider group than investors. The first proposal for this directive was based on a preliminary draft prepared in 1969 by the Elmendorff committee, a working party of the Groupe d’Etudes, one of the two European auditors’ organisations. This draft was based on the German legislation, and included several general valuation principles and detailed valuation rules which could be summarised as the ‘cost or lower market value’ concept. The first proposal of the European Commission followed this approach, but encountered severe resistance among constituents (including the Dutch NIVRA and the Groupe d’Etudes), and, more importantly, in the European Parliament. Consequently, the European Commission issued a revised proposal in 1974, which replaced the former principles of regular and proper accounting with the principle of a true and fair view of the company’s assets, liabilities, financial position and profit or loss. It also introduced the basis valuation principles of going concern, consistency, prudence, and the accruals concept.
Although it was officially denied, there can, in my view, be no doubt that the entrance of new member states with an Anglo-Saxon background of accounting in 1973 played a major role in this change.

The fourth directive, which was, pending further coordination, not mandatory for banks and insurance companies (although its provisions could be applied voluntarily by the member states), introduced a number of major changes in the Dutch financial reporting requirements. In particular, it introduced mandatory layouts for the balance sheet and the profit and loss account (although companies could choose between different allowable formats), more detailed requirements in respect of certain items in the balance sheet or the profit and loss account, and several detailed valuation rules, although the general Dutch principle of “norms that were considered acceptable in the economic and social climate” was maintained.

The Dutch implementation act was applicable to insurance companies, but introduced, as an option, several important exemptions: the mandatory layouts were not applicable, and insurers, and their parent companies, could measure their investments and technical provisions (the two most significant items in the balance sheet) “in accordance with principles which were considered acceptable in the industry”, even if they deviated from the generally required accounting principles. All other financial reporting requirements were applicable. The expansion of the option to holding companies was new. Awaiting a European directive regulating the financial statements of insurers, the possibility to designate the prudential returns (if they met all financial reporting requirements) as the financial statements (a type 3 single-track reporting approach) was maintained. The new requirements were effective for financial statements for 1984, and in 1985 for banks and insurers.

The final legislative development occurred in 1988 with the implementation of the seventh EEC directive on consolidated annual accounts in the Dutch civil code, effective from 1 March 1990 onwards. This directive was, again, initially based on proposals from the Elmendorff committee, issued in 1970 as a complement to its preliminary draft for the fourth directive. After European Commission proposals issued in 1976 and 1978, the directive was adopted in 1983 and introduced the requirement to prepare consolidated financial statements when a parent company was, generally speaking, able to control the significant decision of a subsidiary, through the holding of a majority of the shares of the subsidiary or the right to appoint or dismiss major decision-makers in the company. However, consolidation was prohibited of the activities of a subsidiary were so different that their inclusion would distort the required true and fair view. The existing possibility of a single-track reporting approach for supervised Dutch insurance companies and their parent companies was still maintained in the Dutch legislation.

With these legislative changes, the period of relative freedom in respect of financial reporting practices came, in my view, to an end. The limited provisions in the 1929 commercial code were replaced by much stricter and prescriptive requirements, with a clear focus on the protection of investors and other interested parties through the requirement that the financial statement should provide a true and fair view of the financial position and results of the reporting companies. However, the impact of these new requirements for insurance companies was only limited, as they could – if they wished so – continue to use the prudential reporting requirements as the basis of their financial statements and were still able to determine the accounting principles for their major categories of assets and liabilities, as long as these were considered to be “acceptable in the (insurance) industry”.
This meant that, effectively, the legislator left it, deliberately, to others to determine the reporting norms for the main categories of assets and liabilities of the Dutch insurance industry.

As is noted earlier in this summary, the practical application of the generic valuation rules in the companies’ annual accounts act and its successors was left to the private sector. In response, the TO was created, which consisted of representatives of auditors, employers and employees, and started to issue draft considered views, defining what was acceptable or not. Between December 1971 and September 1979, the TO issued seven exposure draft, three of which were converted into final pronouncements. Additionally, it published three sets of draft guidelines for the financial statements between June 1980 and June 1981. At the end of 1981, the role of the TO was taken over by the RJ, which issued a number of draft guidelines and made a number of the drafts issued by the TO and itself final. From 1977 onwards, the TO/RJ systematically took the pronouncements issued by the IASC into consideration, and at the end of the period IAS 1 to 24 were incorporated in the Dutch guidelines, with, generally, only minor differences, although some standards (such as IAS 19 on pensions accounting) were not (yet) implemented at the end of the period. Additionally, the TO/RJ reviewed the rulings of the Enterprise Chamber, a special court dealing with complaints on financial statements, to assess any generic pronouncements that should influence the existing guidelines.

In its first edition of final considered view, the TO stated that the financial statements of insurance companies were not yet covered. In my view, this does not mean that insurers could ignore the pronouncements of the TO/RJ. Since the role of the TO/RJ was based on Dutch legislation, it follows, I would argue, that the pronouncements of these standard setters were fully applicable to insurance companies, unless they were specifically exempted. As was recognised by the Dutch legislator in 1983, the most important balance sheet items in the annual accounts of insurers were the investments and the technical provisions. And it were in particular these items that were not subject to pronouncements of the TO/RJ in the period reviewed in this chapter.

In respect of insurance companies, the CAJ had concluded already in 1970 that it needed specialised working parties to deal with the topics included in their financial statements, in the preparation of future TO pronouncements. It also learned that neither the Insurance Chamber nor the insurance industry were, initially, willing to actively cooperate with the TO, as the first felt that following its rulings meant automatically that all legal requirements were fulfilled, and the second wanted to maintain the existing level of freedom of accounting policy choices. However, this changed in the mid-1970s when the insurance industry started to cooperate with the CAJ. An unpublished guideline for the financial statements of insurance companies, prepared by the CAJ, was discussed by the RJ in the beginning of 1987. It then became clear that the RJ was not happy with the existing financial reporting practices of insurance companies, in particular concerning the investments and the technical provisions. Nevertheless, as is noted above, there were still no comprehensive guidelines covering these two important balance sheet items, and, as is explained later in this chapter when describing the actual reporting practices of the companies reviewed in this dissertation, insurers, generally, continued to apply a single-track reporting approach.

Regarding the auditing profession, the NIVRA initially published systematically all pronouncements issued by the IASC. But a more important initiative started in 1973 with the publication of a biannual survey of the financial reporting practices of listed companies outside the financial services sector.
A similar set of studies, focusing on specific items, was issued, starting in the mid-1980s, by a commercial publishing company. Both groups of studies focused on compliance with the contemporary accounting standards (both legislative and issued by the TO/RJ), and identified areas of divergence and/or improvement. One area investigated in this area concerned changes in accounting principles, where Hoogendoorn observed that, in the period 1977-1986, the financial statements of insurers showed the largest amount of changes. On the other hand, the previous debates on secret and undisclosed reserves had completely vanished.

6.5 Reporting developments in the US and the UK

6.5.1 Introduction

In contrast to the policy adopted in the previous chapters, this section describes the financial and prudential reporting developments in the US and the UK in one combined section.

There are several reasons for this. Firstly, the direct impact of these developments on the Dutch reporting practices diminished, although the US financial reporting requirements did start to play a direct role near the end of the period, related to the listing of AEGON at the NYSE. Secondly, in both countries the importance of financial reporting requirements increased considerably compared to the prudential reporting requirements, with, as becomes much clearer in the next chapter, the UK taking the lead in improving the financial statements of insurance companies. And, finally, a combined description more clearly shows the increasing tension between the two reporting regimes.

This section first discusses the developments in the US, where the establishment of an independent accounting standard setter in 1973, which replaced the APB (the former standard setter created by the auditing profession), resulted in a large number of financial reporting requirements, including two pronouncements focusing specifically on the financial statements of insurers. Combined with an enlarged level of activities of the NAIC, the joint organisation of insurance supervisors, this resulted in a complete divergence of financial reporting from prudential reporting and the disappearance of the single-track reporting approach.

Next, the description focuses on the UK, in which legislative developments (partly influenced by the European directives), replacing the companies act of 1967, and the insurance companies act of 1958, occurred in conjunction with the establishment of a new accounting standard setter and, near the end of the period, the issuance of specific accounting standards by the insurance industry itself. In contrast to the US, insurance company financial reporting was still based on a single-track reporting approach, although during the 1980s it became apparent that the time for a change was getting closer.

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286 As is described in section 4.4.3, the UK prudential reporting requirements played a direct role in the establishment of the Dutch supervisory system for life insurance companies. The UK and US financial reporting developments often served as a source of reference for the Dutch debates (see section 5.3.4 and earlier in this chapter in the section on the Dutch financial reporting developments).

287 See section 5.3.3.7.

288 See section 5.4.1.7.

289 See section 5.3.2.6.

290 See section 5.4.1.5.
6.5.2 United States of America

6.5.2.1 The establishment of the FASB and the abolishment of the APB

The most important event in the period described in this chapter was the establishment of the FASB and the related abolishment of the APB.

This was the result of the work of the AICPA Wheat committee, appointed in March 1971 to study the establishment of accounting principles and to make recommendations for improving that process.291 Its report was published in March 1972.292 It noted that the latter half of the 1960s showed a rapid expansion of the audit firms, a new issue boom, the development of increasingly complex and innovative business practices, and corporate merger movements, jointly creating a wave of criticism of corporate financial reporting. This came both from within and outside the auditing profession, and much of it was focused upon the work of the APB. Furthermore, while the APB and its predecessor had done much to raise the level of financial reporting, many of their opinions had little to do with ‘principles’ as that word was normally understood. However, the task to formulate accounting standards should continue to be organised in the private sector, subject to an appropriate review by the SEC, and the time had come for a change. The committee proposed the establishment of a ‘Financial Accounting Foundation’ (henceforth, the ‘FAF’), separate from all existing bodies. Its principal duties would be to appoint the seven full-time and independent members of the FASB and the members of a ‘Financial Accounting Standards Advisory Council’.

The recommendations were adopted by the AICPA in May 1973.293 The FASB should be independent, and not a committee of the AICPA.294 But the auditing profession did not immediately surrender all of its influence over the new standard setter, because of the provisions in the bylaws of the FAF regarding the membership of the FASB, which stated that four members should be CPAs, and that the AICPA’s board of directors would be the sole elector of the FAF’s trustees. Yet, in 1977, the FAF’s trustees repealed these provisions, making the FAF and the FASB truly independent.

The mission of the FASB was to establish and improve financial reporting standards for the guidance and education of the public, including issuers, auditors, and users of financial information.295 So while the SEC focused on the protection of investors,296 the FASB’s scope was wider: it included preparers, auditors, and other types of users than investors. Soon after its incorporation, the SEC recognised the FASB as the accounting standard setter, when it issued, in 1973, its Accounting Series Release nr. 150, entitled ‘Statement of policy on the establishment and improvement of accounting principles and standards’.297 Despite this recognition, the FASB’s relations with the SEC during its first five years were anything but smooth.298 From 1972 to 1976, the SEC issued 70 Accounting Series Releases (more than a third of which dealt with financial reporting), compared with 126 from 1937 to 1972.

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291 See section 5.3.3.4.
292 AICPA (1972).
293 Karson and Holstrom (1973).
294 Zeff (2003).
295 FASB (2007).
296 See section 5.3.3.2.
298 Zeff (2003).
But as a result of the recognition of the SEC, it was, in my view, absolutely clear that the emphasis of the work of the FASB would be on the development of financial reporting requirements focusing on the interests of investors, and not on those of prudential regulators. As is described later in this section, this would abolish the existing single-track reporting approach of US insurance companies.

Regarding the process of standard setting, the FASB followed a complex ‘due process’ procedure that, for major projects, included task forces, discussion memoranda, public hearings and exposure drafts. As such a due process could be very time-consuming, the FASB established, in 1984, an ‘Emerging Issues Task Force’ (henceforth, the ‘EITF’). Next to the ‘Statements of financial accounting standards’ (henceforth, ‘FASs’), the FASB issued ‘Statements of financial accounting concepts’ (henceforth, ‘CONs’), ‘Interpretations’, ‘Technical bulletins’, and ‘Staff positions’. Interpretations (henceforth, ‘FINs’) were issued by the FASB to support the implementation of accounting standards in practice. Between June 1974 and the end of 2005, 47 interpretations were issued. Technical bulletins (henceforth, ‘FTBs’) were issued by the FASB staff, if a majority of the FASB members did not object, to provide guidance on standards or interpretations. Until the end of 2005, 53 FTBs were issued. The lowest level of FASB guidance was provided in the form of almost 50 Staff positions (henceforth, ‘FSPs’).

After the establishment of the FASB, the APB, established by the US auditing profession, was dismantled. In its last two years of existence, it issued another 14 standards. The ones relevant for insurance companies discussed the equity method of accounting for investments in ordinary shares, reporting changes in financial position, accounting changes, disclosure of accounting policies, special areas of accounting for income tax, and, finally, reporting the effects of disposal of a segment of a business, and extraordinary, unusual and infrequently occurring events and transactions.

### 6.5.2.2 The activities of the AICPA and the amended position of the SEC

Related to the creation of the FASB and the abolition of the APB, the AICPA discontinued the publication of industry accounting and auditing guides and began issuing ‘Statements of position’ (henceforth, ‘SOPs’) covering specialised industry accounting practices. The objective was to influence the development of financial reporting standards in directions that the AICPA believed were in the public interest. It was intended that they should be considered, as deemed appropriate, by bodies having the authority to issue pronouncements on the subject. However, SOPs did not establish enforceable standards.

With the creation of the FASB, the AICPA also took a position regarding its duty, as a founding member of the IASC, to use its best endeavours to ensure that published financial statements complied with IAS. It made it publicly known that, in its view, in the US an IAS should be adopted by the FASB first, before they could be regarded as acceptable. This position was comparable to that of the NIVRA, described earlier when discussing the role of the Dutch auditing profession in the Dutch financial reporting developments.

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301 Ibid, volume III, p. FTB-1 to FTB 01-1-7.
303 Ibid, volume III.
But before the first SOPs were published, the AICPA issued, in 1972, an industry audit guide for joint stock life insurance companies, the work on which had already started in the 1960s. It included the accounting rules for these companies, which were, in 1982, included in FAS 60, described later in this section. The guide had a wide impact on the financial reporting requirements of US life insurers, because, combined with the establishment of the FASB, it led the SEC to stop accepting, from 1974 onwards, financial statements prepared under the prudential reporting requirements as the statutory financial statements for shareholders (the single-track reporting approach).

Before 1974, insurance company reporting was predominantly influenced by prudential regulations, which had policyholder protection as its primary objective. These requirements commonly included that the financial statements should conform to the data in the prudential statements filed with the state insurance departments, which could create non-compliance with GAAP. The use of supplementary or extended statements could solve this problem. Empirical testing had shown there was sufficient information in the detailed exhibits and schedules in the prudential statements to make most of the extensions deemed necessary to conform the financial statements to GAAP while retaining all of the regulatory computations and statements. This would also solve the problems resulting from the AICPA’s ‘Statement on auditing standard’ nr. 32 (‘SAS 32’): this standard required an adverse audit opinion if the financial statements were not in conformity with GAAP.

Alignment between prudential and financial reporting was even respected by the SEC, which, in October 1964, adopted article 7A, an amendment to ‘Regulation S-X’, specifically outlining reporting procedures for joint stock life insurance companies required to file reports with the SEC. However, with the exception of some additional detailed disclosures, the reporting form followed the essential outlines of the mandatory model for reporting to insurance supervisors.

After the establishment of the FASB and the position the SEC took from 1974 onwards, this situation had changed significantly. As is described later in this section, the FASB developed specific accounting standards, as part of GAAP, for insurance companies, which were significantly different from the accounting principles applied for regulatory purposes.

Regarding the activities of the AICPA in respect of insurance companies, three SOPs, issued in 1974, in 1978 and in 1979 should be mentioned.

The first SOP, unnumbered, was issued in October 1974, focusing on the form of auditor’s report for fire and casualty insurance companies. It was a revision of the AICPA industry audit guide issued in 1966, and stated that when the financial statements had been prepared under the prudential reporting requirements and the differences with GAAP were material, determined and disclosed, they should be referred to in the auditor’s opinion: it was not possible to issue an unqualified opinion. If such differences were neither determined by the company nor determinable by the auditor, a disclaimer was necessary. In my view, the AICPA, by issuing this statement, recognised that there could be material differences between the US financial and prudential reporting requirements, which could result in misleading information to investors. In other words, the AICPA warned that, under US GAAP, a single-track reporting approach might not be attainable.

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307 See section 5.3.3.9.
308 Raymond (1965).
310 AICPA (1974).
311 See section 5.3.3.9.
The second SOP (nr. 78-6) was issued in January 1979 and concerned a change in the 1966 AICPA industry audit guide, describing the amendments that should be made to SAP (the prudential accounting principles) to arrive at financial statements under GAAP. The third SOP (nr. 79-3) was issued in May 1979 and amended the first industry audit guide for joint stock life insurance companies, issued in 1972. These two SOPs formed the basis for FAS 60, the first US accounting standard for insurance companies, described later in this section. The differences between GAAP and SAP are presented at the end of this section.

6.5.2.3 The FASB' search for a conceptual framework
One of the first activities of the FASB concerned the search for a conceptual framework. As is described in the previous chapter, such a search had already started in the 1920s, and had been continued by the APB through the publication of its ‘Statement no. 4, Basis concepts and accounting principles underlying financial statements of business enterprises’ in 1970. As a statement, not an opinion, the document was not mandatory and its contents could be ignored. Shortly after, in 1971, the AICPA established the ‘Trueblood committee’. Its report ‘Objectives of financial statements’, issued in October 1973, focused on the decision usefulness of information for investors and creditors, and, more specifically, on future cash flows. It also concluded that “the objectives of financial statements cannot be best served by the exclusive use of a single valuation basis”.

During the work of this study group, the audit firm Arthur Andersen & Co issued, in 1972, a 130-page booklet entitled ‘Objective of financial statements for business enterprises’. This grew out of the firm’s frustration with the failure of the APB to agree on a normative statement of concepts and principles in its Statement nr. 4. The booklet was critical of existing accounting practices, especially its emphasis on conservatism and historical cost as a goal instead of as a method toward a goal. In the firm’s view, assets should be measured at current value and unrealised holding gains and losses included in the profit and loss account.

Subsequently, events occurred in rapid pace. In November 1973, five months into its first year of operation, the FASB reported that it would be tackling “the entire hierarchy of financial accounting theory”, beginning with the Trueblood report. In June 1974, it issued its first discussion memorandum in the ‘Conceptual framework for accounting and reporting’ project, dealing with the objectives and qualitative characteristics recommended by the Trueblood committee. In December 1976, it issued ‘Tentative conclusions on objectives of financial statements of business enterprises’ and the discussion paper ‘Elements of financial statements and their measurement’. In the latter, it started to favour the ‘asset-liability approach’. Between 1974 and 1985, the FASB issued 30 publications in its massive conceptual framework project.

The work of the FASB resulted in seven CONs, issued between November 1978 and February 2000. A CON itself did not create generally accepted accounting principles. And, establishing objectives and concepts would not, by itself, directly solve financial reporting problems. Rather, they were tools for solving the problems.

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312 AICPA (1979a).
313 AICPA (1979b).
314 See section 5.3.3.6.
315 Zeff (1999).
316 See section 5.3.3.4.
317 Zeff (1999).
And, most importantly, the CONs presented fundamentals on which financial reporting standards would be based. CON 1 identified investors, creditors and employees as the primary users of the financial statements. Other groups, such as regulatory authorities, were classified as parties with indirect interests, and some of them had the authority to require the specific information they needed to fulfil their functions and did not need to rely on information provided to other groups. It is in my view clear that, although it was not specifically discussed in CON 1, the FASB recognised that, by developing this framework focusing on decision useful information for investors, creditors, and employees, the gap between financial and prudential reporting requirements for insurers would, almost certainly, increase or, at the very least, not be decreased. But I also believe that the FASB, given its mandate, had no other choice and that it was up to the prudential regulators to decide whether or not to adjust their requirements.

The FASB recognised that, in certain respects, current GAAP could be inconsistent with those that might derive from the CONs. In due course, it expected to re-examine its own pronouncements, those of predecessor standard setting bodies, and existing financial reporting practice in the light of new concept statements.

6.5.2.4 The first 104 ‘statements of financial accounting standards’ of the FASB

In the period reviewed in this chapter, the FASB issued 104 FAS. Only two (FAS 60 and FAS 97) dealt specifically with the insurance-technical items and the investments of insurance companies. Therefore, these standards are discussed separately. The other standards relevant for insurance companies are listed here, and, where applicable, briefly commented on.

The first relevant standard was FAS 5 ‘Accounting for contingencies’, issued in March 1975.319 For insurance companies, its most important part was presented in an appendix, which included a discussion on catastrophe losses of property and casualty insurance companies, explicitly clarifying that an insurance company had not assumed the risk of claims from catastrophes that could occur beyond the term of the policy and that, therefore, no provision was allowed for such risks. The appendix also included a discussion on (re)insurance contracts that did not involve the transfer of risk. In such a case, the premiums and claims should be accounted as deposits.

FAS 12 ‘Accounting for certain marketable securities’ was issued in December 1975 and focused exclusively on shares.320 It distinguished companies in industries with specialised accounting practices with respect to marketable shares (such as insurance companies) and industries without, and focused in particular on the second category. These companies should report marketable shares at the lower of its aggregate cost or market value, i.e. a clear application of the prudence concept, in my view. Specialised accounting practices were not altered, except when companies carried equity securities at cost: in that case, they had to apply the standard.

The next relevant standards were FAS 14 ‘Financial reporting for segments of a business enterprise’, issued in December 1976,321 and FAS 16 ‘Prior period adjustments’, issued in June 1977.322

320 FASB (1975).
321 FASB (1976).
FAS 32 ‘Specialised accounting and reporting practices in AICPA statements of position and guides on accounting and auditing matters’ was issued in 1979. It stated that the specialised financial reporting principles and practices contained in the AICPA SOPs and ‘Guides on accounting and auditing matters’ were preferable accounting principles for purposes of justifying a change in accounting principles as required by APB 20. The statement included an appendix giving an overview of these documents, including the audit guides for fire and casualty insurance companies and joint stock life insurance companies, issued in 1966 and 1972, respectively, and SOPs 78-6 and 79-3.

FAS 33 ‘Financial reporting and changing prices’ was issued in September 1979. Although it did not directly impact insurance companies, it was important because it was a response to a change in the former conservative attitude of the SEC towards non-historical cost accounting. This change started in 1972, when the last of the ‘Chief Accountants’ who had joined the SEC’s accounting staff in the 1930s, retired. In 1975, the SEC announced a proposed revision to its Regulation S-X to require that a set of large companies provided disclosures of replacement cost information for such items as cost of goods sold, depreciation, inventories, and fixed assets. This resulted in Accounting Series Release nr. 190 in May 1976. After the FASB had issued FAS 33, Release nr. 271 was published in October 1979, withdrawing nr. 190.

The final relevant standards issued in the period were FAS 87 ‘Employer’s accounting for pensions’, issued in December 1985, FAS 94 ‘Consolidation of all majority-owned subsidiaries’, issued in October 1987, FAS 95 ‘Statement of cash flows’, issued in November 1987, and FAS 96 ‘Accounting for income taxes’, issued in December 1987.

Several of the standards issued in the period were based on the same concepts as IAS and, to a certain extent, even similar, but, as is discussed in the next chapter, the two sets of standards showed considerable differences in the details. Where specific US standards were relevant for the financial reporting practices of the companies reviewed in this dissertation, they are discussed in the section presenting these practices, included later in this chapter.

6.5.2.5 FAS 60 ‘Accounting and reporting by insurance enterprises’
FAS 60 was the first US accounting standard specifically developed for financial reporting by insurance companies, issued in June 1982. It extracted, based on FAS 32 and without significant changes, the specialised principles and practices from the AICPA 1966 and 1972 insurance industry guides and the SOPs, and established financial reporting standards for insurance companies. Insurance contracts needed to be classified as ‘short-duration’ or ‘long-duration’ contracts. The latter included contracts that were expected to remain in force for an extended period. All other insurance contracts were considered to be short-duration contracts and included most property and liability (i.e. non-life) insurance contracts.

323 FASB (1979).
325 Zeff (2007).
326 FASB (2006), volume I, p. FAS 87-1 to FAS 87-75.
327 Ibid, volume I, FAS 94-1 to FAS 94-14.
328 Ibid, volume I, p. FAS 95-1 to FAS 95-51.
330 See section 7.5.2.4.
**Short-duration contracts**
Under the standard, premiums for these contracts were generally recognised as revenue over the period of the contract in proportion to the amount of insurance protection provided. For those few types of contracts for which the period of risk differed significantly from the contract period, premiums should be recognised as revenue over the period of risk. Claims, including IBNR, were recognised when insured events occurred, by setting up a liability for claims outstanding and one for claim adjustment expenses based on the estimated ultimate cost of settling the claims. Changes in estimates should be recognised in the profit and loss account of the period in which they occurred. Estimated recoveries should be evaluated in terms of their estimated realisable value and deducted from the liability for claims outstanding. Claim adjustment expenses included costs associated directly with specific claims paid or in the process of settlement, but also other costs that could not be associated with specific claims but were related to claims paid or in the process of settlement, such as internal costs of the claims function. The accounting treatment of short-duration contracts was very similar to the one applied in the Netherlands, except for the explicit deduction of estimated recoveries and the inclusion of claim adjustment expenses: these topics were neither specifically dealt with in the Dutch reporting practices, nor discussed in the accounting literature.

**Long-duration contracts**
Premiums from long-duration contracts, including many life insurance contracts, were recognised as revenue when due from policyholders. The present value of estimated future policy benefits to be paid less the present value of estimated future net premiums to be collected should be accrued when premium revenue was recognised (as the liability for future policy benefits). Those estimates were based on assumptions, such as estimates of expected investment yields (net of related investment expenses), mortality, morbidity, lapses, and expenses, applicable at the time the insurance contracts were sold. The liability should also consider guaranteed contract benefits. The assumptions should include a provision for the risk of adverse deviation. The original assumptions should continue to be used in subsequent accounting periods (often referred to as the ‘lock-in’ concept) unless a premium deficiency existed (see hereafter). Changes in the liability that resulted from periodic re-estimation should be recognised in the profit and loss account of the period in which they occurred. The interest assumptions at inception for each block of new insurance contracts (a group of contracts issued under the same plan in a particular year) should be consistent with the existing circumstances, such as actual yields, trends in yields, portfolio mix and maturities, and the company’s general investment experience. Claims were recognised when insured events occurred, leading to liabilities for claims outstanding and claim adjustment expenses.

Compared to the methods to determine the life insurance provision described in chapter 2, the US approach was quite similar to the net premium method, with the following exceptions: the explicit inclusion of guaranteed benefits and the risk of adverse deviation, the lock-in concept of assumptions, and the determination of the interest assumptions at inception. For none of these exceptions, specific Dutch guidelines or regulations existed at the time and, as is described later in this chapter when presenting the actual reporting practices, the financial statements included insufficient information as the time to assess what was done in practice.

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332 See section 2.8.2.3.3.
**Acquisition costs**

The costs that varied with and were primarily related to the acquisition of new and renewal insurance contracts (acquisition costs) were capitalised and charged to the profit and loss account in proportion to the premium revenue recognised. Commissions and other costs (e.g., salaries of certain employees involved in the underwriting and policy issue functions, and medical and inspection fees) should be considered. Other expenses incurred during the period should be charged to the profit and loss account as incurred. If acquisition costs for short-duration contracts were determined as a percentage of costs incurred to premiums, this percentage should be applied to applicable unearned premiums throughout the period of the contracts. Actual acquisition costs for long-duration contracts should be capitalised as long as the gross premiums were sufficient to cover these costs. They should be charged to the profit and loss account using methods that included the same assumptions used in estimating the liability for future policy benefits. When FAS 60 was issued, there were no Dutch generally accepted accounting principles in respect of acquisition costs, and practice was, generally, to charge them to the profit and loss account when a contract was sold.

**Premium deficiency**

A probable loss on insurance contracts existed if there was a ‘premium deficiency’. For short-duration contracts, a premium deficiency should be recognised if the sum of expected claim and claim adjustments expenses, policyholder dividends, deferred acquisition costs, and maintenance costs exceeded the related unearned premiums. It should be first recognised by writing off any deferred acquisition costs to the extent required. If the shortfall exceeded the deferred acquisition costs, a liability should be accrued. Regarding anticipated investment income, the company had a choice to include or exclude such income, but it had to disclose its approach. For long-duration contracts, actual experience could indicate that there was a premium deficiency. Again, deferred acquisition costs should be written off first. If a premium deficiency occurred, future changes in the liability should be based on the revised assumptions.

A premium deficiency should be recognised if the aggregate liability on an entire line of business was deficient. In some instances, the liability of a particular line of business would not be deficient in the aggregate, but circumstances could be that profits would be recognised in earlier years and losses in later years. In those situations, the liabilities should be increased by an amount necessary to offset losses that would be recognised in later years. In the Dutch financial reporting environment of insurance companies, guidelines in respect of premium deficiencies were completely absent.

**Policyholder dividends**

‘Policyholder dividends’ (resulting from profit participation arrangements) should be estimated and accrued. If limitations existed on the amount of net income from participating contracts of life insurance companies that could be distributed to shareholders, the policyholders’ share should be accounted for in a manner similar to minority interests. The Netherlands did not have any guidelines or regulations on the topic at the time, although there was a growing recognition that the obligations from policyholders’ profit participation should be recognised in the balance sheet.
**Investments**

Investments were reported as follows:

- Ordinary and non-redeemable preferred shares at market value;
- Debt securities and redeemable preferred shares at amortised cost;
- Loans guaranteed by mortgages at the outstanding principal or at amortised cost; and
- Land and buildings at depreciated cost.

Realised investment gains and losses were reported in the profit and loss account below operating income and net of applicable income tax. Unrealised investment gains and losses, net of applicable income tax, were included in equity. Land and buildings should be classified either as investments or as assets used in the insurer’s operations, depending on their predominant use. And investments in separate accounts should be reported at market value except for separate account contracts with guaranteed investment returns: these should follow the general principles described above.

A consequence of the FAS 60 ‘lock-in’ concept was described by O’Keefe and Sharp. An issue resulted from the requirement in APB 16, in accounting for a business combination, to measure the acquired assets and liabilities at fair value. The liabilities for FAS 60 business acquired were recalculated on a current basis (i.e. the existing ‘locked-in’ basis was removed and replaced by a new current basis, locked-in going forward). And deferred acquisition costs were replaced by a ‘Value of Business Acquired’ (henceforth, ‘VOBA’) asset, representing the difference between the fair value of the portfolio and the (higher) liability established under FAS 60.

### 6.5.2.6 FAS 97 ‘Accounting and reporting by insurance enterprises for certain long-duration contracts and for realised gains and losses from the sale of investments’

FAS 97 was the second specific standard in respect of financial reporting by insurance companies, issued in 1988. It concerned universal life-type contracts, which were not addressed by FAS 60. It also established standards of accounting for limited-payment long-duration insurance contracts and investments contracts. These contracts addressed were characterised by flexibility and discretion granted to one or both parties to the contract.

The standard required that the retrospective deposit method be used to account for universal life-type contracts. That accounting method established a liability for policyholder benefits at an amount determined by the account or contract balance that accrued to the benefit of the policyholder. Premium receipts were not reported as revenues. Capitalised acquisition costs associated should be amortised based on a constant percentage of the present value of estimated gross profit amounts from the operation of a ‘book’ of those contracts.

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334 See section 5.3.3.7.
336 For these contracts, the premiums were flexible instead of fixed, the amount of insurance coverage was adjustable and not fixed, and the insurer’s expense and other charges were specifically disclosed to the policyholder. It was in particular the flexibility in the contracts that made them different from the traditional contracts.
FAS 97 also required that long-duration contracts issued by insurance companies that did not subject the insurer to risks arising from policyholder mortality or morbidity (so-called ‘investment contracts’) should be accounted for in a manner consistent with the accounting for financial instruments. Payments received on those contracts were not reported as revenue. Furthermore, the standard addressed limited-payment contracts that subjected the insurance company to mortality or morbidity risks over a period that extended beyond the period in which premiums were collected and that had terms that were fixed and guaranteed. Revenue and income from those contracts should be recognised over the period that benefits were provided rather than on collection of premiums. The standard amended FAS 60, requiring that realised gains and losses on investments were reported on a pre-tax basis as a component of other income and precluding the deferral of realised gains and losses to future periods.

6.5.2.7 Developments in the US insurance supervisory legislation
As is noted in the previous chapter, the battle between Congress and state insurance regulators had not come to an end with the adoption of the McCarran-Fergusson act in 1945, which allocated the responsibility for insurance supervision to the individual states instead of the federal government. Congress made several unsuccessful attempts to change the balance in its advantage in 1979 and in 1986.

6.5.2.8 Activities of the NAIC
During the period under review, the level of activities of the NAIC increased considerably. This was partly due to an increase in centralised resources. From the 1980s, the NAIC, in addition to performing basic regulatory functions itself, supported, coordinated, and on some occasions, even directed state regulators. The work focused on a wide area of activities, including maintaining databases, rating non-US insurers, and coordinating regional examinations. The drafting of model laws and regulations, and the publication of investment valuations continued.

But the NAIC mainly focused on the further development of its statutory accounting principles (SAP) as the basis for reporting to insurance supervisors. As is observed earlier in this section, they served, from the mid-1970s onwards, only this purpose and were no longer the basis for reporting to investors. The Dutch auditor and actuary A. Oosenbrug noted in 1986 that, since the purpose of the ‘Convention Blank’ (the set of model prudential returns) was to present the financial position to policyholders and other beneficiaries, or to the authorities representing these parties, SAP was primarily based on the ‘conservatism concept’. The reason for this was the assumption that the parties would be more interested in the solvency position of the insurer, than in its profitability. To achieve this goal, SAP was to a large extent based on a worst case scenario. As a result, presenting a true and fair view of the financial position was almost by definition impossible, and SAP differed substantially from the accounting principles applied under GAAP.

Another consequence of the approach was that SAP, compared to GAAP, enabled much more direct entries against equity, since the profit and loss account was considered secondary.

337 See section 5.4.1.6.
339 Ibid.
341 Oosenbrug (1986).
An overview of the financial and prudential reporting requirements at the end of this period was included in a KPMG Peat Marwick manual, issued in December 1988, presenting the main variations between SAP and GAAP.\(^{342}\) Regarding investments, the comparison showed:

- Debt securities were in both cases measured at amortised cost;
- Ordinary shares were always measured at market value;
- Under SAP, property and casualty insurance companies measured preferred shares at market value, while life insurance companies used cost. Under GAAP, redeemable preferred shares were measured at amortised cost;
- Under SAP, property and casualty insurance companies included realised gains and losses on debt securities and shares in the profit and loss account. Life insurance companies reported realised gains and losses directly in equity. GAAP required that all realised gains and losses were reported on a pre-tax basis as a component of other income in the profit and loss account;
- Un realised gains and losses were, under SAP, always included in equity. GAAP required that unrealised investment gains and losses, net of income tax, should be reported as a separate component of equity, except for unrealised losses that were considered other than temporary. In that situation the investment should be reduced to its net realisable value, which than became the new cost basis, and the reduction reported as a realised loss. A recovery from the new cost basis should be recognised as a realised gain only at the sale, maturity, or other disposition of the investments;
- Reductions of securities to net realisable values (as determined by the NAIC) were, under SAP, generally accomplished by a direct charge to equity, either as an increase in non-admitted assets (for assets carried at cost) or as a change in the unrealised appreciation (depreciation) account (for assets carried at market value). Under GAAP, declines in market value that were deemed to be other than temporary were treated as a realised loss; and
- Under SAP, investments in subsidiaries should be valued at equity value and any change was taken directly to equity as part of the unrealised gains or losses on investments. As a result, the net income of subsidiaries was included only to the extent that dividends had been received. GAAP required consolidation of all majority owned subsidiaries. Subsidiaries that did not meet the criteria should be accounted for on the equity method.

Regarding insurance liabilities, the following overview was provided:

- Under SAP, there was no recognition for prepaid expenses or deferred charges. Under GAAP, acquisition costs were deferred;
- Under SAP, life policy benefit provisions were based on prescribed mortality tables without regard to actual underwriting standards used by the company, on interest rates that were subject to statutory limitations and which could be non-representative of the expected investment yield, and without taking withdrawals (lapses and expected cash surrender payments) into account. The calculation should be based on the rules prescribed for the reporting year. Because of this, changes in the interest and mortality assumptions had an impact on the total portfolio, not just on new policies.

\(^{342}\) KPMG Peat Marwick (1988).
Under GAAP, assumptions at inception of the insurance contract were increased by a margin for adverse deviation and subsequently ‘locked-in’;

- Unallocated policyholder dividends were not accrued under SAP. Only profit participation based on realised gains was taken into account. Under GAAP, reserves not available to shareholders should be accrued as a liability;
- Under SAP, most states required life insurance companies to establish, as part of the liabilities, a mandatory securities valuation reserve, by a transfer from the unassigned reserves. Its size was limited to a maximum amount, equal to a certain percentage of the book value of the individual securities, where the percentages were determined on the basis of the nature and quality of these securities. The annual increases comprised the realised and unrealised gains on securities, complemented by a percentage of the book value. Under GAAP, such a reserve would be part of equity and any valuation allowance should be deducted from assets and charged to the profit and loss account;
- The provisions for claims outstanding under SAP were generally higher than under GAAP. Under GAAP, this excess should be added to equity;
- SAP did not allow accounting for expected salvage and subrogation recoveries. GAAP required these items to be taken into account; and
- SAP required that where reinsurance was placed with a company not authorised to do business in a particular state, the insurer should report a liability for credits taken and the losses recoverable which have been recorded, to the extent it had not retained funds or obtained letters of credit. Under GAAP, this liability should be added back to equity and an allowance for uncollectible reinsurance balances should be established.

Finally, under SAP certain assets (principally furniture and equipment, agents’ debit balances, and certain other classes of receivables) were eliminated from the balance sheet. Under GAAP, such items should be restored and reviewed for collectability. US taxation was primarily based upon SAP.

As a result of these differences, the financial position and annual results of a US insurance company were not comparable under GAAP and SAP. Generally, equity and net profit under SAP were lower because of the required level of prudence in the technical provisions, the occurrence of non-admitted assets, and the amounts which, under SAP, were reported in equity and not in the profit and loss account. The type 3 single-track reporting approach, used before 1974, was completely abolished and insurers were subject to two distinct reporting regimes.

6.5.3 United Kingdom

6.5.3.1 Legislative developments in the period 1971-1989
The first legislative development in the period concerned the adoption, on 25 July 1973, of the ‘Insurance companies amendment act 1973’ in respect of prudential financial reporting requirements.343 One year later, this act was replaced by the ‘Insurance companies act 1974’.344

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The 1974 act was purely a consolidating measure, and brought together the supervisory provisions in the insurance companies act of 1958, the companies act of 1967, and the insurance companies amendment act of 1973.

The 1973 act strengthened the position of the ‘Department of Trade and Industry’, henceforth, the ‘DTI’, as the insurance supervisor. All companies now required specific authorisation and were subject to the full supervisory powers of the DTI. Regarding long-term business (the most important part of which was life insurance and annuity business), the act specified that profit distributions to policyholders could only be made out of a surplus in this business. Generally, such a surplus was not available to policyholders in other insurance businesses. The act also stated that regulations could be issued regarding the valuation of assets and liabilities, with separate provisions for group insurance contracts and linked long-term policies.

The existing companies act of 1967, which regulated the financial reporting requirements and determined that insurance companies had to apply a type 3 single-track reporting approach driven by prudential regulations, was amended through the ‘Companies act 1976’. Its main effect was to strengthen the requirements to prepare group accounts dealing with the parent company and the subsidiaries; such group accounts should be included in the annual accounts of the company. Further amendments were made in 1980, to implement the second EEC Directive on company law, and to amend the distinction between public and private companies.

The second change in respect of financial reporting requirements occurred in 1981, when a new companies act implemented the fourth EEC directive in UK legislation. The main changes resulted from the requirement in the directive for the standardisation of financial statements published by companies operating in the EEC. This concerned valuation rules, many of which were familiar and consistent with established UK accounting practice, but it was an area of regulation which company law previously avoided. Furthermore, the act also introduced standardised reporting formats. However, in imposing these formats, the government had granted the maximum flexibility permissible under the directive and companies could choose one of the two balance sheet formats and one of the four profit and loss account formats.

As a result, the implementation of the fourth directive would bring only a limited amount of standardisation in practice. In general, the UK implementation approach was very similar to the Dutch one, described earlier in this chapter under the Dutch financial reporting developments.

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345 See section 5.4.1.5.
346 See section 5.3.2.6.
349 See section 5.3.2.6.
351 This directive (77/91/EEC) was adopted on 13 December 1976 and coordinated the provisions in respect of the formation of joint stock companies and the maintenance and alteration of their capital.
Further changes to the prudential insurance companies acts were made in 1981 and 1982. The 1982 act only consolidated all previous acts.\textsuperscript{354} However, the 1981 act introduced a number of important amendments to previous legislation.\textsuperscript{355} The main purposes of the act were:\textsuperscript{356}

- To implement the provisions of the first EEC life insurance directive, described later in this chapter in the section on the Dutch prudential reporting developments;
- To enact in the primary legislation the provisions of the first EEC non-life insurance directive (this directive is described in the same section and had already been implemented by statutory instruments under the 'European Communities act 1972');\textsuperscript{357} and
- To remedy some defects in the insurance companies act of 1974.

As a result, the 1981 act clearly specified the distinction between ‘long-term business’ (life) and ‘general business’ (non-life), detailing the classes of insurance as defined in the European directives.\textsuperscript{358} Combination of long-term business and general business was not allowed, unless the insurance company was already carrying on both businesses previously. It was decided to leave the detailed solvency requirements to regulations.\textsuperscript{359} The DTI used the opportunity to consolidate all insurance regulations apart from the ‘Accounts and statement regulations’ into the ‘Insurance companies regulations 1981’. Regulations regarding the valuation of liabilities, which had been under discussion for some years, were now also included. And the actuarial investigation had to be performed on an annual basis instead of once every three years, bringing the requirements in line with the general approach of financial reporting that all assets and liabilities had to be remeasured at each reporting date.

The regulations regarding long-term liabilities were discussed by Penrose.\textsuperscript{360} He described that they were sometimes contradictory and dealt only with quantification. There were no supplementary provisions to assist in the recognition of liabilities, and in particular none that referred to policyholders’ reasonable expectations, i.e. the amounts that policyholders might reasonably expect to receive as future profit participation.

The issues concerning valuations in non-life insurance companies were discussed in a report issued in 1983.\textsuperscript{361} It explained that insurance companies were allowed under the companies act of 1948 to overstate the provision for claims outstanding, legitimising the creation of undisclosed reserves. Before 1981, the requirements regarding this provision were included in the ‘Insurance companies (accounts and statements) regulations 1980’, applicable to the regulatory returns.

Among others, from 1981 onwards, companies were required to set aside an amount likely to be sufficient to meet the general management expenses which would be incurred in settling outstanding claims in case the company would be closed to new business.

\textsuperscript{354} UK Government (1982).
\textsuperscript{355} UK Government (1981).
\textsuperscript{356} Pickford (1983).
\textsuperscript{357} Daykin and Cresswel (2001) noted that, by the time that the UK joined the EEC in 1973, the first non-life insurance directive had already been negotiated by the six founding countries and automatically became a requirement for the UK to implement.
\textsuperscript{358} UK Government (1981).
\textsuperscript{359} Pickford (1983).
\textsuperscript{360} Penrose (2004), p. 338.
\textsuperscript{361} GISG (1983). The next paragraphs in this section have been derived from this report.
The ‘Insurance companies regulations 1981’ laid down rules for the determination of the amount of liabilities, although in the case of non-life insurance business the regulations were in extremely general terms. Regarding prevailing practice, empirical evidence from UK non-life insurance companies showed that there was great variation in strength of reserving from company to company, but practice also varied widely in relation to the provision for future expenses. In respect of assets, the insurance companies regulation required the assets of non-life insurers, in general, to be measured at market value.

The 1981 companies act on financial reporting requirements was followed by the ‘Companies act 1985’, which was an act to consolidate all previous companies acts into 747 sections and 25 schedules.\(^{362}\) However, the provisions of these acts were virtually unchanged.\(^{363}\) The main requirement on annual accounts was that they should comply with the detailed requirements with respect to the form and content of the balance sheet and profit and loss account and any additional information to be provided by way of notes to the accounts. The balance sheet should give a true and fair view of the state of affairs of the company as at the end of the year, and the profit and loss account should give a true and fair view of the profit or loss of the company for the year. This general requirement overrode the detailed requirements. Finally, comparative amounts in the balance sheet and the profit and loss account should be restated if they were not comparable.

For insurance companies falling under the insurance companies act of 1982, a number of requirements of the 1985 companies act relating to the balance sheet and the profit and loss account were not applicable. But when capital reserves, revenue reserves or provisions (other than provisions for depreciation, renewals or diminution in value of assets) were not stated separately in the balance sheet of an insurer, any balance sheet item determined after taking into account such a reserve or provision should indicate that fact, and the profit and loss account should indicate the manner in which the company’s profit or loss had been arrived at. In other words, the act maintained a single-track reporting approach, but pointed at the need to present additional disclosures to make the users aware of any undisclosed reserves. Furthermore, the accounts of an insurance company should not be deemed, by reason only of the fact that they did not comply with any requirements from which the company was exempt, not to give the true and fair view required by the companies act of 1985. Horton and Macve noted that, however, auditors had reported in terms of compliance with the act rather than in terms of ‘true and fair’.\(^{364}\) Apparently, auditors (still) considered that a true and fair view could not be achieved under the exemptions. In my view, the exemption was a similar approach as included in the insurance companies act of 1958.\(^{365}\) The act was complemented by the ‘Companies consolidation (consequential provisions) act 1985’, which included transitional matters, repeals and consequential amendments of other acts.\(^{366}\) As a consequence of this act, the companies acts of 1948, 1967 (for a major part), 1976, 1980 and 1981 were repealed.

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\(^{362}\) UK Government (1985a).
\(^{363}\) Cooke and Wallace (1995).
\(^{365}\) See section 5.4.1.5.
\(^{366}\) UK Government (1985b).
One of the novelties introduced in the 1985 companies act was the ‘Fund for future appropriations’ (henceforth, the ‘FFA’) for insurance companies. This liability included amounts the allocation of which either to policyholders or to shareholders had not yet been determined. The FFA was included in the European insurance accounts directive, described in the next chapter, at the request of the UK. It could not be negative. The reason for the request was that the DTI sought to allow contemporary UK practices to continue.

As is noted above, the successive acts maintained a single-track reporting approach for UK insurers. I have, however, not been able to determine whether they resulted in a change from the existing type 3 approach into a type 4 approach, as was the case in the Netherlands after the introduction of the mandatory disclosures of solvency information, including prudential filters (this change is presented in the section describing the Dutch prudential reporting developments). The reason for this uncertainty is that I have not been able to retrieve, for the full period after 1992, the detailed reporting schedules issued by the DTI. Therefore, this issue is listed for further research.

The final legal development in the period concerned the ‘Companies act 1989’, which implemented, among others, the requirements of the seventh EU directive, by inserting new provisions in the companies act of 1985 and amending, replacing and inserting new items in several schedules of the act. Under the 1989 act, all subsidiaries should be included in the consolidation, with a few exceptions. One was that the activities of the subsidiary were so different from those of other subsidiaries that their inclusion would be incompatible with the obligation to give a true and fair view. However, this did not apply merely because some of the undertakings were industrial, some commercial and some provided services, or because they carried on industrial or commercial activities involving different products or providing different services. Banking and insurance companies could prepare their individual and consolidated accounts in accordance with a separate reporting model. The 1989 act also strengthened the position of accounting standards, as the act required directors to disclose any departures from such standards.

6.5.3.2 The creation of an accounting standard setter
As is described in the previous chapter, the ICAEW created in January 1970 the ‘Accounting Standards Steering Committee’ (henceforth, the ‘ASSC’). On 1 February 1976, this group was reconstituted as a joint committee of the six accounting bodies in the UK and Ireland, and renamed the ‘Accounting Standards Committee’ (henceforth, the ‘ASC’). Its aim was to reduce the number of alternative accounting practices without attempting rigid uniformity by publishing authoritative accounting statements.

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367 See section 7.4.2.2.2.
369 See section 9.6.
372 See section 5.3.2.4.
Between 1971 and 1990, a total of 34 ‘Statements of Standard Accounting Practice’ (henceforth, ‘SSAPs’) were issued.\(^{374}\) Initially the SSAPs sat alongside the Recommendations, issued by the ICAEW itself.\(^{375}\)

Soon after its creation, the status of the ASC and its standards was clarified by the ‘Council’ of the ICAEW, when it issued ‘Statement on Auditing’ nr. 17, entitled ‘Effect of accounting standards on auditors’ reports’: it stated that auditors were required to report on departures from accounting standards,\(^{376}\) and, if necessary, to express a qualified opinion if they considered the departure not justified and the true and fair view impaired.\(^{377}\)

In 1978, the standard setting process in the UK was reviewed by the ‘Watts committee’. In 1983, another review was carried out by the ‘McKinnon committee’, which recommended the introduction of ‘Statements of recommended practices’ (henceforth, ‘SORPs’). In 1988, a third review group, the ‘Dearing committee’, issued a report which led to a new regulatory framework. As a result, a new standard setting body (the ‘Accounting Standards Board’, henceforth, the ‘ASB’) was set up in 1990 under the auspices of the ‘Financial Reporting Council’ (henceforth, the ‘FRC’).\(^{378}\)

The activities of the ASB are described in the next chapter.\(^{379}\)

### 6.5.3.3 Pronouncements of the ASSC/ASC: the SSAPs

Before giving an overview of the pronouncements relevant for insurance companies, it is useful to explain the UK position in respect of IAS. The Councils of the auditing profession supported the activities of the IASC in promoting worldwide harmonisation of accounting standards and the standards issued by the IASC.\(^{380}\) They implemented this by seeking to incorporate IAS within SSAP insofar as the provisions of IAS were not included in the legislation. As a result, UK standards included specific comments on compliance with IAS, where relevant, since 1974.\(^{381}\) As far as the stock exchange was concerned, the London Stock Exchange announced on 23 October 1974 that UK listed companies should prepare their accounts in conformity with IAS, next to SSAP.\(^{382}\) However, in April 1979 it dropped the requirement on compliance with IAS, although it did continue requiring companies to report the reasons for any significant departure from a SSAP.\(^{383}\)

In practice, there were only few accounting disclosures required by the stock exchange beyond those of company law and standards.\(^{384}\)

During the period reviewed in this chapter, the standards relevant for insurance companies dealt with: the disclosure of accounting policies, extraordinary items and prior year adjustments, the treatment of tax under the imputation system in the accounts of companies, the statement of source and application of funds, deferred tax, group accounts, and post-balance sheet events.

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\(^{374}\) ICAEW (2011).

\(^{375}\) See section 5.3.2.4.

\(^{376}\) The term ‘accounting standard’ referred to an SSAP only, not to the previously issued recommendations of the predecessor of the AASC.

\(^{377}\) Zeff (1971), p. 47.

\(^{378}\) Cooke and Wallace (1995).

\(^{379}\) See section 7.5.3.2.

\(^{380}\) FEE (1990).

\(^{381}\) Keegan and King (1996).


\(^{383}\) FEE (1990).

Other topic were contingencies, investment properties, goodwill, acquisitions and mergers, pension costs, and segment reporting. All pronouncements are included in the reference list.\textsuperscript{385}

The issuance of SSAP 22 ‘Accounting for goodwill’ in December 1984 ended a long story of debate on this issue.\textsuperscript{386} UK practices showed great variety in the treatment of goodwill in the 1960s and early 1970s, and also in the beginning of the 1980s; however, most companies wrote goodwill off against reserves. Based on the responses to a discussion paper issued in 1980 and an exposure draft published in 1982, SSAP 22 allowed, being determined per individual acquisition, immediate write off, amortisation and a choice between them, although it did state that purchased goodwill “should normally be eliminated from the accounts immediately on acquisition against reserves”. Practice after SSAP 22 was almost universally to adopt its preferred method of immediate write off. Similarly, SSAP 23 ‘Accounting for acquisitions and mergers’, issued in April 1985, resolved another longstanding debate in respect of this topic.

The issuance of the SSAPs aligned, to a major extent, the UK financial reporting requirements to those issued by the IASC.

6.5.3.4 Insurance company financial reporting developments
As is described earlier in this section, the financial reporting requirements for UK insurers were, during the period described in this chapter, still based on the prudential reporting requirements (a type 3 or type 4 single-track reporting approach). During the mid-1980s, this approach was more and more criticised in the accounting press, triggering a number of developments to improve the financial statements for investors.

The first of these articles was published by Bennett in 1985, who stated that probably the most misleading of all annual financial statements were those issued by non-life insurance companies, as their actual profits were significantly impacted by conservative accounting policies in respect of the technical provisions, and by the understatement of investment returns.\textsuperscript{387} He subsequently mentioned three aspects of US GAAP that differed from traditional UK practice, and more than adequately coped with this problem: the amortisation of yield differences for bonds, the transfer of realised investment gains to the profit and loss account (normally below the line), and the discounting of provisions for claims outstanding, particularly on long-tail business. In his experience, until 1983 none of these policies had been introduced in UK accounting in any meaningful way. However, since then, one could see all of them, and more. He welcomed in particular the approach (described hereafter) adopted by the ‘Eagle Star Insurance Company’, which had been acquired in 1984 by ‘B.A.T. Industries’, and qualified it as a sensible move and the first serious attempt to disclose something similar to the total insurance company’s profitability.

The Eagle Star’s approach was described early 1986 by Ward and Levy.\textsuperscript{388} They mentioned that the annual accounts of UK insurance companies had traditionally given very little information on investments or their performance. Until recently, nearly every insurer took advantage of statutory exemptions which allowed market values not to be disclosed, investments not to be properly categorised and, effectively, investments to be stated at any amount that was below market value.

\textsuperscript{385} The pronouncements are listed as ASC (XXXX).
\textsuperscript{386} Nobes (1992a).
\textsuperscript{387} Bennett (1985).
\textsuperscript{388} Ward and Levy (1986).
Common practice was to take exchange differences and realised net capital gains (after attributable tax) to undisclosed reserves and to show investments at original cost less these reserves. Nevertheless, there had been a trend in recent years towards greater disclosure. Many insurers did disclose the value of investments and some now included investments at market value in the balance sheet. In the latter case, unrealised net capital gains were usually reported in reserves, while realised net capital gains were sometimes taken to reserves, and sometimes to the profit and loss account.

As is described later when presenting the findings of my review of the actual Dutch reporting practices, a similar diversity existed in the Netherlands at the time. In 1984, the Eagle Star pioneered a new method of investment accounting designed to give a fairer reflection of investment performance. Investments were included in the balance sheet at market value, and each year one fifth of the appreciation of the year and of the appreciation in the previous four years was included in the profit and loss account. Balances not yet credited to profit and loss account were carried forward as deferred investment gains. As the UK prudential reporting requirements were silent on the accounting treatment of investments and the related items of income, expense, gains and losses, these new accounting practices could also be applied in the prudential returns.

In my view, they were, therefore, not in conflict with the prevailing type 3 single-track reporting approach.

Ward and Levy described that the critical comments in the press and the initiatives from individual insurers, such as the Eagle Star, triggered a number of industry initiatives in respect of accounting standard setting. They mentioned that the ‘Association of British Insurers’ (henceforth, the ‘ABI’) and its predecessor had published four SORPs on accounting for insurance business. The first ‘Statement of recommended practice on accounting for insurance business’ was issued in December 1986. Penrose noted that description of a statement as a SORP implied that the ASC had approved the statement. However, the first SORP was not endorsed, and did not achieve general recognition.

The 1986 SORP was discussed in the accountancy press in February 1987. The article noted that the statement aimed to narrow the difference and variety of accounting treatment in four areas: premium income, expenses with special reference to acquisition expenses, claims, and unexpired risks. In 1988 the ABI would review the extent to which members had acted on the recommendations and would then consider asking the ASC to frank the statement.

According to the SORP, deferred acquisition costs should be dealt with as a separate item and not included in unearned premiums. Explicit discounting of claims outstanding was permitted (implicit discounting was prohibited), with disclosure of the accounting policy. However, as Ward noted, accounting for investments (income and valuation) was not dealt with, which he considered disappointing. Also, although an unexpired risk provision should be established, in his view all classes should be assessed together to determine the need for such a provision, and investment income should be taken into account, irrespective of discounting of claims provisions. Finally, all amounts should be shown gross, i.e. without reinsurance in the revenue account. However, there were no such requirements for the balance sheet. As is described in the next chapter, it would only be in May 1990 that these comments would be addressed in a new SORP.

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392 See section 7.5.3.3.1.
6.5.4 Summary and conclusions
This section shows that, compared to the past, there was an increased emphasis on financial reporting requirements in both the US and in the UK.

In the US, the most important event was the establishment of the FASB in 1973 as the independent accounting standard setter, succeeding the APB. It focused on the protection of investors and creditors, immediately received recognition from the SEC, and, among others, triggered the SEC to prohibit US insurers, from 1974 onwards, to use their prudential returns submitted to insurance supervisors as their financial statements (a type 3 single-track reporting approach). During the period reviewed in this chapter, the FASB issued a large number of pronouncements, including two standards specifically applicable to the financial statements of insurers. Investors and creditors were interested in both the financial position and the annual results of companies.

In contrast, US insurance supervisors (established to protect the interest of policyholders) focused in particular on the financial position of an insurance company, and were less interested in the annual results. As a result, and influenced by an enlarged number of activities of the NAIC, the differences between the financial statements and the prudential returns of US insurers started to increase, and a clear split between two separate reporting regimes emerged.

This trend was not visible in the UK, although also in this country a separate accounting standard setter was established and changes in successive companies acts, partly influenced by European directives, showed an increasing focus on financial reporting to investors as well. On the other hand, the amended companies acts still allowed insurance companies to base their financial statements on the returns issued to insurance supervisors (a type 3 or type 4 single-track reporting approach). In practice, this approach was widely used. However, this came under pressure in the mid-1980s, when insurance companies voluntarily started to change their financial reporting practices for investments, by either measuring them as market value in the balance sheet, or disclosing such values in the notes. Although these practices were possible under a single-track reporting approach, they can, in my view, be considered as the first signal that the tension between financial and prudential reporting started to increase, a development that continued in the subsequent years. 393

6.6 Prudential reporting developments in the Netherlands and the EEC

6.6.1 Introduction
The most important developments in this area concerned the implementation of the first EEC insurance directives. This resulted, in the mid-1980s, in the replacement of the 1922 life insurance business act, 394 and of the 1964 non-life insurance business act, 395 by a combined insurance business supervision act applicable to all Dutch insurance companies and in amendments of the related Administrative Decrees.

393 See section 7.5.3.3.
394 See section 5.4.2.2.
395 See section 5.4.2.6.
In this process, some reference was made to the Dutch financial reporting developments, but official links were not included in the prudential reporting requirements and prescribed accounting policies were (still) absent: with a few exceptions, it would be only in the next decade that the Insurance Chamber issued specific separate requirements in respect of the technical provisions. Until then, as was the practice in the previous period, the chamber limited itself to generic statements in its annual reports. However, a circular issued by the Insurance Chamber in 1993 revealed that it had, already for a long time, adopted a policy to maximise the acceptable discount rate in the calculation of the life insurance provision at 4%. This publication did not disclose since when this policy had been in place.

An important change in the Dutch prudential requirements under the new act was the introduction of the, publicly disclosed, available and required solvency margins, ending a period in which the Insurance Chamber assessed such margins on a confidential, undisclosed basis.

Additionally, the period witnessed the introduction of the so-called structural policy, which aimed to prevent mutual interests of banks and insurance companies to avoid an unacceptable concentration of power. This occurred in the beginning of the 1980s, but came to a halt at the end of that decade.

### 6.6.2 Legislative developments in the period 1971-1985

During a major part of the period discussed in this chapter, legislative developments regarding insurance supervision were limited and the amendments had, in general, no impact on the topics discussed in this dissertation. The most important event was the introduction by the Insurance Chamber of a ‘vergrijzingsvoorziening’ (senescence provision), for health insurers in 1971. This was, to my knowledge, the first separate and public requirement issued by the Insurance Chamber. It related to the facts that the premium for such insurance contracts was generally age-independent, the cost would increase with the age of the insured, and the insurers could not cancel the contracts. This meant that, generally, the premiums exceeded the costs for younger policyholders, but were insufficient for older policyholders. The senescence provision, in effect, prevented the surplus in the early years to be recognised as profit, to compensate for future deficits. Since the Insurance Chamber considered that it was financially not achievable for insurers to immediately set up an adequate provision, a system was developed under which the insurer would gradually build it up, by annually adding 2.5% of the premiums and 5% interest to the provision, until a certain maximum was achieved. This had to be the case after 10 years, when the provision had to amount to at least 25% of the annual premiums. In 1982, this maximum was increased to 50% of the annual premiums. Although the intention of the system was that, except in case of a full transfer of the portfolio to another insurer, releases from the provision were not possible, the Insurance Chamber did approve, in 1983, the transfer of an amount to national health insurance funds as part of an upcoming restructuring of the Dutch health insurance system.

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396 See section 7.6.5.
397 See section 5.4.2.1.
398 Verzekeringskamer (1993a).
399 For an explanation of these margins, see section 2.8.1.
401 Euverman (1976).
403 Verzekeringsblad (1983c).
The senescence provision remained in place until the end of the 1980s, when it was replaced by a new regime, as is described later in this section.

The change in the Dutch health insurance system was the result of the introduction of the act on the access to health insurance in 1986. Under this new act, the existing compulsory health insurance provisions applied to all persons who had reached the age of 65 or more, and the voluntary scheme for others was abolished. The first group was now an integral part of the compulsory health insurance system, executed by health insurance funds, and the second group was divided into those who were part of the compulsory system and those who had to conclude a contract with private health insurers. The latter were obliged to accept all new policyholders without the possibilities to carry out medical examinations and to charge age-dependent premiums. As the introduction of the new act would result in substantial shifts between health insurance funds and private health insurers, and have a considerable impact on the composition of (and, therefore, the risks in) the portfolios of these insurance providers, the new act was accompanied by two other acts to level out any sharp increases in claims over the whole health insurance industry. The first of these two acts was the ‘Wet interne lastenverevening particuliere ziektekostenverzekeringsbedrijf’ (henceforth, the ‘act on internal claims levelling out for private health insurance business’). This act provided for the transfer of funds from private health insurers with, in comparison, a large number of young policyholders to those with a large number of elderly policyholders. The second act, called the ‘Wet medefinanciering oververtegenwoordiging oudere ziekenfondsverzekerden’ (henceforth, the ‘act on co-financing a surplus of elderly policyholders of health insurance funds’) compensated health insurance funds by the government in case of a surplus of elderly policyholders, who had entered into the fund as a result of the changes in the base act. The impact of these two acts on the level of the technical provisions and the results of health insurers played a role in the decision of the Insurance Chamber in 1989 to introduce a new type of actuarial provision for these companies, described later in this section.

Regarding legislative developments, the insurance business acts were amended several times as consequential amendments of other acts, but never significantly. Furthermore, in 1975, a small change was made to the 1967 prudential returns for non-life insurance companies. This period of relative calmness came to a halt at the end of 1985 with the adoption of the ‘Wet toezicht schadeverzekeringsbedrijf’ (henceforth, the ‘non-life insurance business supervision act’), discussed hereafter. It was, as is described in the next parts of this section, the start of a fundamental reform of the insurance supervisory system, as the result of the implementation of the European prudential directives described later in this section. However, before this occurred, the Dutch insurance world and the parliamentary discussions on the bill for this act were alarmed by the demise of the ‘Levensverzekering-Maatschappij “De Wereld”’ (henceforth, ‘De Wereld’) in 1982.

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404 Minister van Justitie (1986h), Staatsblad 1986, nr. 124.
405 Minister van Justitie (1986f), Staatsblad 1986, nr. 115.
406 Minister van Justitie (1986g), Staatsblad 1986, nr. 117.
407 Minister van Justitie (1971b), Staatsblad 1971, nr. 287; Minister van Justitie (1972a), Staatsblad 1972, nr. 400; Minister van Justitie (1974), Staatsblad 1974, nr. 303; Minister van Justitie (1976b), Staatsblad 1976, nr. 229; Minister van Justitie (1976d), Staatsblad 1976, nr. 377; Minister van Justitie (1983a), Staatsblad 1983, nr. 59; Minister van Justitie (1984), Staatsblad 1984, nr. 91; and Minister van Justitie (1985d), Staatsblad 1984, nr. 662.
408 Minister van Justitie (1975a), Staatsblad 1975, nr. 236.
6.6.3 The bankruptcy of De Wereld

The history of this small life insurance company was described in a report, issued by the Insurance Chamber in 1983.\(^{409}\) It noted that the insurer was owned since November 1978 by a Dutch company, which was part of a group particularly active in real estate business. From then onwards, the insurer invested more and more in such assets, but also supplied loans to its parent company and different kinds of guarantees and collateral for debts of other group companies. Later investigations showed that not all these off-balance sheet commitments were included in the prudential returns. When the ultimate parent company collapsed in 1982 and the guarantees were called, De Wereld was not able anymore to fulfil its commitments and had to be put under the ‘noodregeling’ (the ‘emergency regulation’). Since there was no other insurance company prepared to take over the company or its business, De Wereld was declared bankrupt in May 1983.\(^{410}\)

The preliminary balance sheet as at 31 December 1982 showed total liabilities of NLG 33.2 million, including a technical provision of NLG 18.1 million, and a deficit of NLG 10.4 million. According to the insurance press, the failure was predominantly caused by using insurance company’s funds for dubious real estate transactions.\(^{411}\) Ultimately, the Dutch life insurers collectively supplied an amount of NLG 3 million to decrease the deficit in the interest of the policyholders, and the portfolio was transferred to the Utrecht.\(^{412}\) The final position was that the policyholders received around 50% of their claims.\(^{413}\)

Although no direct action as a result of the collapse of De Wereld could be detected in the legislative developments, an article in the insurance press published early 1983 gives the impression that the Insurance Chamber, as a result of the event, had decided to be more alert on developments that could harm the solvency position of life insurers.\(^{414}\) It referred to a letter of the chamber to the life insurance industry, issued on 11 January 1983, asking for specific information on the premium conditions and profit participation schemes of new products, brought to the market at the end of 1982. The article described the letter as highly unusual in respect of its contents as well as its tone.

6.6.4 The non-life insurance business supervision act of 1985

At the end of 1985, the existing non-life insurance business act of 1964 was replaced by the non-life insurance business supervision act.\(^{415}\) It was the conclusion of a legislative process to fundamentally reform insurance supervision that had started on 7 June 1979, when the government submitted to the Second Chamber its bill to implement the first non-life insurance directive of the EEC as well as the co-insurance directive.\(^{416}\)

\(^{409}\) Verzekeringskamer (1983).
\(^{410}\) As noted in the insurance press (Verzekeringsblad (1983b)), this was the first bankruptcy of a Dutch life insurance since 60 years.
\(^{411}\) This was more or less confirmed by the response of the government on questions asked in the Second Chamber, in which it referred to “probable punishable facts”. See (Tweede Kamer (1983a), aanhangsel Handelingen 1983, nr. 177.
\(^{412}\) Verzekeringsblad (1983a).
\(^{413}\) VVP (1993).
\(^{414}\) Verzekeringsblad (1983a).
\(^{415}\) Minister van Justitie (1985e), Staatsblad 1985, nr. 705.
\(^{416}\) Tweede Kamer (1979), nr. 15612.
6.6.4.1 The first non-life insurance directive of 1973 and the co-insurance directive of 1978

A draft for the first non-life insurance directive was published in 1966. After extensive discussions, it was finally published in 1973 as directive 73/239/EEC. The directive removed restrictions on the establishment of agencies and branches in other member states for direct non-life insurance business.

Under the directive, every insurer required, before it could start its operations, for each of the 17 defined classes of insurance, an official authorisation in the member state where its head office was situated. Only specified legal forms of insurance companies were allowed, for the Netherlands being the joint stock company, the mutual insurance company, and the cooperative society.

Each member state in whose territory business was carried on should require the insurer to establish sufficient technical provisions for the obligations assumed in that country, the amounts of which should be determined according to the rules fixed by the state or, in the absence of such rules, according to established practices in such a state.

The supervisory authority of the member state where the head office of the insurer was situated should verify the state of solvency and require the insurer to establish an adequate solvency margin in respect of its entire business. This ‘available solvency margin’, i.e. the amount of equity available for solvency purposes, focused on the net assets of the insurer, less any intangible items.

In determining the margin, any undisclosed reserves from underestimation of assets or overestimation of liabilities should be taken into account, in so far as they were not of an exceptional nature. However, such reserves could only be considered with the agreement of the supervisory authorities of each member state where the insurer was active. Overestimation of technical provisions should be calculated by the insurer in conformity with national regulations; however, pending further coordination of such calculations, there were certain limitations to the adjustments.

To implement these measures, the Conference of the European Insurance Supervisory Authorities concluded in 1973 a protocol to harmonise their supervisory approaches. It included a definition of the concept of undisclosed reserves (focusing on the difference between book value and the (estimated) market value of an asset or a liability), and identified a list of balance sheet items in which they might be found: land and buildings, securities, investments in quoted shares, and the provision for unearned premiums.

In my view, this approach to determine the available solvency margin was an early application of what was later called ‘using prudential filters’. It started from the prudential returns or the financial statements and adjusted recognised amounts in the balance sheet for the purpose of calculating the margin. However, in contrast to the US approach, it did not adjust the balance sheet itself. Since, however, these adjustments were made by the insurance supervisors and not disclosed, it cannot be classified as a type 4 single-track reporting approach.

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419 For more information on this Conference, see section 5.4.1.3.
421 See section 8.6.2.2.
The ‘required solvency margin’, i.e. the amount of equity required, was based either on the annual amount of premiums, or on the average claims for, in general, the past three financial years. It should be the higher of the two outcomes, with specific percentages to be applied and calculations to be made. Reinsurance was taken into account, but to a maximum of 50%. One-third of the solvency margin should constitute the guarantee fund. However, this fund could not be less than a minimum amount, which depended on the class of insurance. All amounts in the directive were expressed in the ‘unit of account’, described earlier in this chapter when presenting the developments in the EEC.

Regarding the reporting requirements, the directive ruled that each member state should require every insurer whose head office was situated in its territory to produce annual accounts covering all types of operation, its financial situation, and its solvency position. Insurers were also required, in each member state in which they operated, to submit prudential returns. However, despite the fact that both the annual accounts and the prudential returns were mentioned, the directive was completely silent about the relationship between these two reports (in other words, whether a single-track reporting approach was required, permitted or encouraged), and did not include any provisions regarding applicable accounting principles, neither for the investments nor for the technical provisions.

The member states had to implement the directive within 18 months of its notification, i.e. roughly before year-end 1974, with the first effective year being 1976. The directive was issued together with directive 73/240/EEC abolishing restrictions on the freedom of establishment in non-life insurance business. It focused on Belgium, France, Germany and Ireland, and should be implemented before year-end 1974 as well.

Regarding the method to determine the required solvency margin based on annual premiums or average claims, the Leuven professor in insurance law J. Basijn noted that this approach was already included in the draft directive. The insurance industry, represented by the CEA, did not support it and proposed an alternative model with a fixed amount for the guarantee fund and a variable element, called the ‘mandatory supplement of technical reserves’ (which element, they hoped, would be tax deductible). This industry proposal was, as a principle, supported by the Economic and Social Committee and by the European Parliament. But despite this support, the industry alternative was ultimately rejected and the proposal included in the draft directive was maintained.

Concerning the required solvency margin, the European Commission was not the first organisation developing such proposals. This had already started in the 1950s by the OEEC/OECD. In 1963, it published a set of comparative tables on the supervision of private insurance business in Europe, known as the ‘Parette report’. This report was updated in 1988 and again in 1996. Following the issuance of the first Parette report, the OECD set up working parties to look into the question of achieving uniformity regarding the determination of financial guarantees required from insurance companies. For non-life insurance business, this resulted in a specified required solvency margin over and above the technical provisions.
Comparing these proposals with the provisions of the first non-life insurance directive, there can, in my view, be no doubt that these OECD proposals have heavily influenced the directive, since there are many striking similarities (although no direct evidence supporting this view could be found).

The co-insurance directive 78/473/EEC was intended to fill another gap in the legal framework applied to the major part of the non-life insurance business covered by directive 73/239/EEC and defined a specific role for the leading insurer (the insurer which determines the terms and conditions of insurance and the premium rating), stating that the provision for claims outstanding for each participant should be at least equal to that determined by the leading insurer according to the rules or practice of the state where this insurer was established.427

6.6.4.2 The Dutch implementation of the 1973 and 1978 directives

As is noted shortly before, the government submitted on 7 June 1979 to the Second Chamber its bill to implement the first non-life insurance directive of the EEC as well as the co-insurance directive by the adoption of the ‘Wet toezicht schadeverzekeringsbedrijf’, henceforth, the ‘non-life insurance supervision act’.428

The explanatory memorandum to the bill clarified that the implementation act should already have been effective at 1 February 1976. This had proved impossible because of the need to introduce an almost complete overhaul of the existing act of 1964 as the structure of this act could not one-to-one be aligned with that of the directive. Furthermore, the government wished to legislate a number of other topics, which were not included in the directive, in particular an almost completely changed emergency regulation and a regime regulating the holding of interests by insurance companies in banking institutions (the structural policy). To address legal uncertainties for domestic and foreign non-life insurers operating in the Netherlands, the Insurance Chamber had issued on 17 June 1976 a circular to the industry,429 in which it clarified that the provisions of the directive would prevail over existing legislation for companies requesting this, under the condition that these companies could prove they met all requirements of the directive.430

The objective of the proposed provisions regarding the structural policy was to prevent mutual interests of banks and insurance companies, because the influence of these two groups on economic life was already so large that a combination of such companies was considered to be an unacceptable concentration of power. The proposals were in line with the provisions already included in the ‘Wet toezicht kredietwezen’ (henceforth, the ‘credit institutions supervision act’), described in the next chapter.431 This act prohibited, unless the Minister of Finance (after consultation with the banking supervisor) issued a non-objection statement, a credit institution to acquire an interest in another credit institution of more than 5%.432

428 Tweede Kamer (1979), nr. 15612.
429 Verzekeringskamer (1976).
430 As Borgesius (1981) noted, this step was necessary since the European Court of Justice had already ruled in 1964 (in the ‘Costa/ENEL’ case) that, in case of a conflict, the EEC treaty overruled national legislation and that companies and individuals could successfully require national courts to apply its provisions, because the directives resulted from the treaty.
431 See section 7.6.2.1.
432 The full text of the first memorandum was made public by the DNB. It explained that this banking supervisor already published its objections against participations between banks and insurance companies in the form of shareholdings over 5% on 29 July 1971. See DNB (1981).
The bill on the non-life insurance supervision act proposed a similar requirement for a non-life insurance company in a credit institution, and vice versa, with the Insurance Chamber as the supervisory authority advising the Minister. Apart from this new topic and the changes in the emergency regulations, the bill was fully based on the directive, with only minor adjustments to take into account the specific Dutch environment.

The Second Chamber issued its preliminary report in March 1980. In general, it supported the bill, noting that full implementation of the structural policy would also require a change in the 1922 life insurance business act, which, at the time, did not include any provisions in this respect.

It was only four years later, in June 1984, that the government reacted on the report. However, it did submit letters to the Second Chamber in the interim years, providing an update on developments in respect of the structural policy. In particular, the letters referred to agreements between the banking industry, the insurance industry, and the regulators of these two industries, clarifying that participations would be limited and voting rights would, generally, be restricted to 5% even if the actual participation was higher. The agreements covered periods of three years, initially for the period 1981-1983, and subsequently for 1984-1986.\footnote{In practice, these agreements had to be broken soon after their conclusion. When, during the 1980s, two large Dutch mortgage banks ran into financial difficulties, insurers were asked to solve these problems. As a result, the Westland/Utrecht Hypotheekbank was acquired by the Nationale-Nederlanden, and the Friesch-Groningsche Hypotheekbank by AEGON. See Langenhuyzen (1998b), p. 744.}

In its June 1984 reply, the government explained that the delay had been caused, among others, by the preparatory work to implement the first life insurance directive of the EEC, described later in this section, since the resulting revised Dutch legislation should have been effective already at 15 September 1981. To avoid further delays, the government now intended to propose a bill replacing the 1922 life insurance business act by a new ‘Wet toezicht levensverzekeringsbedrijf’ (henceforth, a ‘life insurance business supervision act’), which would implement the provisions of the directive and the structural policy as soon as possible. Any other desirable amendments would be introduced by a separate bill. However, the plans were changed again early 1985, when the government announced that the drafting of a separate bill for a life insurance business supervision act was further delayed because of the initiatives to introduce a revised Dutch health insurance system, described in the beginning of this section. To address this delay, the government had now decided to transform the non-life insurance business supervision act, once adopted, into a generic ‘Wet toezicht verzekeringbedrijf’ (henceforth, an ‘insurance business supervision act’) by inserting the necessary additional provisions to deal with life insurance business supervision. Its development is described later in this section.

The final bill on the non-life insurance business supervision act, focusing on non-life insurance companies only, was discussed in the Second Chamber in September 1985, resulting in some minor last amendments, and adopted on 10 September.\footnote{Tweede Kamer (1985a), Handelingen 10 september 1985.} Without much debate, the First Chamber approved the bill on 17 December 1985.\footnote{Eerste Kamer (1985), Handelingen 17 december 1985.} The new act was effective 1 January 1986.\footnote{Minister van Justitie (1985f), Staatsblad 1985, nr. 710.}
In line with the directive, the non-life insurance supervision act introduced available and required solvency margins, replacing the requirements in the 1964 non-life insurance business act. In the case that the available solvency margin did not cover the required solvency margin, the Insurance Chamber could take action and, ultimately, revoke the issued authorisation.

6.6.5 The Administrative Decrees under the non-life insurance business supervision act of 1985

As under the 1964 act, the 1985 non-life insurance business supervision act introduced a number of Administrative Decrees, three of which are relevant for this dissertation.

The first Decree ‘Besluit technische voorzieningen schadeverzekeringsbedrijf’ (the ‘Decree on the technical provisions non-life insurance business’) required a breakdown of the provisions in respect of premiums, claims outstanding, and funds. Claims handling expenses should be included in the provision for claims outstanding, and the Insurance Chamber could issue specific regulations in respect of all technical provisions; the Decree itself did not provide further rules regarding the calculation methods. According to the explanatory memorandum to the Decree, the breakdown was based on the forthcoming second non-life insurance directive of the EEC, described in the next chapter, on which topic there was already an agreement between the member states.

The second Decree ‘Statenbesluit schadeverzekeringsbedrijf’ (the ‘Decree on the prudential returns non-life insurance business’) introduced new reporting schedules, effective for the year 1985, replacing the ones issued in 1967 and amended in 1975. The explanatory memorandum noted that they put more emphasis on the financial results, since this was one of the factors determining the future financial position. On the other hand, for loans guaranteed by mortgages, private loans and listed debt securities, much less details were required. The explanatory memorandum also stated that “consideration had been given to modern views on financial reporting and to contemporary legislation on annual accounts”, without detailing what was meant by this statement. However, the 1983 amendments to this legislation, which were, as is described earlier, included in book 2 of the civil code, were not yet taken into account: the necessary study on the implications of these amendments was not yet finalised. As a result, further changes to the schedules could be necessary.

These statements about the possible impact of financial reporting developments on the prudential returns had not been raised at all in the parliamentary debate on the act. It is, therefore, in my view not possible to characterise the statements as a fundamental change of past practice, in which financial and prudential reporting were developed in isolation. But they can be considered as an indication of the intention of the Ministry of Finance, responsible for prudential supervision, to introduce such a change and to align the prudential reporting requirements better with the financial reporting practices (i.e. to strengthen a type 3 single-track reporting approach).

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437 See section 5.4.2.6.
438 Minister van Justitie (1986b), Staatsblad 1986, nr. 4.
439 See section 7.6.3.
440 The second non-life insurance directive, however, did not include any such requirements. I consider it therefore most likely that the intention had been to refer to the upcoming insurance accounts directive, which did include such breakdown of the technical provisions (see section 7.4.2.2.2).
441 Minister van Justitie (1986d), Staatsblad 1986, nr. 102.
The Decree included an overview of the schedules, which is presented in annex 9. The balance sheet and the profit and loss account are shown below.

Table 6.6: Non-life insurance business act of 1964 – schedule N 1: balance sheet in accordance with the 1985 models

<table>
<thead>
<tr>
<th>Assets</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible assets</td>
<td></td>
</tr>
<tr>
<td>Intangible assets</td>
<td></td>
</tr>
<tr>
<td>Participating interests</td>
<td></td>
</tr>
<tr>
<td>Investments</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Land and buildings</td>
</tr>
<tr>
<td></td>
<td>Loans guaranteed by mortgages</td>
</tr>
<tr>
<td></td>
<td>Private loans</td>
</tr>
<tr>
<td></td>
<td>Shares</td>
</tr>
<tr>
<td></td>
<td>Debt securities and other fixed-income securities</td>
</tr>
<tr>
<td></td>
<td>Deposits with credit institutions</td>
</tr>
<tr>
<td></td>
<td>Other investments</td>
</tr>
<tr>
<td>Reinsurers’ share in the technical provisions</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Unearned premiums</td>
</tr>
<tr>
<td></td>
<td>Claims outstanding</td>
</tr>
<tr>
<td></td>
<td>Funds</td>
</tr>
<tr>
<td></td>
<td>Other technical provisions</td>
</tr>
<tr>
<td>Deposits with insurers</td>
<td></td>
</tr>
<tr>
<td>Receivables</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Insurers</td>
</tr>
<tr>
<td></td>
<td>Intermediaries and proxies</td>
</tr>
<tr>
<td></td>
<td>Other receivables</td>
</tr>
<tr>
<td>Liquid resources</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Cash at hand, bank and giro accounts</td>
</tr>
<tr>
<td>Capital deficit Dutch branch office</td>
<td></td>
</tr>
<tr>
<td>Total</td>
<td></td>
</tr>
</tbody>
</table>

| Liabilities |  |
| Guarantee capital |  |
| | Equity |  |
| | Equalisation funds investment grants |  |
| | Subordinated loans |  |
| | Subordinated member accounts |  |
| Long-term liabilities |  |
| Technical provisions |  |
| | Unearned premiums |  |
| | Claims outstanding |  |
| | Funds |  |
| | Other technical provisions |  |
| Sundry provisions |  |
| | Deferred tax |  |
| | Other provisions |  |
| Deposits from insurers |  |
| Short-term liabilities |  |
| | Insurers |  |
| | Intermediaries and proxies |  |
| | Other liabilities |  |
| | Capital surplus Dutch branch office |  |
| Total |  |

Source: table A9.90.

442 See table A9.89.
443 Other investments included treasury bills, cash loans, bare properties, beneficial interests, and the like.
Table 6.7: Non-life insurance business act of 1964 – schedule N 2: profit and loss account in accordance with the 1985 models

<table>
<thead>
<tr>
<th>Segment results</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accident and health</td>
</tr>
<tr>
<td>Motor insurance</td>
</tr>
<tr>
<td>Marine and aviation insurance</td>
</tr>
<tr>
<td>Fire and other damage to goods</td>
</tr>
<tr>
<td>Miscellaneous segments</td>
</tr>
<tr>
<td>Change in other technical provisions, not allocated to segments</td>
</tr>
<tr>
<td>Sundry income</td>
</tr>
<tr>
<td>Results from insurance brokerage</td>
</tr>
<tr>
<td>Interest not allocated to segments</td>
</tr>
<tr>
<td>Gains on participating interests</td>
</tr>
<tr>
<td>Gains on investments</td>
</tr>
<tr>
<td>Miscellaneous</td>
</tr>
<tr>
<td>Sundry charges</td>
</tr>
<tr>
<td>Expenses not allocated to segments</td>
</tr>
<tr>
<td>Losses on participating interests</td>
</tr>
<tr>
<td>Losses on investments</td>
</tr>
<tr>
<td>Miscellaneous</td>
</tr>
<tr>
<td>Operating profit</td>
</tr>
<tr>
<td>Extraordinary income</td>
</tr>
<tr>
<td>Extraordinary charges</td>
</tr>
<tr>
<td>Profit before tax</td>
</tr>
<tr>
<td>Tax</td>
</tr>
<tr>
<td>Profit</td>
</tr>
</tbody>
</table>

Source: table A9.91.

Table 6.8: Non-life insurance business act of 1964 – schedule N 2: segment results in accordance with the 1985 models

<table>
<thead>
<tr>
<th>Written premiums</th>
</tr>
</thead>
<tbody>
<tr>
<td>Written reinsurance premiums</td>
</tr>
<tr>
<td>Commission own account</td>
</tr>
<tr>
<td>Change provision for unearned premiums own account</td>
</tr>
<tr>
<td>Interest accretion provision for unearned premiums</td>
</tr>
<tr>
<td>Subtotal A</td>
</tr>
<tr>
<td>Written claims</td>
</tr>
<tr>
<td>Claims reimbursed by reinsurers</td>
</tr>
<tr>
<td>Change provision for claims outstanding/funds own account</td>
</tr>
<tr>
<td>Interest accretion provision for claims outstanding</td>
</tr>
<tr>
<td>Subtotal B</td>
</tr>
<tr>
<td>A – B</td>
</tr>
<tr>
<td>Allocated expenses</td>
</tr>
<tr>
<td>Other allocated interest</td>
</tr>
<tr>
<td>Technical result own account</td>
</tr>
<tr>
<td>Miscellaneous income</td>
</tr>
<tr>
<td>Miscellaneous charges</td>
</tr>
<tr>
<td>Change in other technical provisions, allocated to segments</td>
</tr>
<tr>
<td>Interest accretion other technical provisions</td>
</tr>
<tr>
<td>Segment result</td>
</tr>
</tbody>
</table>

Source: table A9.92.
As was the case with the 1957 Administrative Decree under the 1964 non-life insurance business act, the formats of the schedules were not attached to the published Decree. Therefore, the formats presented in annex 9 and reproduced in the preceding tables are derived from the annual accounts reviewed in this dissertation.

The Decree maintained the distinction between public and non-public information, an approach that was already implemented under the 1964 non-life insurance business act. The schedules demanded the publication of the schedules regarding the required and the available solvency margins (including any applicable prudential filters), making the calculations fully available to the public and ending the period in which the Insurance Chamber determined and assessed these margins in a confidential, non-disclosed manner. In other words, the Decree introduced, from 1985 onwards, a type 4 single-track reporting approach. Equally important, it also introduced the requirement to include a consolidated balance sheet and profit and loss account, next to non-consolidated statements, with all supporting schedules to be aligned with the consolidated amounts. However, since the supervisory system continued to focus on single entities, other insurance companies could not be included in the consolidation scope. This requirement meant that all non-insurance subsidiaries, which generally concerned companies active in investment activities, had to be consolidated in the prudential returns. As had been the case in the past, accounting principles were not provided, and neither the schedules nor the accompanying guidance made reference to the financial reporting requirements included in book 2 of the civil code or the pronouncements of the RJ. In practice, the consolidation prohibition of insurance subsidiaries did not play a major role, since this was, generally, solved by the creation of holding companies owning all insurance subsidiaries directly.

The final Decree ‘Besluit financiële eisen schadeverzekeringsbedrijf’ (the ‘Decree on the financial requirements non-life insurance business’) concerned the amount of the minimum guarantee fund and the assets admissible to cover this fund. The provisions were taken directly from the first directive and related to the solvency requirements for non-life insurers. In the conversion of the European unit of account, described earlier, it was fixed at NLG 3.62.

6.6.6 The 1985 revised prudential returns under the life insurance business act of 1922

In parallel with the changes in the reporting schedules for non-life insurance companies, the schedules for life insurance companies were amended, for similar reasons as in case of the non-life insurance schedules and also not yet aligned with book 2 of the civil code. The original schedules dated from 1925 and were last amended in 1961. The explanatory memorandum to the Administrative Decree ‘Statenbesluit levensverzekeringsbedrijf’ (the ‘Decree on the prudential returns life insurance business’) noted that, at the request of the insurance industry, it had been decided not to wait for the implementation of the first life insurance directive of the EEC.

444 See section 5.4.2.6.
445 See section 5.4.2.6.
446 Minister van Justitie (1986k), Staatsblad 1986, nr. 425.
448 Minister van Justitie (1986e), Staatsblad 1986, nr. 103.
449 See section 5.4.2.4.
The main reason to move ahead was that the insurers wanted to amend their systems for life insurance and non-life insurance reporting simultaneously, and the impact of the directive on the schedules would be limited anyway. The new set included four schedules relating to profit participation schemes, following a political debate in 1974 on this issue.

This debate was held in the Second Chamber, following questions to the government on the distribution to policyholders of advantages of the high interest rate levels.\textsuperscript{450} Research by the industry and the Insurance Chamber had revealed that, in 1969 and 1970, most life insurers decreased their premiums by increasing the discount rate for new insurance contracts from 3.5% to 4%. It also showed that life insurers started to introduce several kinds of profit participation schemes with policyholders: in 1959, profit participation, as a percentage of total premium income, for individual and group contracts amounted to 1.9% and 3.7%, respectively. In 1972, these percentages had increased to 7.5% and 19%, respectively. However, the prudential returns at the time did not disclose such amounts and arrangements. Therefore, the government promised that these returns would be amended in the future. As is noted above, it would take until 1986 before this promise was realised.

The Decree included a mandatory list of schedules, presented in annex 9.\textsuperscript{451} As for non-life insurers, this list included consolidated and non-consolidated statements, subject to the same requirements and limitations and mandatory application from 1985, and allowed aggregated information for certain investments. Also for life insurers, requirements in respect of accounting principles or references to financial reporting requirements were absent. The formats of the schedules were very similar to those for non-life insurers, are presented hereafter and included in annex 9.

\textsuperscript{450} Tweede Kamer (1974), nr. 11134.
\textsuperscript{451} See table A9.93.
Table 6.9: Life insurance business act of 1922 – schedule 1.100: balance sheet in accordance with the 1986 models - assets

<table>
<thead>
<tr>
<th>Assets</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tangible assets</td>
</tr>
<tr>
<td>Office buildings and land</td>
</tr>
<tr>
<td>Other fixed assets</td>
</tr>
<tr>
<td>Intangible assets</td>
</tr>
<tr>
<td>Participating interests</td>
</tr>
<tr>
<td>Shares</td>
</tr>
<tr>
<td>Subordinated loans</td>
</tr>
<tr>
<td>Other loans and receivables</td>
</tr>
<tr>
<td>Investments</td>
</tr>
<tr>
<td>Land and buildings</td>
</tr>
<tr>
<td>Loans guaranteed by mortgages</td>
</tr>
<tr>
<td>Private loans</td>
</tr>
<tr>
<td>Policy loans</td>
</tr>
<tr>
<td>Shares</td>
</tr>
<tr>
<td>Debt securities and other fixed-income securities</td>
</tr>
<tr>
<td>Deposits with credit institutions</td>
</tr>
<tr>
<td>Other investments</td>
</tr>
<tr>
<td>Reinsurers’ share in the technical provisions</td>
</tr>
<tr>
<td>Interest rate rebates</td>
</tr>
<tr>
<td>Deposits with insurers</td>
</tr>
<tr>
<td>Receivables</td>
</tr>
<tr>
<td>Members</td>
</tr>
<tr>
<td>Insurers</td>
</tr>
<tr>
<td>Other institutions in respect of group contracts</td>
</tr>
<tr>
<td>Intermediaries and proxies</td>
</tr>
<tr>
<td>Policyholders</td>
</tr>
<tr>
<td>Prepayments and accrued income</td>
</tr>
<tr>
<td>Receivables in respect of administration fees of tontine companies</td>
</tr>
<tr>
<td>Other receivables</td>
</tr>
<tr>
<td>Liquid resources</td>
</tr>
<tr>
<td>Cash at hand, bank and giro accounts</td>
</tr>
<tr>
<td>Capital deficit Dutch branch office</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: table A9.94.

---

Other investments included treasury bills, cash loans, bare properties, beneficial interests, and the like.
Table 6.10: Life insurance business act of 1922 – schedule 1.100: balance sheet in accordance with the 1986 models - liabilities

<table>
<thead>
<tr>
<th>Liabilities</th>
</tr>
</thead>
<tbody>
<tr>
<td>Guarantee capital</td>
</tr>
<tr>
<td>Equity</td>
</tr>
<tr>
<td>Subscribed share capital</td>
</tr>
<tr>
<td>Subscribed guarantee capital</td>
</tr>
<tr>
<td>Calls unpaid</td>
</tr>
<tr>
<td>Subtotal capital</td>
</tr>
<tr>
<td>Reserves</td>
</tr>
<tr>
<td>Undistributed profit</td>
</tr>
<tr>
<td>Unallocated loss</td>
</tr>
<tr>
<td>Subtotal reserves</td>
</tr>
<tr>
<td>Subtotal equity</td>
</tr>
<tr>
<td>Treasury shares</td>
</tr>
<tr>
<td>Equalisation funds investment grants</td>
</tr>
<tr>
<td>Subordinated loans</td>
</tr>
<tr>
<td>Subordinated member accounts</td>
</tr>
<tr>
<td>Long-term liabilities</td>
</tr>
<tr>
<td>Member accounts</td>
</tr>
<tr>
<td>Debts</td>
</tr>
<tr>
<td>Other long-term liabilities</td>
</tr>
<tr>
<td>Technical provisions</td>
</tr>
<tr>
<td>Insurance liabilities</td>
</tr>
<tr>
<td>Balance tontine companies</td>
</tr>
<tr>
<td>Administration expenses tontine companies</td>
</tr>
<tr>
<td>Other technical provisions</td>
</tr>
<tr>
<td>Sundry provisions</td>
</tr>
<tr>
<td>Deferred tax</td>
</tr>
<tr>
<td>Pensions</td>
</tr>
<tr>
<td>Provisions for receivables in respect of administration fees of tontine companies</td>
</tr>
<tr>
<td>Other provisions</td>
</tr>
<tr>
<td>Deposits from insurers</td>
</tr>
<tr>
<td>Short-term liabilities</td>
</tr>
<tr>
<td>Members</td>
</tr>
<tr>
<td>Insurers</td>
</tr>
<tr>
<td>Other institutions in respect of group contracts</td>
</tr>
<tr>
<td>Intermediaries and proxies</td>
</tr>
<tr>
<td>Policyholders</td>
</tr>
<tr>
<td>Accruals and deferred income</td>
</tr>
<tr>
<td>Other short-term liabilities</td>
</tr>
<tr>
<td>Capital surplus Dutch branch office</td>
</tr>
<tr>
<td>Total</td>
</tr>
</tbody>
</table>

Source: table A9.95.
Table 6.11: Life insurance business act of 1922 – schedule 1.200: profit and loss account in accordance with the 1986 models

<table>
<thead>
<tr>
<th>Premiums</th>
<th>Interest income</th>
<th>Gains on participating interests</th>
<th>Gains on investments</th>
<th>Administration fees tontine companies</th>
<th>Sundry income</th>
<th>Subtotal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Increase provision insurance liabilities</td>
<td>Amortisation interest rate rebates</td>
<td>Contractual profit participation policyholders</td>
<td>Losses on participating interests</td>
<td>Losses on investments</td>
<td>Benefits</td>
<td></td>
</tr>
<tr>
<td>Surrenders</td>
<td>Expenses</td>
<td>Sundry charges</td>
<td>Subtotal</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Operating result</td>
<td>Extraordinary gains</td>
<td>Extraordinary losses</td>
<td>Profit participation policyholders</td>
<td>Subtotal</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Profit or loss before tax</td>
<td>Corporate income tax</td>
<td></td>
<td>Profit or loss</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: table A9.96.

The distinction in public and non-public schedules, existing for non-life insurance companies, was not made: all schedules for life insurers remained publicly available. Furthermore, as life insurance companies were not (yet) subject to legal solvency requirements, such schedules did not exist.

The new returns were generally well received, although it was noted that any future publication of solvency information (which was not yet required under the 1922 act, but was expected to be introduced with the implementation of the first life insurance directive) could, because of the inherent complexity, result in misunderstandings.\(^{453}\) On the other hand, it was completely appropriate under the existing principle of ‘freedom and publicity’ that all interested parties should be able to assess the financial strength of an insurance company.

The returns, for life and non-life insurers, were discussed by the auditor J.W. Pon.\(^{454}\) He described that the existing prudential acts required insurers to prepare an annual report, which should include the prudential returns. In practice, this resulted in a situation in which insurers prepared their annual accounts in conformity with the model prudential returns (a single-track reporting approach). One of the consequences of this approach was that in the past, generally, no description of accounting principles was provided, since this was not foreseen in the models.

\(^{453}\) Verzekeringsblad (1984b).
\(^{454}\) Pon (1984).
In Pon’s experience, the adoption of the 1970 companies’ annual accounts act, described in the previous chapter, had changed practice, since this act stated that the regulatory returns of insurance companies could be used as annual accounts, provided that all information required under the act would be included (a type 3 single-track reporting approach). For this reason, a description of accounting principles had to be incorporated.

Pon also noted that reporting practices had developed since the adoption of the two insurance supervisory acts in 1922 and 1964 for life insurance and non-life insurance business, respectively. For instance, the previous 1967 non-life insurance models included a separate balance sheet item for subsidiaries, where the 1925 life insurance models did not. Furthermore, the old models gave no placement rules for new items such as capitalised interest rate rebates or unit-linked insurance contracts, which resulted in diversity in practice. Finally, the terminology was outdated, which was demonstrated by the fact that the old models did not recognise the difference between provisions and reserves. In the view of Pon, the new models could be characterised by a modernised structure and terminology, and introduced a number of important new requirements. Next to the consolidation requirements, already described, non-life insurers had to disclose the results of five main classes of business, including its composition, which was one more than in the past. In addition to premiums, claims and commissions, also interest income and expenses had to be allocated to these groups. For life insurers, in addition to the consolidation requirements an important improvement was the requirement to provide overviews of the performance of the company in the form of:

- An actuarial analysis of results, which had been requested in the literature already for decades;
- A split of the technical results in individual insurance business, group insurance business, and unit-linked related insurance business; and
- A schedule of profit participation arrangements with policyholders, split into three groups: according to contractual agreements, in the form of amortisation of interest rate rebates, and dependent on the company results.

Regarding the actuarial analysis of results, Smit explained that this was, in fact, the breakdown of income according to sources. In his experience, such a schedule was always available for domestic companies, but almost never published externally.

### 6.6.7 The insurance business supervision act of 1986 and its related Administrative Decrees

The next legislative development concerned the implementation of the first life insurance directive, for which a government bill was submitted to the Second Chamber in December 1985.
6.6.7.1 The first life insurance directive of 1979

This directive 79/267/EEC, issued in 1979, was based on a draft submitted in December 1973. It should be implemented before year-end 1981.

The directive was based on the approach adopted for non-life insurance business. A life insurer required an authorisation for each of the defined nine classes of insurance in the member state where the head office was situated. Its legal forms were restricted: for the Netherlands, only the joint stock company and the mutual insurance company were allowed. In contrast to the non-life insurance directive, a cooperative society was not possible.

Another difference with the non-life insurance directive concerned the prohibition to carry on any commercial business which was not related to life insurance business. Among others, this meant that it was not allowed to simultaneously operate life and non-life insurance activities within one legal entity. Under the transitional provisions for existing situations, these activities should be reported separately and, to protect the policyholders of each business, separate available solvency margins should be maintained. In case of groups including both life insurers and non-life insurers, the national supervisors should ensure that the annual accounts of the individual companies were not distorted by agreements which could affect the apportionment of income and expenses.

The requirements regarding the unit of account, the technical provisions, and the reporting requirements were similar for life and non-life insurers. As was the case for non-life insurers, the first life insurance directive was completely silent about the relationship between the annual accounts and the prudential returns, and did not include any provisions regarding applicable accounting principles.

The directive also introduced a required solvency margin and a guarantee fund, where the first was determined as the sum of a fixed percentage of the life insurance provision and of the capital at risk. In contrast to the non-life insurance directive, the minimum amount of the guarantee fund was fixed and independent of the class of insurance. Regarding the available solvency margin of a life insurer, the determination started from the same basis as for a non-life insurer: the amount of net assets less any intangible assets. This amount included, in so far as authorised under national law, profit reserves available to cover losses and which had not been made available for distribution to policyholders. Furthermore, within specified limits, undisclosed reserves in the life insurance provision could be taken into account, with permission of the supervisory authority. The same applied to undisclosed reserves in assets and other liabilities. Connected to the adoption of the directive, the Conference of the European Insurance Supervisory Authorities concluded another protocol regarding undisclosed reserves, identifying the same groups of assets in which they could be present. In other words, the system for life insurers was also based on the application of prudential filters to the prudential returns or the financial statements, instead of adjusting them, and can be characterised as a type 4 single-track reporting approach.

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460 European Commission (1973d).
Regarding this directive, Basijn noted in 1968 that the work in the European Commission had already started in the 1960s by carrying out studies regarding life insurance.\textsuperscript{462} One topic of particular interest dealt with the calculation of the required solvency margin. On this issue, the European Commission had given a group of experts the assignment to study the matter and to form a view on an OECD report on minimum solvency standards, issued in 1961. This report was the outcome of the work of an ad hoc OECD working party under the chairmanship of Campagne (a member and subsequently the chair of the Dutch Insurance Chamber) to consider the minimum standards of solvency for insurance business.\textsuperscript{463} It recommended a fixed percentage of the technical provisions.

These proposals were strongly objected to by the European insurers.\textsuperscript{464} They pointed out that the technical bases for the calculations of the technical provisions – fixed in most countries by the national supervisors – already included adequate surcharges and sufficiently cautious assumptions. Setting up additional free reserves was therefore unnecessary and might limit the distribution to policyholders as well as attract taxation in some countries. The group of experts supported these views. However, the insurance supervisors rejected it and were of the opinion that a separate solvency margin should be required. At the time of the article of Basijn, the outcome was unknown, but the description of the directive shows that the supervisory preference prevailed: a separate required solvency margin had to be established, on top of the technical provisions, although in specific cases the undisclosed reserves in the life insurance provision could be taken into account when assessing the available solvency margin.

6.6.7.2 The Dutch implementation of the 1979 directive
As is described above, the implementation act started as an amendment to the 1985 non-life insurance business supervision act. A government bill was submitted to the Second Chamber in December 1985, to implement the first life insurance directive.\textsuperscript{465} The explanatory memorandum clarified that the amendments were limited to those required by the directive. The existing system of ‘freedom with publicity’, introduced in 1922,\textsuperscript{466} was maintained, but explicitly complemented by components of material supervision, of which the most important were:

- Requirements in respect of the establishment and coverage of the technical provisions;
- The introduction of solvency requirements, with powers for the Insurance Chamber to intervene in case such requirements would not be met (this was similar to non-life insurers, as is described earlier in this chapter); and
- The preapproval of participations in credit institutions.

Without much discussions or amendments, the bill was approved by the Second Chamber on 23 September 1986,\textsuperscript{467} and by the First Chamber on 16 December 1986.\textsuperscript{468}

\textsuperscript{462} Basijn (1968).
\textsuperscript{464} Basijn (1968).
\textsuperscript{465} Tweede Kamer (1985b), nr. 19329.
\textsuperscript{466} See section 4.4.3.11.
\textsuperscript{467} Tweede Kamer (1986a), Handelingen 23 september 1986.
\textsuperscript{468} Eerste Kamer (1986), Handelingen 16 december 1986.
The final amendments act was published on 30 December 1986, accompanied by the publication of the full act on the same day. As a result, the name of the non-life insurance business supervision act was changed into the insurance business supervision act, and the life insurance business act of 1922, described in a previous chapter, was repealed. The new legislation came into force on 1 June 1987. The act also made the appointment of an auditor mandatory for all insurers. Consequently, this requirement was now applicable to life insurers as well; previously, it did not exist.

As a result of the adoption of the new act, a number of the extant Administrative Decrees had to be amended. One of these referred to the prudential returns to be submitted by life and non-life insurance companies. It brought the 1985 model returns under the new act, but, apart from the introduction of new schedules disclosing the required and available solvency margins, did not bring any changes in their contents. However, it did introduce the distinction between public and non-public prudential returns, as was the case for non-life insurers. After these changes, all Dutch insurers had the opportunity to apply a type 4 single-track reporting approach. And another Decree introduced the amount of the minimum guarantee fund and the assets admissible to cover this fund for life and non-life insurance companies, expanding these requirements to the first category of companies. The provisions were taken directly from the first life insurance directive.

Subsequently, the only change in the insurance business supervision act of 1986 was made in 1989. It implemented the EEC directive regarding assistance, which added a new class to the existing list of 17 classes of non-life insurance. The related amendments of the Administrative Decrees under the act were published shortly after.

The only other legislative action occurred at the end of 1989, when the Insurance Chamber published new requirements for health insurers, replacing the former senescence provision by a ‘voorziening voor veroudering’ (ageing provision). The amendment was the result of the introduction of the new health insurance system and two related acts to level certain claims over the whole Dutch health insurance industry, described earlier in this section, and of developments in actuarial techniques. The new provision had to be calculated applying a detailed schedule, which was published as an annex to the circular. It included specific transitional provisions, allowing insurers in case of a deficit to continue the building-up mechanism applicable under the old system, until the new requirements were met. From that moment on, the old system was no longer allowed.

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469 Minister van Justitie (1986n), Staatsblad 1986, nr. 637.
470 Minister van Justitie (1986o), Staatsblad 1986, nr. 638.
471 See section 4.4.3.11.
472 Minister van Justitie (1987a), Staatsblad 1987, nr. 219.
473 Minister van Justitie (1987b), Staatsblad 1987, nr. 291.
474 Minister van Justitie (1988a), Staatsblad 1988, nr. 654.
475 Minister van Justitie (1989a), Staatsblad 1989, nr. 52.
477 Minister van Justitie (1989b), Staatsblad 1989, nr. 192.
479 Soon after the circular was issued, errors were detected in this schedule, which resulted in the publication of a revised annex, included in Verzekeringskamer (1990a).
6.6.8 The developments in respect of the structural policy
At the end of the 1980s, the government announced its intentions to fundamentally change its existing policy regarding the cooperation between banks and insurance companies. A letter from the Minister of Finance to the Second Chamber described the national and European market developments occurring during this decade. It pointed out that the ongoing preparations for the European Common Market in 1992, described in the beginning of this chapter, introduced the need to amend the criteria for assessing the acceptability of such a cooperation. The letter mentioned that, thus far, creditor protection and the prevention of market concentration had been the main drivers to allow only limited participations between the two sectors in the financial services industry, but that it was now the time to apply these criteria not on a national, but on a European level. Therefore, the spirit of the legislation would, as of 1 January 1990, be amended to allow such a cooperation and participation in all cases, unless the application of the legal criteria would give rise to serious concerns. The new approach was supported by the industry and the supervisors, and the latter would make such agreements that adequate supervision of financial conglomerates would be exercised. This resulted in the 1990 protocol between both supervisors, discussed in the next chapter.

6.6.9 Summary and conclusions
The main events in the period related to the implementation of the first EEC life and non-life insurance directives. The first non-life insurance directive, which should have been effective at 1 February 1976, resulted in the replacement of the non-life insurance business act of 1964 by the non-life insurance business supervision act of 1985. It introduced regulations regarding the technical provisions (without, however, specifying the methods or assumptions to determine these liabilities), solvency requirements, and revised prudential reporting schedules, which had to be prepared on a consolidated basis. However, insurance companies could not be included in the consolidation scope. Apart from solvency requirements, similar provisions were included in amended reporting schedules for life insurers. The 1985 act for non-life insurers was converted one year later into a generic insurance business supervision act to incorporate the requirements of the first life insurance directive, with subsequent amendments of the related Administrative Decrees such as the introduction of solvency requirements. As a result, the 1922 life insurance business act was repealed.

Neither the new reporting schedules nor its accompanying guidance included prescribed accounting principles or references to financial reporting requirements, although there were some signals that this might be considered for the future. This means that the prudential returns were still, officially, unrelated to the financial statements. At the same time, the financial reporting developments described earlier in this chapter revealed that insurers were (still) allowed to designate their prudential returns as their financial statements, provided that all financial reporting requirements were included in these returns. In this sense, it was possible that there was an indirect link between the two set of financial reports, driven by the legislation on the financial statements. Whether or not this was the case in practice for the companies reviewed in this dissertation, is described in the next section of this chapter. At the same time, the introduction and the mandatory disclosure of the available solvency margin (including prudential filters) in the mid-1980s changed the prevailing type 3 single-track reporting approach into a type 4 approach.

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480 Tweede Kamer (1989b), nr. 20800.
481 See section 7.6.2.2.
Another important event in the period concerned the introduction of the structural policy. To prevent an unacceptable concentration of power in the financial sector, the banking industry, the insurance industry, and the two supervisory authorities on these activities concluded agreements which, in effect, limited the possibilities to conclude cross-sector participations and exercise voting rights if this was the case. Subsequently, such limitations were included in the insurance business supervisory act. However, at the end of the period the government announced a full liberalisation of this policy, under the influence of the preparation for the European Common Market in 1992. As a result, financial conglomerates were allowed from 1 January 1990 onwards. This had, as is described in the next chapter, an important impact on the composition of the Dutch financial services industry and on the companies reviewed in this dissertation.

6.7 Reporting in practice

6.7.1 Introduction
This section discusses the actual reporting developments of the selected companies. As in the previous chapter, it is primarily based on the data extracted from the financial statements, which are presented in annex 13. Where applicable, additional information is included derived from other sources. Although some tables in this section of the annex include data subsequent to 1970, these are not discussed in this chapter, but in the next. The financial statements of the AGO and the Ennia, both created at the end of the period, are described in the next chapter as well.

The analysis is again organised by the selected elements of financial reporting, in the following order:

- The size of the financial reports;
- General comments regarding the financial statements, which include the balance sheets, the profit and loss accounts, the cash flow statements, and the movement schedules of reserves;
- The accounting treatment of investments;
- The accounting treatment of technical provisions;
- The accounting treatment of long-term employee benefits (the provision for pensions and similar obligations);
- The accounting treatment of taxes (the provision for (deferred) tax and tax on profit or loss);
- The presentation of segment information; and
- The accounting treatment of business combinations.

As before, the descriptions and analysis of (changes in) accounting policies are included in the discussions of the individual selected elements. Because Fortis was created in 1990, all observations on this company are presented in the next chapter.

The findings on the companies reviewed in this dissertation are compared to those identified in the accounting literature, since this provides further insight in the reporting practices “acceptable in the economic and social climate” (the terminology used in the companies’ annual accounts act) or “acceptable in the industry” (the legal terminology after the implementation of the fourth directive).

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482 See annex A13.4.
483 See section 7.7.
One of the publications used for comparison was a comprehensive review of the reporting practices of Dutch insurers, carried out by the students P.M. Joosten and R.W. Agasi. It took place at the time that, as is described earlier in this chapter when discussing the implementation of the fourth directive in the Dutch legislation, insurance companies were (as an option) exempted from the general financial reporting requirements in respect of their investments and technical provisions, and when the RJ had not yet issued any guidance on these two topics. The only requirements were that the accounting principles for these two major balance sheet categories had to be “acceptable in the industry”.

As their graduation project, Joosten and Agasi examined the annual accounts of a number of companies for the years 1986 and 1987, i.e. based on the new reporting requirements introduced in 1985, as is described in the previous section. They reviewed 20 life insurers and 7 tontine companies, jointly representing over 90% of the total assets of the Dutch life insurance industry. For non-life insurers, the 20 examined companies held jointly about 55% of total assets of these activities. Regarding insurance groups, Joosten and Agasi noted that there were only minor differences in accounting or classification principles between the group accounts and the financial statements of insurance subsidiaries. Overall, they concluded that there was too much variety in the financial reporting practices by Dutch insurance companies and that the designation of the prudential returns as the official financial statements, despite the disclosure of additional information and solvency information including prudential filters (in my terminology, a type 4 single-track reporting approach) could not produce information that would meet the legal requirements in respect of the necessary insight in the financial position, result, liquidity, and solvency.

The main arguments of Joosten and Agasi were the different purposes of the prudential returns (focused on supervision) and of the financial statements (focusing on interested parties), and the large permissible variety in accounting principles. Instead, they recommended a strict distinction between reporting to prudential supervisors (with specific mandatory formats and accounting principles) and reporting to shareholders (under the requirements of the civil code), in line with the US requirements discussed earlier in this chapter. On the other hand, they provided no comments in respect of problems they had experienced in assessing the, in their view, ‘appropriate’ accounting principles for the financial statements and the prudential returns. This means, in my opinion, that the descriptions of the accounting policies and the disclosures were clear enough to carry out their analysis and to identify the items with undisclosed reserves.

Overall, Joosten and Agasi rejected, as the first I have identified in the literature, a single-track reporting approach, based on the different objectives of the two sets of information: it was, in their view, impossible to meet both objectives by a single set.

\[^{484}\text{Joosten and Agasi (1990).}\]
### 6.7.2 The size of the financial reports

The developments in the size of the financial reports are summarised in the next table.

<table>
<thead>
<tr>
<th>Table 6.12</th>
<th>Number of pages of the financial reports in the period 1970-1990</th>
</tr>
</thead>
<tbody>
<tr>
<td>AGO (H)</td>
<td>-</td>
</tr>
<tr>
<td>AGO Leven (L)</td>
<td>-</td>
</tr>
<tr>
<td>AGO Onderlinge (L)</td>
<td>-</td>
</tr>
<tr>
<td>AGO Schade (N-L)</td>
<td>-</td>
</tr>
<tr>
<td>Ennia (H)</td>
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</tr>
<tr>
<td>Ennia Leven (L)</td>
<td>-</td>
</tr>
<tr>
<td>Ennia Schade (N-L)</td>
<td>-</td>
</tr>
<tr>
<td>AEGON (H)</td>
<td>-</td>
</tr>
<tr>
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<tr>
<td>AMEV (H)*</td>
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<tr>
<td>Utrecht (L)**</td>
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</tr>
<tr>
<td>AMEV Leven (L)</td>
<td>-</td>
</tr>
<tr>
<td>Holland (N-L)</td>
<td>48</td>
</tr>
<tr>
<td>AMEV Schade (N-L)</td>
<td>-</td>
</tr>
<tr>
<td>Nationale-Nederlanden (H)</td>
<td>42</td>
</tr>
<tr>
<td>Nationale-Nederlanden Leven (L)</td>
<td>270</td>
</tr>
<tr>
<td>Nationale-Nederlanden combined Dutch non-life insurance companies (N-L)</td>
<td>71</td>
</tr>
<tr>
<td>Nationale-Nederlanden (N-L)</td>
<td>-</td>
</tr>
</tbody>
</table>

Note*: as the AMEV was succeeded by Fortis in 1990, its numbers for this year are not included in this table.
Note**: although the last financial statements of the Utrecht concerned 1984, this number is reported in this table to enable comparison between the numbers of the Utrecht and its legal successor the AMEV Leven, incorporated in 1985.

Consistent with the findings in the previous period, the size of the reports of life insurers (marked ‘L’) was consistently larger than of the non-life insurance companies (marked ‘N-L’). The increase in size of the reports of the AGO Leven can be explained by the merger with the AGO Onderlinge: all assets of the latter had to be specified in the prudential returns of the former. This effect, however, did not occur with the merger of the AGO Leven and the Ennia Leven into the AEGON Leven, as a result of the 1985 amendments in the prudential returns: as is described in the section presenting the Dutch prudential reporting requirements, the new models allowed a much higher aggregation level for certain investments than in the past. This legal development also explains the decrease in size of the 1985 prudential returns of the AMEV Leven (compared to the 1984 returns of the Utrecht), and of the Nationale-Nederlanden Leven from 1980 to 1985.

The increase in aggregation level for certain investments also explains the limited effect of the merger between the AGO Schade and the Ennia Schade, resulting in the establishment of the AEGON Schade. In contrast, there is no clear explanation for the increase in size of the reports of the AMEV Schade (succeeding the Holland).

The size of the financial reports of the holding companies (marked ‘H’) gradually increased over the years, but for these companies this could be explained by legal developments such as introduction of the companies’ annual accounts act and the implementation of the European fourth or seventh directives, all described previously when presenting the Dutch financial reporting developments. At the same time, these developments provide no explanation for the increase in size of the financial reports of AEGON between 1985 and 1990, a change which occurred gradually over the years.
6.7.3 General comments regarding the financial statements

Life and non-life insurers

As is noted earlier in this chapter when discussing the Dutch prudential reporting developments, the layouts of the balance sheet and the profit and loss accounts for life and non-life insurers, all in the T-format, were dictated by Administrative Decrees issued under the subsequent supervisory acts. Additional lines were added by some companies in the balance sheet, but this occurred only in a limited number of cases. More was added to the model of the profit and loss account. For life insurers, this concerned in particular interest rate rebates, charges to or releases from the extra reserves, and, for the companies within the AGO Group, transferred or assumed life insurance provisions. Tax was presented as a separate line item only in a very few cases. As is noted in the previous chapter, such additional lines were formally not allowed, but accepted by the Insurance Chamber in practice.485 Consistent with the requirements in the prudential reporting models, life insurers provided comparative amounts only from 1985 onwards: before, the models did not enable the presentation of such amounts in the balance sheet or the profit and loss account but required them in the notes. All supervised insurers designated their prudential returns as their financial statements: a single-track reporting approach.

Movement in the reserves were, in accordance with the requirements, disclosed by all supervised insurers. And, from 1985 onwards, they also prepared, as required, their prudential returns on a consolidated basis. Statements of source and application of funds, or of cash flows were not included, as this was neither a requirement under the prudential models nor under the companies’ annual accounts act or its successors. The Nationale-Nederlanden continued to provide combined prudential returns for the Dutch non-life insurance companies of the group, until, in 1985, the Nationale-Nederlanden Schade was created, which merged these companies into one non-life insurance company.

The financial statements of the non-life insurers disclosed, as was mandated under the prudential regulations, the required and available solvency margins from 1985 onwards. For life insurers, this requirement was only introduced in 1986, although the AEGON Leven already presented these amounts in 1985. In other words, all applied a type 4 single-track reporting approach. Concerning the presentation of policyholders’ profit participation, the findings show that, in accordance with the mandatory models under the 1922 life insurance business act,486 all life insurers reported these amounts as part of their profit appropriation until 1984. Subsequently, it was part of the profit determination.

Holding companies

The formats of the balance sheets and profit and loss accounts of the holding companies were mixtures of the requirements under the companies’ annual accounts act and its successors, and the insurance supervisory acts. This was their solution to meet the requirements of these acts, while, at the same time, applying the legal possibility to use the models under the prudential acts, as is described in the section presenting the Dutch financial reporting developments. These statements were always presented on a consolidated basis, including comparative amounts.

485 See section 5.5.3.1.
486 See table A9.77.
Non-consolidated balance sheets and profit and loss accounts were provided by all holding companies, but not all did this for the full period: the AMEV started only in 1975, and the Nationale-Nederlanden in 1974.

The movements in the consolidated reserves were presented by the AGO, the Ennia, and AEGON for all years discussed in this chapter. The AMEV did it in the period 1975-1984, and the Nationale-Nederlanden from 1974 onwards, i.e. several years after it was required by the companies’ annual accounts act, described earlier in this chapter as part of the discussion on the Dutch financial reporting developments. Non-consolidated schedules of the movements in the reserves were presented annually by AEGON, for the period 1985-1989 by the AMEV, and from 1985 onwards by the Nationale-Nederlanden.

In respect of the accounting policies applied by the holding companies in their consolidated financial statements, I have not identified any significant differences from those applied by their supervised Dutch insurance subsidiaries. In other words, the holding companies all adopted a type 12 single-track reporting approach.

All holding companies also included a statement of source and application of funds in their financial statements, although not for every year of their existence: the AGO started in 1979, the Ennia in 1977, the AMEV in 1981, and the Nationale-Nederlanden in 1976. AEGON provided the statement each year. This trend was in line with the general financial reporting practices in the Netherlands.487

As described in chapter 3, in the period reviewed in this chapter all holding companies were quoted on foreign stock exchanges, next to their main listing at the Amsterdam Stock Exchange. Generally, these events had no impact on their financial statements, with one exception. AEGON provided, from 1984 onwards, an annual reconciliation, for its equity and its net profit, from Dutch GAAP to US GAAP. This related to its listing in the US in that year, as the only one of the three groups reviewed in this dissertation at the time,488 and it complied with the line-by-line reconciliation requirements introduced by the SEC in 1982.489 In the period 1984-1990, AEGON’s US GAAP equity was systematically higher than its Dutch GAAP equity. The main adjustments concerned lower technical provisions for life insurance business (including deferred acquisition costs), and the capitalisation and amortisation of goodwill, partly compensated by a lower book value for land and buildings. But what the reconciliation did not show was that there was also a difference created when AEGON was formed: while under Dutch GAAP the pooling of interests method was applied, under US GAAP the AGO had acquired the Ennia, resulting in a negative goodwill that had to be amortised over a number of years.490 A possible explanation therefore is that positive and negative adjustments in respect of goodwill were presented on a net basis. In the conversion to US GAAP, net profit under Dutch GAAP was decreased by the depreciation of the buildings and the amortisation of goodwill; however, the different treatment of realised gains and losses on investments was the main factor determining the difference between the profit under US GAAP or Dutch GAAP.

488 See section 3.2.5.
Under US GAAP, realised gains and losses on investments were reported in the profit and loss account: under Dutch GAAP all such results in respect of land and buildings and of shares were reported in the reserves. For debt securities, this occurred under Dutch GAAP until 1986, when the accounting policy was amended to account for such gains and losses on an amortised basis in the profit and loss account.

Regarding the reserves, the reviewed companies presented the following types: share premium reserves, general or extra reserves, revaluation or investment reserves, reserves for retained profits of subsidiaries or legal reserves, foreign currency difference reserves, and other reserves. In one case, and for one year only, also a dividend reserve was included. However, a comparison of the tables presenting the movements in the reserves and the reserves reported in the balance sheet revealed that the Ennia and the Nationale-Nederlanden also carried undisclosed contingency or catastrophe reserves for a period of time. In 1985, the Nationale-Nederlanden started to show this reserve separately in its financial statements.

For both the holding companies and the Dutch insurance subsidiaries, the movements in the reserves often related to gains and losses on investments and to goodwill (both discussed later in this section), strengthening of the technical provisions (in particular in the beginning of the period), and foreign currency differences. Additionally, the impact of changes in accounting policies was consistently reported in the reserves. The findings on the third item were consistent with those of the Insurance Chamber, which noted in its annual reports in the mid-1970s that several non-life insurers, against the intention of the models, still accounted for extra additions to the technical provisions directly in equity, instead of in the profit and loss account.\footnote{Verzekeringskamer (S1975-1977) and Verzekeringskamer (S1976-1977).} In my view, this comment means that either the guidance notes on the models were not sufficiently clear, or that the practice was more widespread than appeared, and that the Insurance Chamber was, for unknown reasons, unwilling to address this on a company-by-company level as part of their normal supervisory activities.

Regarding policyholders’ profit participation, the AGO followed the life insurers’ presentation until 1975; subsequently, it presented, in line with the practice adopted by all other holding companies, the amounts as charges in the profit and loss account.

In the period reviewed in this chapter, the holding companies started to show in their profit and loss subtotals such as operating profit, with separate presentation of items between this subtotal and net profit or loss. The companies provided no specific reasons for this presentation choice and limited themselves to an explanation of the items, but they, apparently, considered these amounts to be of a different nature than those included in the operating profit. The items concerned an extra addition to a staff pension scheme and a compensation release from the provision for deferred tax (Nationale-Nederlanden 1975), additions to the provisions for uncollectable investments and debtors (AMEV 1975-1980), policyholders’ profit participation (Ennia 1975-1980), general interest and unspecified extraordinary gains and losses (AGO 1982), specified extraordinary gains and losses (Nationale-Nederlanden 1985), and realised gains and losses on land and buildings and on shares, after tax (AEGON 1990). The extraordinary gains and losses of the Nationale-Nederlanden in 1985 referred to the release of the catastrophe provision, utilised to write off the investment in the Westland/Utrecht Hypotheekbank.
One particular event in respect of the financial statements reviewed in this section concerned a court case for the Enterprise Chamber in respect of the 1983 annual accounts of AEGON.\footnote{Beckman and Harmsen (2008), part 1, p. 1.25-01 – 1.25.18.}

The complaint was that AEGON, at the time of its creation, had formed a reorganisation provision out of the reserves, instead of charging the necessary amount to the profit and loss account. In its defence, the company and its auditor referred to the ORJ on business combinations, described in the section on the Dutch financial reporting requirements, characterising the merger as one of equals. However, the Enterprise Chamber ruled that such a reorganisation provision could not be formed out of the reserves, since the future benefits of such a merger were not reported in the reserves, but in the profit and loss account.

\textit{Closing observations}

Regarding amendments in legislation, the impact of the adoption of the companies’ annual accounts act on the financial statements of the supervised insurers was limited, apart from, as was noted earlier by Pon in this chapter as part of the description of the Dutch prudential reporting developments in 1985, some expansion in the disclosure of accounting policies. The other changes in practices followed the 1985 amendments in the prudential requirements: in this year, all companies changed the formats of their primary statements. However, although there were (still) no prudential requirements in this respect, they also changed, as is described hereafter, their accounting policies in respect of the treatment of realised gains and losses on investments, making reference to the amended financial reporting legislation (book 2 of the civil code). This is, in my view, a clear example of the implementation of the provision in the Dutch financial reporting requirements that insurers were allowed to designate their prudential returns as their financial statements, if, and only if, these returns included all requirements in the civil code. As a consequence, if insurers wanted to use this exception, they had to adjust their accounting principles to new requirements in the financial reporting area. I consider this reference to the amended financial reporting legislation also an indication that the Dutch insurers had taken initiatives to develop “acceptable principles in the industry” and to harmonise such principles within the industry. Overall, the supervised insurers applied a type 4 single-track reporting approach, and the holding companies of insurance groups a type 12 approach.

Comparing these practice developments to the pronouncements of the TO/RJ and the IASC, the following observations can be made:

- By meeting the requirement in the companies’ annual accounts act of 1970 to disclose the accounting principles, compliance with the pronouncements of the TO and IAS 1 was also achieved;
- Although the TO had only expressed, in a draft pronouncement in 1974, a preference to prepare consolidated accounts, all holding companies did so during the whole period and therefore achieved compliance with IAS 3 as well as the Dutch financial reporting requirements after the implementation of the EEC seventh directive. On the other hand, the supervised insurance companies only started to publish consolidated financial statements from 1985 onwards, when this was required by the revised prudential reporting requirements;
Although there were only draft and no final pronouncements of the TO/RJ in the period on the statement of source and application of funds, all holding companies prepared, generally starting in the second half of the 1970s, such a statement, as was required by IAS 7; and

- The impact of changes in accounting policies was reported by all companies in their reserves, although not clearly presented as an adjustment to the opening balance. The RJ only issued guidelines in 1984, aligning Dutch GAAP to IAS 8.

6.7.4 The accounting treatment of investments

During the period, all companies provided a breakdown of their investments. The insurers did this in accordance with the mandatory models for their prudential returns, and the holding companies presented the information in their balance sheet or in the notes. A summarised breakdown of the securities by nature, as required under the supervisory models, was presented by the AGO Leven, the AGO Onderlinge, the AGO Schade, the Ennia Leven, the Utrecht, and the Holland, but not by the Ennia Schade and the combined Nationale-Nederlanden non-life insurers. I have not been able to find an explanation for the fact that this deviation from the requirements was, apparently, allowed by the Insurance Chamber. However, all companies provided a breakdown by individual security. From 1970 onwards, some life insurers disclosed separately the investments in land and buildings for own use.

Regarding the accounting principles, the following findings are reported. Land and buildings were, from the mid-1970s onwards, consistently valued at appraisal value. In the early 1970s, some companies disclosed that they measured these assets at lower values, for instance at 85% of the appraisal value. And in the period 1975-1985, several companies applied the so-called system of business-economic depreciation, described in the previous chapter, to determine their profit and loss account. The investment category included own office buildings of the insurers. These findings were consistent with observations in the accounting literature on the generally applied policies by Dutch insurers, although the economists Knoops and A.J. Kernkamp noted that, in the mid-1980s, about 25% of the companies reported their land and buildings at cost minus depreciation. According to Joosten and Agasi, the latter method applied in particular to the own office buildings of non-life insurers.

Debt securities (listed and non-listed) and private loans were, during the major part of the period, measured under systems described as redemption value, face value, cost, or amortised cost. However, when analysing these systems in more detail, it was clear that the differences were more in the terminology than in the contents: under all these systems, any differences between the acquisition price and the redemption value of the instruments were amortised over their lifetime. The stock exchange value was applied by only some companies in the beginning of the period for a part of their portfolio of debt securities, and disappeared completely after 1975. The diversity noticed in the previous period was over. As, generally, the reasons for changes in accounting policies were not disclosed at all or only in very generic terms, I have not been able to find an explanation for these developments, as neither the financial nor the prudential reporting developments provided requirements how to account for these investments.

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493 See section 5.5.4.
Regarding debt securities, Smit confirmed the general approach to use (a variant of) amortised cost for life insurers in the 1970s and the early 1980s. However, he also noted that non-life insurers often valued these assets at the stock exchange quotation. He explained this by the approach informally taken by the Insurance Chamber in assessing the solvency position of a non-life insurer: for this purpose, it accepted amortised cost only if the related investments were held to cover long-term liabilities, such as the senescence provision. In all other cases, it applied current values. And Knoops and Kernkamp found, in the mid-1980s, a variety of methods, with different systems applied for different kinds of securities. This was confirmed by Joosten and Agasi: the stock exchange value was still used by a minority of the companies they reviewed.

Shares were consistently measured at the stock exchange value or estimated sales price, by all companies and over the whole period. Again, the former diversity had disappeared. These observations were supported by the other researchers mentioned in this section.

Unrealised gains and losses on investments were always reported in the reserves. The accounting treatment of realised gains and losses was the area of the greatest differences between companies (sometimes even within one group) and over time. Until 1985, most companies reported these gains and losses in the reserves, but the AMEV and its subsidiaries recognised them in the profit and loss account (with recycling). And the Ennia applied, from the mid-1970s, a mixed system under which the gains and losses on land and buildings were included in the profit and loss account, and on shares in the reserves. The approach changed in 1985: from that year onwards, the realised gains and losses on land and buildings and on shares were reported in the reserves, and other gains and losses on investments in the profit and loss account, in most cases spread over five years. Whether or not this change had been inspired by the one introduced by the Eagle Star, described in the section on the UK reporting developments, is unknown; it is, however, a fact that both changes occurred shortly after another. Only the Nationale-Nederlanden continued its former practice to report all realised gains and losses in the reserves.

Compared to the previous period, there was more uniformity in the accounting principles, although no generally applied approach. I consider it highly likely that this harmonisation was the result of activities developed within the Dutch insurance industry. Regarding the treatment of unrealised and realised gains and losses on investments, the diversity observed was confirmed by the other researchers. Smit observed that, in the 1970s and the early 1980s, some companies reported these items in the reserves, others in the profit and loss account, and again other used both systems in combination. Furthermore, he noted that there was no common view as to the amount of such gains: some companies calculated them as the difference between sales value and book value, while others took the difference between sales value and cost. Knoops and Kernkamp found that the life insurers in the mid-1980s reported all gains and losses on land and buildings and on shares in the reserves, but that this only applied to a small majority of companies in respect of fixed-interest investments.

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According to Knoops and Kernkamp, in the mid-1980s most life insurers included only unrealised amounts in the reserves, and realised amounts in the profit and loss account (with recycling). Joosten and Agasi noted that this was also the case in 1986 and 1987.\textsuperscript{503}

The accounting treatment of realised gains and losses on investments by AEGON was subject to a ruling by the Enterprise Chamber in 1988.\textsuperscript{504} The claimant considered the changes in accounting policies, introduced in 1986, not acceptable under Dutch GAAP. The new system was to amortise realised gains and losses on fixed-income investments over five years. In its defence, AEGON noted that it was customary in the Dutch insurance industry to apply this system (a statement, that is not confirmed by my findings presented in this section) and that, at the time, only the AMEV followed a different system, which would, however, be aligned with the industry practice in 1988.

The Enterprise Chamber, however, ruled against the system: it considered the capitalisation of realised losses unacceptable, and also expressed reservations on the accounting treatment of realised gains, if it was not certain that the investment income of new investments was sufficient to cover the charges of unwinding the discounting of the technical provisions. It, therefore, ruled that the need for the accounting change (to improve the insight into the results of the company) was not demonstrated. Subsequently, AEGON appealed the ruling on the treatment of realised investment gains and losses at the Supreme Court. This court ruled in 1990 that the Enterprise Chamber had failed to consider the contemporary industry practices, as was required in the Dutch legislation, repealed the verdict, and ordered the chamber to look at the topic again. However, as neither the claimant nor AEGON submitted a specific request to do so, which was a legal requirement, the Enterprise Chamber never reopened the case and its ruling was, effectively, considered to be not-issued.

The accounting treatment of land and buildings, as far as own office buildings were concerned, was compliant with RJ 2.02, issued in January 1984, and with IAS 16. For the other investments, the TO/RJ had not issued any standards in the period. The accounting principles were in compliance with IAS 25, which introduced multiple unrestricted options and was applicable to the investments of non-life insurers and holding companies.\textsuperscript{505}

As is noted earlier in the section on the Dutch financial reporting developments, the RJ was concerned about the diversity in accounting policies for investments of insurance companies, but had not yet taken any action to address this.

\subsection*{6.7.5 The accounting treatment of technical provisions}

Apart from the Nationale-Nederlanden, all companies provided breakdowns of their technical provisions in their financial statements, although the level of detail differed between the companies and over time, and the information was sometimes presented in the balance sheet and in other cases in the notes. Breakdowns of the technical provisions by line of business were presented by the non-life insurers the AGO Schade, the Ennia Schade, and the Holland. No such information was included in the combined returns of the Nationale-Nederlanden non-life insurers.

\textsuperscript{503} Joosten and Agasi (1990).
\textsuperscript{504} Beckman and Harmsen (2008), part 9, p. 9.11-01 – 9.11.42.
\textsuperscript{505} See section 7.4.3.3.
Life insurers

The life insurance provisions for the Dutch operations of the insurers reviewed in this dissertation were consistently determined using the net premium method, as was the case in the previous period. The capitalised interest rate rebates for the Dutch operations were amortised in accordance with the fiscal system, although AEGON introduced, in 1990, a system under which these assets were amortised with annually increasing amounts instead of decreasing amounts. Interest rate rebates were considered to be part of the accounting treatment of the technical provisions. In that sense, the insurers had, as is described earlier in this chapter under the Dutch financial reporting developments, the freedom under the civil code to determine their technical provisions in accordance with principles that were considered “acceptable in the industry”. These principles were, apparently, derived from the tax regulations, which was, in my view, a clear deviation from the general approach that the link between annual accounts and tax returns had weakened after 1957.506

In the 1980s, the companies expanded their disclosures, clarifying that the life insurance provisions for foreign operations were based on the local prudential requirements or on local GAAP, but adding that these were, generally, also based on the net premium method. The Nationale-Nederlanden Leven was the only company that consistently added a provision for (future) administrative expenses to the provision calculated under the net premium method. Its parent company the Nationale-Nederlanden made no reference to such expenses, but introduced, in 1990, an additional provision for future policyholder profit participation. The methodologies used to determine the life insurance provisions were, generally, in line with the Dutch industry practice. They were, from the early 1970s onwards, almost consistently calculated under the net premium method.507 This method was also dominant in the 1980s, although about 25% of the companies used a combination of this method with the Zillmer method in the middle of this decade.508 Interest rate rebates were capitalised and, by most companies, amortised using the fiscally accepted method over a period of eight years, although some companies applied a longer amortisation period. In the mid-1980s, a number of life insurers started to present a separate provision for policyholders’ profit participation under the other technical provisions. The discount rates in the calculations are presented in the next table.

Table 6.13 Actual discount rates to determine the life insurance provisions in the period 1970-1990

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>AGO</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AGO Leven</td>
<td>3.45%</td>
<td>3.65%</td>
<td>2.5-4.5%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AGO Onderlinge</td>
<td>3.80%</td>
<td>3.86%</td>
<td>3.83%</td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>Ennia</td>
<td></td>
<td></td>
<td>3.57%</td>
<td></td>
<td>-</td>
</tr>
<tr>
<td>Ennia Leven</td>
<td></td>
<td></td>
<td></td>
<td>-</td>
<td>-</td>
</tr>
<tr>
<td>AEGON</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>ND</td>
</tr>
<tr>
<td>AMEV</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>AMEV Leven</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Utrecht</td>
<td>3.29%</td>
<td>3.54%</td>
<td>3.90%</td>
<td>4.10%</td>
<td>-</td>
</tr>
<tr>
<td>Nationale-Nederlanden</td>
<td>3.24%</td>
<td>3.57%</td>
<td>3.77%</td>
<td>3.88%</td>
<td>3.97%</td>
</tr>
<tr>
<td>Nationale-Nederlanden Leven</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

Source: the percentages are derived from annex 13.

506 See section 5.2.4.
508 Joosten and Agasi (1990). An explanation for this development was not provided, and, as is described shortly hereafter, the comment did not apply to the largest Dutch insurers.
The gradual increase of the discount rate during the period was consistent with its average development in the industry, presented in figure 6.2 below.

Figure 6.2: Interest rates in the period 1970-2005

![Interest rates graph](image_url)

Sources: the long-term and short-term interest rates can be found in table A8.1. The average interest income and discount rates are derived from table A8.33; they are not available after 1985.

The figure shows that the long-term interest rate, after a short rise in the early-1970s, started to fall to about 6% in 1985. Subsequently, it rose to 8% in 1990. During the period, the average investment income increased from about 6% in 1970 to over 8% in 1985. The average discount rate gradually climbed from 3.27% in 1970 to almost 4% in 1985. Whether or not this was related to the undisclosed policy of the Insurance Chamber to maximise the discount rate at 4%, as is described in the previous section on the Dutch prudential reporting developments, is unknown but cannot be ruled out.

The accounting practices for the US annuity business of AEGON, introduced in 1986, were also subject to the decision of the Enterprise Chamber in 1988, mentioned earlier in this section. Rejecting the complaint, the court considered the treatment under which premiums, claims and expenses were no longer included in the profit and loss account because the products did not include the transfer of insurance risks, acceptable. None of the parties appealed against this decision.

**Non-life insurers**

All companies active in non-life insurance business showed a provision for unearned premiums, supplemented, where applicable, by a senescence provision or, at the end of the period, an ageing provision for accident, health and disability insurance business. The basis for calculating the provision was only revealed in generic terms, referring to unearned premiums or unexpired risks. Only some companies stated explicitly that they deducted the commissions (in varying percentages) from the unearned premiums. Compared to the previous period, the disclosures were expanded moderately.

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509 For the 1970 discount rate, see Verzekeringskamer (L1970-1971).
The Insurance Chamber noted in 1972 that not all companies had already started to build up the senescence provision, described earlier in this chapter when discussing the Dutch prudential reporting developments, although this was mandatory from 1971 onwards.\footnote{Verzekeringskamer (S1971-1972).}

Generic terms were also used for the provision for claims outstanding: almost all companies stated that it had been determined on a case-by-case basis for reported claims, increased by an amount for IBNR. Provisions for claims handling expenses started to be added in the 1980s. The predecessors of AEGON all reported an additional amount for adverse deviation or a safety margin; however, only the AGO Schade quantified this additional provision. The AMEV reported that it had established a catastrophe provision. The same applied to the Nationale-Nederlanden, which strengthened this provision through its profit appropriation in the 1970, but reclassified, through the profit and loss account, the remaining amount to its reserves in 1985. The AMEV Schade and the Nationale-Nederlanden Schade also reported other technical provisions, without, however, disclosing the nature of these provisions. As their parent companies disclosed catastrophe provisions, it is, in my view, possible that these were reported by the non-life subsidiaries under these other technical provisions. The only comment identified in the accounting literature concerned the other technical provisions, which, if used, included the provision for claims handling expenses.\footnote{Joosten and Agasi (1990).}

Finally, most companies showed a marine and aviation fund in their balance sheet or in the notes, which ran, generally, over 3-4 years, and was supplemented in case of deficits in the annual balances. From 1975 onwards, the Nationale-Nederlanden also presented a separate fund for professional reinsurance business.

**Closing observations**

In 1990, I discussed the 1988 reporting practices by life insurers in respect of their technical provisions.\footnote{Schoen (1990).} After having noted that neither the legislator, nor the Insurance Chamber or the RJ had provided guidance on the “acceptable principles in the industry”, as included in the civil code, I concluded that these principles were, in practice, determined by the ‘Big Four’, i.e., AEGON, the AMEV, the Delta Lloyd and the Nationale-Nederlanden. They, generally:

- Applied the net premium method, sometimes supplemented by additional expense provisions;
- Created further technical provisions, the purpose and the calculation methods of which were often unclear;
- Used a large number of differing assumptions regarding the discount rate and mortality tables, for which it was not clear how the companies dealt with the problem of longevity;
- Did not disclose clearly how profit-sharing arrangements were accounted for; and
- Mixed long-term provisions with accruals.

Based on this assessment, I expressed serious doubts on whether the general legal requirement of “sufficient insight into the financial position and results” was met: in particular, the legal principles of objectivity, consistency, matching and (a normal level of) prudence did not seem to be fulfilled.
This also raised the question, I argued, whether a single-track reporting approach was able to meet the different objectives of investors and insurance supervisors. I subsequently called upon the RJ to develop guidelines, addressing these issues and requiring much more disclosures in respect of the life insurance provisions. As is noted before in the section describing the Dutch financial reporting developments, my concerns regarding the technical provisions were shared by the RJ, which had, however, not yet issued any pronouncements in the period reviewed in this chapter.

6.7.6 The accounting treatment of long-term employee benefits
Consistent with the findings of the previous period, most companies reviewed in this dissertation did not disclose the accounting treatment of long-term employee benefits. Of those who did, several companies only mentioned the fact that liabilities were recognised, but said nothing about how these were calculated (the Ennia, the Nationale-Nederlanden combined Dutch non-life insurance companies, and the Nationale-Nederlanden Schade). AEGON disclosed, from 1985 onwards, that the liabilities for the Dutch operating companies were included in the life insurance provisions; it provided no information in respect of its other subsidiaries. And the AMEV established an additional provision to cover the cost according to actuarial methods if the resulting liability exceeded the amount covered in the life insurance provision. The Nationale-Nederlanden presented no disclosure until 1979 (although its subsidiary the Nationale-Nederlanden Leven mentioned, in 1970, the transfer of a part of its life insurance provision to a pension fund). After 1979, the Nationale-Nederlanden reported an equalisation provision for differences between the payments to the pension fund and the liabilities calculated based on actuarial assumptions and experience.

Although the other companies did not reveal their accounting policies, it was clear that pension schemes existed in the early-1970s in the AGO Group and the Ennia Group, as evidenced by charges to the reserves in respect of increases of pensions in payment.

Dutch GAAP was rather silent on the issue in the period: the only existing pronouncement of accounting standard setters was a considered view, issued by the TO in February 1979, which stated that unfunded unconditional benefits had to be accrued, without specifying any recommended or mandatory method to calculate the liability. IAS 19 was not (yet) implemented in Dutch GAAP.\(^{513}\)

6.7.7 The accounting treatment of taxes
The movements in the reserves of all companies, which systematically included transfers to or from the provision for deferred tax, showed that the earlier debate about the need to establish such a liability, described in the previous chapter,\(^{514}\) had come to an end. However, none of the companies showed this provision separately in its balance sheet. This was a difference with the general financial reporting trends in the Netherlands to disclose current and deferred tax liabilities.\(^{515}\) There were also hardly differences in respect of the treatment of tax in the profit and loss account: with a few exceptions, all companies showed it as a separate charge, as part of the determination of the net profit. One exception was the Holland, which included tax as an undisclosed amount in other charges. The other exceptions were three life insurance companies and one non-life insurance company in the early 1980s, which showed tax as part of the profit appropriation.

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513 See section 8.4.3.1.
514 See section 5.5.7.
These were the AGO Leven and the AGO Onderlinge (until 1983), and the Ennia Leven and the combined Dutch non-life companies of the Nationale-Nederlanden (until 1984).

The calculation methods of the provision for deferred tax and the clarity of the disclosure of the accounting policy varied between the companies and over time. The companies being part of the AGO Group applied a discounted basis for all differences, with disclosure of the (range of) rates applied. The Ennia did the same, but did not disclose the rates before 1975. Discounting with disclosed rates was also the case for AEGON and, until 1987, for the Nationale-Nederlanden. On the other hand, discounting was not applied by the Utrecht and the Holland (they used the expected rates at realisation of the differences), and by the AMEV Leven, the AMEV Schade, and the Nationale-Nederlanden after 1987 (they all used the current rates). The AMEV noted that it provided for all differences, without disclosing the rates. Given the approach applied by the AMEV subsidiaries it can be, in my view, safely assumed that the AMEV also used a non-discounted approach, initially based on expected rates, and subsequently on current rates.

The Ennia Leven, the Ennia Schade, the AEGON Leven, the AEGON Schade, the Nationale-Nederlanden Leven and the Nationale-Nederlanden Schade reported that they were part of a fiscal unity and referred to their parent companies for the accounting treatment of deferred tax.

Regarding the fiscal equalisation reserve, several companies noted that they did not provide for deferred tax. Others used a discounted basis, and a third group did not provide any disclosure on the topic. Both AEGON and the AMEV reported in 1988 that they had provided for the full liability on the part to be abolished from 1991 onwards, and had charged the deficit to their reserves. The Nationale-Nederlanden reported a full liability as well, but, in contrast, did not disclose how the deficit had been provided for; furthermore, there was no visible movement in the reserves.

In respect of discounting, the accounting treatment of deferred tax was aligned with ORJ 2.53.5, issued in January 1984, which explicitly allowed it. The draft considered view that had been issued in December 1975 recommended non-discounting, and specified that the treatment of the fiscal equalisation reserve of insurers would be dealt with in a future pronouncement. The treatment was also in accordance with IAS 12, which was silent on discounting. My literature review on the reporting practices in the Dutch insurance industry shows that, in the early 1980s, almost all insurers discounted the provisions for these liabilities, using a rate between zero and the actual tax rate. This practice continued in subsequent years, and it became also clear that there was, generally, no provision created in respect of the fiscal equalisation reserve. This remained to be the usual practice, and Joosten and Agasi noted that even in 1988, when, as is described in the beginning of this chapter, it was decided to change the regime in respect of this reserve from 1991 onwards, not all insurers provided for the part that had to be released to the taxable profits.

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516 See section 7.2.2.
518 van den Brande (1986).
519 See section 7.2.2.
6.7.8 The presentation of segment information

None of the life insurers provided segment information, as this was not required under the models of the prudential legislation. In accordance with their mandatory prudential models, all non-life insurers provided, in the profit and loss account until 1984, amounts per line of business, and segment results (with details in the notes) subsequently.

The holding companies all provided segment information per business line (generally split into life insurance business, non-life insurance business, and other activities), although they started in different years: the AGO in 1977, the Ennia in 1969, AEGON from its incorporation in 1983, the AMEV in 1975, and the Nationale-Nederlanden in 1974. Information by geography was also presented from different years onwards: the AGO from 1982, the Ennia from 1975, AEGON for all years, the AMEV from 1977, and the Nationale-Nederlanden from 1974. The changes in geographical segments followed the international expansion, described in chapter 3. The gradual expansion of disclosures on segment level was in line with the general financial reporting developments in the Netherlands.\(^{521}\) The legal restructurings described in chapter 3 had no impact.

As is described in the section on the Dutch financial reporting requirements, the presentation of segment information by business line was required, from 1976 onwards, by book 2 of the civil code. Under IAS 14, it was required from 1981 onwards. An ORJ to implement this standard was issued in December 1984, with a final RJ in August 1989.

6.7.9 The accounting treatment of business combinations

As is described in chapter 3, all groups reviewed in this dissertation acquired other companies. The holding companies disclosed that the goodwill related to these business combinations was always charged to the reserves, although the amounts were not disclosed in all cases. The Ennia and AEGON specified that goodwill was calculated by comparing the acquisition price with the value of the acquired assets and liabilities, calculated using their own accounting principles. Of the supervised insurers, only the AGO Onderlinge, the AMEV Leven and the AMEV Schade disclosed that they charged goodwill to the reserves, without, however, specifying the calculation method. The other insurers did not mention the accounting treatment of business combinations. However, the AGO Leven and the AGO Onderlinge reported transferred and assumed life insurance provisions in their profit and loss account until 1984.

In none of the mergers occurring in this period, goodwill was shown. At the same time, all newly created or remaining companies presented, in their reserves, amounts related to the harmonisation of accounting policies (in particular, in respect of the technical provisions), and incorporation expenses or merger expenses. All these were indications that the mergers were reported under the pooling of interests method. This was confirmed in the court case regarding AEGON, which is described earlier in this section, on the accounting treatment of a restructuring provision, established as part of the merger expenses.

During the period reviewed in this chapter, there were no final Dutch guidelines on business combinations and goodwill accounting: IAS 22 was not yet incorporated in the guidelines of the RJ, and only one draft guideline had been issued, already in June 1981, but this was never converted into a final guideline.\footnote{See section 7.4.3.3.}

As is described earlier when discussing the Dutch financial reporting developments, in practice most listed companies, until the mid-1980s, charged goodwill to the reserves, but after this date it became more usual to capitalise and amortise goodwill. In this respect, the insurers reviewed in this dissertation did not follow the general trend.

### 6.8 Summary and conclusions for the period 1971-1989

#### 6.8.1 Introduction

As before, this section provides the answers to the four remaining research questions:

1. **What were the developments in respect of financial reporting requirements applicable to Dutch insurance companies against the background of developments in society and in the industry, and how have these developments been influenced by developments in the UK, the US, the EU and its predecessors, and from international organisations?**
2. **What were the developments in respect of prudential reporting requirements applicable to Dutch insurance companies, and how have these developments been influenced by developments in the UK, the US, the EU and its predecessors, and from international organisations?**
3. **What were the relationships between financial and prudential reporting requirements in the Netherlands and the other selected countries or regions, and how did the Dutch developments differ from those in these other countries or regions? And, more specifically, which positions were adopted in respect of a single-track reporting approach?**
4. **What were the actual reporting developments within and reporting choices made by the selected companies, both at the level of individual companies and at group level (if applicable), and how can these be explained from the above developments and events? How did companies, in practice, address the potential conflict between financial and prudential reporting objectives within their application of a single-track reporting approach?**

The main developments in the period occurred, in my view, in the area of financial reporting requirements. Compared to the past, these requirements became more strict and severe, and, in particular in the Netherlands, ended the period of relative freedom of reporting practices. In contrast, the prudential reporting developments were much less and resulted in little change. However, as is shown later in this summary, the prudential reporting requirements continued to dominate the actual financial reporting practices of the supervised Dutch insurers in general and those reviewed in this dissertation, by the use of certain exceptions in the financial reporting requirements and the disclosure of additional information (a type 3 single-track reporting approach). From the mid-1980s onwards, this type 3 approach was replaced by a type 4 approach, related to the requirement to disclose solvency information and prudential filters.
On the other hand, the holding companies of the three reviewed groups were mainly influenced by the financial reporting developments, although, in the absence of detailed measurement requirements for the investments and the technical provisions, the prudential requirements continued to play an important role (a type 12 single-track reporting approach).

Given this interaction between the two sets of developments, this summary differs in structure from the one presented in the previous two chapters: it combines the overview of financial and prudential reporting developments, enabling the reader to better understand the relationship between the two and the level of mutual influence. In other words, my answers to research questions 1-3 are presented together. The overview of actual reporting practices and the link to the financial and prudential reporting developments are presented separately.

6.8.2 The financial and prudential reporting developments and their interaction
The financial reporting requirements changed on all levels researched in this dissertation. The initiatives focused on providing decision useful information to shareholders and interested parties, and resulted, in general, in much stricter and severe reporting requirements, for listed and non-listed companies. Although it was recognised that supervisors were one of the interested parties, the changes did not focus on their roles, but on the public in general, in other words, on the users of the financial statements.

6.8.2.1 The European developments
On the European level, accounting directives were adopted regulating the structure and the contents of the annual accounts (the fourth directive), the consolidated accounts (the seventh directive), and the financial statements of banks. Their main objective was to protect the interests of shareholders and third parties. An accounting directive for the annual accounts of insurance companies was under preparation, but not finalised in the period. The European directives introduced mandatory formats of the balance sheet and the profit and loss account, accompanied by detailed regulations on valuation principles under the ‘true and fair view’ notion. However, to accommodate existing differences in practices in the member states, the directives also included a large number of options and alternatives, to be implemented or rejected at the discretion of the member states. In the developments of the fourth and the seventh directives, the European accounting organisation FEE and its predecessors were heavily involved.

In respect of the prudential reporting requirements, the most important European developments were the adoption of the first insurance directives for life and non-life insurance companies. They removed the existing restrictions for establishing agencies and branches in other member states, introduced a licensing system and solvency requirements, and demanded annual accounts to be made available to the shareholders and the public in general, and prudential returns to the insurance supervisors. For non-life insurers, also a second prudential directive was adopted, as were directives in the banking area. As these latter directives were only implemented in the Dutch legislation in the subsequent period, they are discussed in the next chapter. The directives enabled the insurers and the supervisors to determine and disclose the available and required solvency margins on the basis of the financial statements or the prudential returns by the application of prudential filters (types 2, 4, 6 and 8 of the single-track reporting approach).
Under an approach using prudential filters, certain assets and liabilities could, as a separate exercise, be adjusted upwards or downwards (for instance, eliminating some prudence in the technical provisions) or even completely eliminated (e.g., intangible assets) to determine the margins. This mechanism enabled the (continued) use of a single-track reporting approach, but could, in my view, also be seen as a signal that the legislators recognised that this approach might not always be appropriate to assess the financial position of insurers from a supervisory perspective.

However, the first prudential directives provided no requirements in respect of accounting principles and made no reference to the accounting directives. Furthermore, they did not include any pronouncements on the relationship between the annual accounts and the prudential returns. The two sets of directives appear to have been developed completely independently, and cross-references between the two were completely absent.

Therefore, I conclude, these first European directives had no direct influence on the relationship between the financial and the prudential reporting requirements. Whether or not this was the case when the directives were implemented in the Dutch legislation, is discussed later in this summary.

6.8.2.2 The global developments

Although I admit that the importance of the European accounting directives, which had to be implemented in national legislation, should not be underestimated, one of the most important events in respect of financial reporting developments, in my view, occurred in 1973 on the international level in the form of the establishment of the IASC by a large number of national auditing organisations, including those of the Netherlands, the UK and the US.

The aim of the IASC was to develop global financial reporting standards with a focus on the public interest, by eliminating unacceptable practices and by limiting diversity or, at the very least, making such diversity transparent. As the intention, in the beginning, was not primarily to impose uniformity, the early standards included many options to accommodate existing practices. It was only at the end of the period that the IASC, stimulated by security market supervisors, started to improve comparability by abolishing options to serve the needs of users. In the period, the IASC issued a large number of standards, a number of which were relevant for insurance companies.

My main argument to identify the establishment of the IASC as one of the most important events is that its pronouncements had, already in the period described in this chapter, a significant impact on the financial reporting requirements in a number of countries, including the Netherlands and the UK (as is described later in this summary), although this was not immediately the case for all standards. At the very end of the period, the position of the IASC in respect of the financial reporting developments in Europe was strengthened by an unexpected position statement of the FEE, which characterised the IASC as the most important driver for further European accounting harmonisation. This view was not immediately welcomed and supported by senior staff of the European Commission. However, as is shown in the next chapter, this would change in the 1990s, confirming my opinion on the (growing) importance of the IASC.

In the period reviewed in this chapter, there were no global initiatives in respect of the prudential reporting requirements for insurers.
6.8.2.3 The developments in the US and the UK

In the US, the most important event in the period was, in my view, the establishment of the FASB as the independent accounting standard setter in 1973, immediately recognised as such by the SEC. The objective of the FASB was to establish and improve financial reporting standards for the guidance and education of the public, including issuers, auditors, and users of financial information. Investors and creditors were identified as the primary users, subsequently complemented by employees. During the period, the FASB issued a large number of standards, a number of which were directly applicable to insurance companies. The most important ones were FAS 60 and FAS 97, dealing with the financial statements of insurance companies and regulating the accounting principles for the technical provisions (including policyholders profit participation) and the investments. These pronouncements replaced the former insurance industry guides and statements of position, issued by the US auditing profession.

In the period reviewed in this chapter, there was no direct relationship between the pronouncements of the IASC and the FASB, although the latter started to participate in the IASC meetings at the end of the 1980s, thus providing an additional US flavour to the global discussions.

One of the direct consequences of the creation of the FASB was that the SEC stopped, in 1974, accepting that financial statements of US insurers were prepared under the prudential reporting requirements (a single-track reporting approach), as these focused mainly on a prudent representation of the financial position based on a liquidation scenario and not on providing decision useful information to investors and creditors. As a result, US insurers started to use US GAAP, as determined by the FASB (and, if applicable, the SEC), as their reporting regime. Combined with the expansion of the prudential reporting requirements under the models of the NAIC, in particular the enhanced specification of mandatory recognition and measurement principles for supervisory reporting, these developments resulted in a widening of the differences between these principles and US GAAP. My conclusion on these developments is that they led, effectively, to two completely separate reporting regimes for US insurers.

The financial reporting developments in the UK were, next to the alignment with IAS, influenced by the implementation of the European accounting directives. As insurance companies were not under the scope of these directives and the resulting UK companies acts, the insurance industry itself started to develop pronouncements, although not yet for investments. The lack of guidance in this area did not stop developments in practice, and, in particular in the 1980s, a growing number of insurers in the UK started to provide information on the market value of their investments. Because of the scope exemption, the annual accounts of UK insurers were still based on a type 3 single-track reporting approach and subject to the implementation of the European prudential insurance directives. However, the effect of this implementation process was limited to the requirement to produce annual actuarial valuations in accordance with specific regulations, instead of on a triennial basis as before, although subsequent developments showed that these regulations did not fully capture the difficulties in determining adequate provisions for life insurance policyholders profit participation schemes. In summary, I conclude that the European and national financial reporting developments had only limited impact on the reporting practices of UK insurers in the period, but that the introduction of solvency requirements, through the prudential directives, may have resulted in the change from a type 3 to a type 4 approach: this is an area for future research.
A comparison between the US/UK developments and those in the Netherlands is described as part of the next section.

**6.8.2.4 The developments in the Netherlands**

The financial and prudential reporting developments in the Netherlands took place in a period when the population and economic wealth of the country continued to increase, as did the insurance industry. However, it became clear that the previous expansion of the Dutch social security system was not sustainable in the future, which triggered a wave of privatisations of the system starting in the 1980s.

Similar to what happened on the European and global level and in the US and the UK, the most important developments in the Netherlands occurred, in my view, in respect of the financial reporting requirements. This started with the adoption of the companies’ annual accounts act in 1970, effective from 1 January 1971 onwards.

The act focused on the need to provide relevant information to interested parties, which were primarily defined as the shareholders, and ended the period of relative freedom introduced by the 1929 commercial code discussed in the previous chapter. It introduced much stricter and severe financial reporting requirements under the concepts of ‘faithful representation’ and ‘sufficient insight’ and defined a number of minimum items for the balance sheet and the profit and loss account, but left the determination of acceptable accounting practices to the private sector, as is described hereafter. The act was applicable to supervised insurance companies, but with an important exception: in their case, the prudential returns could be designated and published as the official financial statements, if, and only if, all information required by the companies’ annual accounts act in respect of disclosures was included (a type 3 single-track reporting approach); the act did not include specific requirements in respect of the accounting policies. Whether or not this option was used by the insurers reviewed in this dissertation, is described later in this summary when presenting their actual reporting practices.

The companies’ annual accounts act was incorporated in the book 2 of the Dutch civil code in 1983 and amended by the implementation of the European fourth directive, which, for the first time in the Netherlands, introduced mandatory models for the balance sheet and the profit and loss account, and several detailed valuation rules. The new requirements explicitly maintained the existing single-track reporting approach for insurers and even expanded it: the mandatory models under the civil code were not applicable, and the valuation principles for investments and technical provisions had to be “in accordance with principles which were considered to be acceptable in the industry”. The legislator refrained from defining the meaning of this term, and, although no direct evidence could be retrieved, there are, in my view, clear indications that this was done by the insurance industry itself through its Association of Insurers. The exceptions to the general financial reporting requirements were also available for the financial statements of holding companies of insurance groups (enabling the application of types 9-12 of the single-track reporting approaches), and maintained during the implementation of the European seventh directive in 1988. This directive required the preparation of consolidated financial statements, unless the activities of subsidiaries were so different that their consolidation would distort the required true and fair view.
The companies’ annual accounts act stated that the valuation rules for the financial statements had to “satisfy norms that were considered acceptable in the economic and social climate”, but provided no detailed guidance on what these norms were. This was left to the private sector, which responded by the creation of the TO, consisting of representatives of auditors, employers and employees. During its existence, the TO published a number of exposure drafts and final versions of considered views, and three sets of draft guidelines for the financial statements. At the end of 1981, the role of the TO was taken over by the RJ, which issued a number of draft guidelines and made a number of the drafts issued by the TO and itself final. From 1977 onwards, the TO/RJ took the pronouncements issued by the IASC systematically into consideration and at the end of the period most of the first 24 standards of the IASC were incorporated in the Dutch guidelines, with, generally, only minor differences. Additionally, the TO/RJ reviewed the rulings of the Enterprise Chamber, a special court created under the companies’ annual accounts act and dealing with complaints on financial statements, to assess any generic pronouncements that should influence the existing guidelines. In the development of pronouncements by the TO/RJ, certainly in the beginning, several times reference was made to the financial reporting requirements and debates in the US and the UK.

During the period, the growing interest of the auditing profession in the actual financial reporting practices of companies listed on the Amsterdam Stock Exchange resulted in a number of (bi)annual publications on several topics. The studies focused on compliance with the contemporary accounting standards (both legislative and issued by the TO/RJ), and identified areas of divergence and/or improvement. Insurance companies were, generally, not included in these publications, partly because of their special nature, but also since there was no guideline for the financial statements of these companies at the end of the period reviewed in this dissertation (although the RJ had discussed a draft and expressed dissatisfaction with the methods to determine the life insurance provision and the diversity in accounting for investments). Furthermore, insurance companies, generally, continued to apply a type 3 single-track reporting approach. However, from the mid-1980s onwards surveys of the actual accounting principles of insurers gradually started to become available, revealing that the main difference in respect of investments concerned debt securities, for which several methods were applied, both for the measurement in the balance sheet and the reporting of realised and unrealised gains and losses. Whether or not this was the case in the financial statements of the companies reviewed in this dissertation, is discussed later in this summary. The differences in respect of the technical provisions were, on the surface, much less, although I argued at the end of the period that the application of the net premium method (also discussed by the RJ) and the variety of discount and mortality rates raised questions whether the legal requirement of ‘sufficient insight’ was met.

The first comprehensive comparative study on the financial statements of Dutch insurers was produced by two students, Joosten and Agasi. After having reviewed the 1986 and 1987 of a number of companies, they came to the conclusion that it was not possible under the prevailing single-track reporting approach to meet the objectives of reporting to supervisors as well as investors. At the time, I shared their concerns when I assessed the 1988 reporting practices of Dutch life insurers and the potential tension between reporting to investors (through the financial statements) and reporting to insurance supervisors (through the prudential returns), and questioned whether, given the different objectives of reporting, the existing practice of applying a single-track reporting approach should be continued. In my view, this question is still valid today, and is one of the major themes in this dissertation.
To resolve this situation, one approach could be to apply the US system, based on two distinct reporting regimes. Alternatively, the solution could be to continue a single-track reporting approach, with full disclosure of the prudential adjustments: a type 4 approach. The next chapters discuss the subsequent developments and my preferred solution.

In respect of the Dutch prudential reporting developments, the main events were, in my view, the implementation of the first prudential directives in the mid-1980s, which was considerably later than was required. The result was an insurance business supervision act covering life and non-life insurance companies. The related Administrative Decrees introduced regulations on the technical provisions (although no detailed rules for their calculation were prescribed), solvency requirements, and revised prudential reporting schedules on a consolidated basis although the consolidation of insurance subsidiaries was prohibited. These schedules were split into a publicly available part and a confidential part for the Insurance Chamber.

In particular the introduction of the solvency requirements and the mandatory publication of the required and available amounts (including prudential filters) was a novelty for the Dutch prudential reporting requirements. As was the case for the directives, the Dutch prudential regulations and schedules included no prescribed accounting principles and a link to the financial reporting requirements, although these were mentioned during the development of the revised reporting schedules, was absent. As is noted earlier in this summary, insurers were, if certain requirements were met, still allowed to apply a 3 single-track reporting approach; as a result of the introduction of the disclosure of solvency information (with prudential filters), they changed from a type 3 to a type 4 approach. In these developments, the Insurance Chamber continued to be passive, at least in the public domain: apart from some specific requirements applicable to health insurers, it refrained from issuing public pronouncements in respect of the accounting policies to be applied by insurers during the period reviewed in this chapter.

A second important development in Dutch prudential supervision concerned the abolition, at the end of the period, of the prohibition of cross-participations between banks and insurers, which had existed for several decades. The change related to the upcoming creation of the European Common Market in 1992. As is described in the next chapter, this paved the way for the creation of important financial conglomerates such as Fortis and ING. Under the structural policy, participations of insurers in banks and vice versa were, generally, prohibited, and consolidating substantially different business (which was identified as a problem in the civil code) was not an issue in practice at the time.

Overall, I conclude that, although the prudential reporting requirements still dominated the preparation of the financial statements of Dutch insurers in the period reviewed in this chapter, there were, starting in the mid-1980s, indications that the financial reporting requirements increased in importance, with the requirements to provide comparative amounts in the primary financial statements and to prepare consolidated financial statements as clear examples. Furthermore, despite the deliberate choice of the legislator to enable the continuation of a single-track reporting approach, the debate on this approach slowly came to the surface, and several authors mentioned the US practice of a complete split between the two sets of accounts as a possible or necessary way forward.

523 In practice, this prohibition did not create any problems, as it was resolved by the creation of holding companies, avoiding one insurer owning another.
6.8.3 The actual reporting developments and choices

In presenting the summary of my findings on the actual reporting practices of the companies reviewed in this dissertation, a clear distinction needs to be made between the holding companies of the three groups and their supervised Dutch insurance subsidiaries. This distinction concerned, in particular, the structure and the contents of the financial statements: the accounting principles within the group were, generally, similar.

The layouts of the balance sheet and the profit and loss account of the holding companies was a mixture of the prudential models and the line items in the companies’ annual accounts act, subsequently replaced by the models resulting from the implementation of the European fourth directive. But, more importantly, the financial statements showed an increased focus on the needs of investors. Examples were the consistent publication of consolidated accounts and comparative amounts from the start of the period. Furthermore, the holding companies gradually started presenting segmental information and subtotals within the profit and loss account, and including a statement of source and application of funds.

Movements of reserves were presented by all companies, showing items such as gains and losses on investments, goodwill, foreign currency differences, the impact of changes in accounting policies (including harmonisation effects after a merger or an acquisition), and the strengthening of the technical provisions. As a result of these developments, the size of the financial statements of the holding companies consistently increased during the period. With one exception, the financial statements of the holding companies were not impacted by changes in foreign financial reporting requirements or foreign listings. This exception was AEGON, which, influenced by its US listing in the mid-1980s, started to present a reconciliation of equity and net profit between Dutch GAAP and US GAAP. The accounting policies in the consolidated financial statements of the holding companies were, in substance, similar to those of their Dutch insurance subsidiaries: a type 12 single-track reporting approach.

Similar to the rest of the Dutch insurance industry, the supervised insurance subsidiaries consistently used the exception in the companies’ annual accounts act, subsequently in book 2 of the civil code, to designate and publish their prudential returns as their official financial statements. The amendments were, generally, caused by changes in the prudential requirements, for instance the preparation of consolidated statements and the mandatory disclosure of the required and available solvency margins (with prudential filters) from the mid-1980s onwards; as is noted before, this triggered the change from a type 3 to a type 4 single-track reporting approach. Additional schedules, such as a statement of source and application of funds, were not provided.

The former diversity in the accounting principles for investments diminished considerably, although some companies, during a part of the period, deviated from general practice to report their realised gains and losses. Land and buildings, and shares were almost consistently reported at (estimated) market value, and fixed-income investments at redemption value with amortisation of differences between this value and the initial price over the life time of the instruments. Unrealised gains and losses were always reported in the reserves, as was, until the mid-1980s, the case for most realised gains and losses. From 1985 onwards, almost all companies included realised gains and losses on land and buildings and on shares in the reserves, and all other gains and losses on investments in the profit and loss account, generally spread over five years.
As is described before, I consider it highly likely that this alignment of accounting policies was the result of agreements made in the Association of Insurers. Only the Nationale-Nederlanden continued to account for the realised amounts in the reserves.

For the major part of the period, the life insurance provisions were consistently reported under the net premium method (or, starting in the 1980s, a foreign reporting regime for non-Dutch operations, which was in most cases equivalent to the net premium method), with a discount rate gradually increasing to about 4% and capitalised interest rate rebates amortised applying the Dutch fiscal parameters. The calculation methods of the technical provisions of the non-life insurers remained as vague as before, although some companies disclosed the existence of non-quantified safety margins or contingency/catastrophe provisions. From the 1980s, all companies added provisions for claims handling expenses, and most companies showed separate 3-4 year funds for marine and aviation insurance business.

Regarding the other selected elements of financial reporting, my findings were:

- The obligations in respect of Dutch pension schemes were included in the life insurance provisions; the accounting principles for foreign schemes were, generally, not disclosed;
- Deferred tax was provided for, mostly on a discounted basis, although the rates applied were not always disclosed;
- The financial statements of the holding companies showed a consistent increase in the inclusion of information by business segments and by geographical segments; and
- All mergers effected in the period were reported under the pooling of interests method, under which no goodwill was shown; all acquisitions were accounted for using the purchase method, with goodwill consistently charged to the reserves.

Overall, my findings on the actual reporting practices of the supervised insurers reviewed in this dissertation confirm my previous conclusion that the prudential reporting requirements still dominated the preparation of their financial statements, as had been the case in the earlier periods. The legislative changes in financial reporting requirements and the establishment of national and international accounting standards did not seem to have directly impacted the actual practices, partly because specific legislation and standards on the annual accounts for insurance companies were not yet present. On the other hand, I have not found any qualified or adverse audit opinions on the financial statements I have reviewed, have not become aware of such opinions in the accounting or insurance literature or in the financial press, and have not identified legal cases against those annual accounts. Therefore, one can, I think, safely assume that the elements of non-compliance with some specific requirements on the prudential returns of insurers and some parts of the guidelines of the RJ were considered “acceptable in the industry” and by the users of financial statements of Dutch insurers. Concerning the holding companies, it was clear that the prudential requirements and practices still determined the applied accounting principles, but my findings also show that the structure and contents of the financial statements became more investor-oriented by providing additional information, even before this was required by the Dutch financial reporting requirements. In that sense, the financial reporting developments described in this chapter started to have a direct influence on these financial statements, but were not yet the dominant factor: the prudential reporting requirements still prevailed.